Institutional and Cost-Benefit-SharingArrangement for Implementation of Emission Reductions Programme in 12 TAL Districts of Nepal

Government of Nepal

REDD Implementation Centre

Ministry of Forests and Soil Conservation

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Executive Summary

Reducing Emissions from Deforestation and Forest Degradation (REDD+), including the conservation of forest carbon stocks, conservation and sustainable management of forests, and enhancement of forest carbon stocks, is one of the most important climate initiativesof the 21st century, and is being developed into an incentive-based conservation programme. It has potential to contribute to low-carbon sustainable development and poverty reduction while reducing emissions and sequestering carbon. For REDD+ to result in sustainable emission reductions and realize sustainable benefits for forest management communities and avoid making vulnerable people worse off, a system of equitable, effective and efficientbenefit-sharing is imperativethrough policy and institutional arrangements.

Nepal has participated in REDD+ preparatory activities (e.g., institutional set up, strategy preparation, capacity building and awareness) since 2008 in partnership with the Forest Carbon Partnership Facility (FCPF) of the World Bank. AnEmission Reduction Programme (ER Programme) is being prepared for implementation in the 12 districts of the Terai Arc Landscape (TAL) so as to access carbon fund and to learn concrete lessons from the REDD+ project to manage forests for carbon and non-carbon benefits. Devising institutional frameworks to realize monetary and non-monetary benefits, and their distribution to forest-managing communities and other relevant stakeholders are crucial in this regard.

A clear understanding of the nature of benefits (e.g., monetary and non-monetary, carbon and non-carbon) and the formulation of appropriate institutions to realize them,help to build a more stable, credible, legitimate and acceptable foundation for local-global and sector-based collaboration for effective REDD+. Such understanding may also help to create an equitable, prosperous and environment-friendly society in the TAL area. To achieve emission reduction goals in the TAL region, there is a present need of fair and transparent cost and benefit-sharing arrangements together with viable institutional arrangements that will ensure equitable rewards from REDD+ to its diverse sets of stakeholders with variable expectations.

There are concerns for maintaining active and continued participation of stakeholders to ensure rewards for their efforts, rights to receive carbon benefits, secure land rights, and implement a good governance and decision-making process. Some of these concerns can be resolved by devising effective, efficient and equitable benefit sharing arrangements following clear eligibility criteria. However, eligibility criteria for sharing REDD+ benefits have not yet been determined by the legislative and policy framework, and will likely vary by level and context based on varying forest management regimes. A well-definedbenefit-sharing plan could be based on criteria that include: (i) rights/ownership, (ii) management inputs, (iii) performance (carbon and non-carbon), and (iv) welfare/equity. This would be useful to evade potential conflicts.

This report provides aglobal overview of REDD+ benefit-sharing mechanisms;analyses the existing national institutional mechanisms, their strengths and capacities particularly in the TAL areas in the context of politicaleconomic factors influencing their designand setting; and presents both a vision and roadmap that helps broaden an understanding of, and create policies and institutions for REDD+ benefit-sharing in the TAL area.With inputs from experts, stakeholders, literature, experience, policies, plans and legislations from the TAL area and beyond, this report explores opportunities and challenges, and recommends crucial intervention strategies and actions that help institutionalize REDD+ benefit-sharing.

While Nepal seeks opportunities to reduce emissions from the TAL area, it also aims to learn concrete lessons that can be applied to expand the REDD+ programmethroughout the country.Based on preliminary estimates for the purposes of the ER-PIN, the proposed programme is estimated to sequestrate approximately 14 million tons CO2 after five years and up to 70 million tons after 15 years. This estimate will be significantly improved by further development of activities and harmonization of the programme with other local and national interventions. However, carbon trading is a new, unprecedented and abstract programme, and as suchitshould be supported by clear, strong legal and contractual arrangements so as to help sustain it and institutionalize equitable and fair benefit distribution systems. The legal and contractual provisions should recognize, utilize and refine existing benefit-sharing mechanisms under different forest management regimes, as they are legitimate, credible and acceptable to many stakeholders despite some practical concerns.This helps development of new policy and institutional frameworks that provide space for innovation of locally suitable, flexible, equitable, effective and efficient benefit-sharing mechanisms.

Clarity about forest tenure and carbon ownership, recognition of communities' usufruct rights over forest resources, and transfer of forest carbon credit and capacity building for forest-managing communities are crucial for institutionalizing a benefit-sharing mechanism.Similarly, factors for consideration and accounting of management inputs in terms of capital investment and exposure to the risks, marginalization and institutional frameworks are equally important. In addition, performance that is crucial in delivering absolute positive carbon and non-carbon outcomes constitutes another prime area of concern while designing benefit-sharing mechanisms. Likewise, social welfare, particularly contextual equity, is a critical concern while developing policy and institutional frameworksto achieve distributional and procedural equity.

In Nepal, some national level governance and institutional mechanisms have been arranged. However, a national carbon paymentmanagement and distribution mechanism has not yet been established. There is still an institutional vacuum at provincial/regional, district and sub-district levels to take over the responsibility of the ER Programme, though there are forest authorities and other stakeholders to shoulder the responsibility. For this, the role of existing institutions at different levels should be reviewed and arranged based on the need of the ER Programme. Despite the fact that, in most of the cases, there is no need for new institutional arrangements, some human resource adjustment, capacity enhancement and delegation of authority are essential.

Benefit-sharing is associated with complex, ambiguous and power-sensitive socio-cultural, environmental and economic practices. For REDD+ to be equitable, effective and efficient in the context of different variants of both centralized and decentralized forest management modalities that are in operation in the country is both complex and challenging. Given the challenges, a sound institutional set up that builds upon the existing legal and institutional framework with certain amendments would provide the foundation for ER Programme implementation in the TAL area. Both communities' traditional benefits-sharing practices and safeguards introduced through legal provisioning would have significant bearing in defining and institutionalizing the REDD+ benefits-sharing mechanism. Safeguards would be crucial for promoting sustainable management of forests by optimizing trade-offs between forest-based local livelihood outcomes, biodiversity conservation and carbon sequestration.

The general mandate of forestry line agencies and local communities to be primarily responsible for forest conservation and/or management may not be adequate to reduce emissions from the

deforestation and forest degradation in the ever-changing political, economic and socio-cultural context. Broader sector-based collaboration between different line agencies and non-government organizations that increase the likelihood of curbing deforestation is important to make the ER Programme effective. At times collaborations add complexities and ambiguities in performing duties; therefore, clear institutional arrangements including clarity in sharing roles, responsibilities, resources and authorities are essential at the forefront.

This study recommends devising innovative institutional mechanisms that guide, regulate and monitor benefit-sharing practices of the ER Programme in the TAL area. *As a precursor to its successful implementation, the government should formulate and/or amend the legal and policy frameworks as per need to accommodate carbon rights under different forest management regimes, considering the usufruct rights, existing legal provisions, rights provided by Nepal's new constitution, and international conventions.* Such legal and policy frameworks not only legitimize the fair, equitable, effective and efficient sharing of benefits to be accrued from carbon trading but also pave the way to make institutional practices acceptable to all concerned. The institutional and benefit-sharing options will provide choices and potential paths for the implementation of the ER Programme.

To serve local forest-managing communities adequately in planning, implementing and monitoring the REDD+ programme, the MoFSC (or REDD IC) should establish an autonomous and cost-effective REDD+ Programme Management Unit at the TAL area level, which may have province, PA and district-wise sub-units so that it will have direct reach to the forest managing communities. REDD IC needs to take the lead to make the benefit-sharing framework trustworthy, accountable and flexible allowing forest-managing communities to adopt locally suitable institutional practices while facilitating transparent, efficient, effective and fair implementation of REDD+ activities.

As a guiding principle for institutional mechanisms, the study further suggests that the REDD+ programme stakeholders should consider carbon payment as an equalizer to address the existing contextual inequity in the TAL area. A 'pro-poor' approach to benefit-sharing, participation of local communities in decision-making, inclusion of existing forest-managing communities in the programme, recognition of statutory and customary rights of the communities, and fairness in benefit-sharing should be given due consideration. Similarly, the communities should be encouraged to redistribute carbon benefits so as to promote intra- and inter-generational equity by investing adequately in the sustainable management of forest and other community development activities. The Strategic Environmental and Social Assessment (SESA) should also be followed to ensure social and environmental safeguards.

As the Carbon Fund Methodological Framework requires that the benefit sharing arrangements are transparent, participatory and consultative, the MoFSC (or REDD IC) should develop and execute a participatory planning and monitoring system. For this a Forest Management Information System (FMIS) including MRV that integrates all required information related to forest management and ER Programme transactions should be devised. TheFMIS should provide adequate information to make sure that a well-planned, result-oriented and performance-based REDD+ programme is operating as intended before payment for emission reduction. The MoFSC (REDD IC) should also design a capacity enhancement plan for country, province/region, district and field level stakeholders on the basis of competency standards.

CHAPTER I

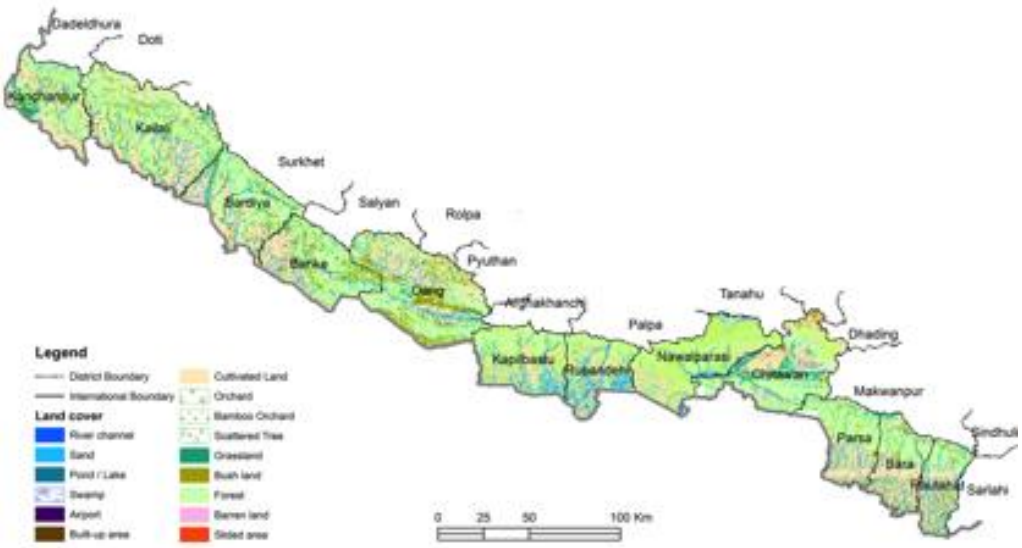
1. Introduction

Reducing emissions from deforestation and forest degradation, sustainable management of forest, and conservation and enhancement of forest carbon stocks (REDD+) as an incentive-based conservation programme is being developed to motivate forest-managing communities in tropical developing countries.Having the potential to contribute to low-carbon sustainable development and poverty reduction, this initiative therefore has drawn interest of many countries. However, the creation of positive incentives for forest-managing communities for their efforts or performance in reducing emissions is key in gaining their support for REDD+ activities (Denier et al, 2014).

The ways in which financial incentives of REDD+ are shared with domestic stakeholders,particularly with local forest-managing communities, are critically important to the success of REDD+ (USAID, 2012). Therefore, it is imperative to develop clear institutional arrangements at the national and local levels for cost and benefit-sharing prior to the in-flow of REDD+ incentives. The REDD+ programme becomes successful only when all stakeholders participating in emission reduction activities are rewarded positively on the basis of their contributions.

The Government of Nepal (GoN) has been involved with REDD+ since 2008 with the support of a range of international institutions including FCPF of the World Bank. FCPF has approved the Emission Reduction Programme Idea Note (ER-PIN) and is now proceeding to support Nepal toaccess the carbon fund for emission reduction (ER) programme in 12 districts of the Terai Arc Landscape (TAL). The implementation of ER in the TAL area is expected to generate both monetary and non-monetary benefits that in turn would serve as incentives for local communities in achieving ER objectives. Direct gains include monetary transfers, such as from the sale of carbon credits, whereas non-monetary benefits may include clarity in land tenure, support for forest management and governance, facilitation in technology transfer, and improvement in local ecosystem services (e.g., provisioning, cultural, regulating, supporting) (CIFOR, 2014).

Figure 1. Area of Terai Arc Landscape in Southern Nepal



The proposed ER Programme area covers 12 districts of the Terai Arc Landscape (TAL), viz., Kanchanpur, Kailali, Banke, Bardia, Dang, Kapilvastu, Rupandehi, Nawalparasi, Chitwan, Bara, Parsa and Rautahat (Figure 1). The TAL area is situated along the foothills of the Himalayas in the southern belt of Nepal, ranging from the lowlands of the Terai region up to the southern slopes of the Himalayas in the Churia hills. The altitude in the study area varies from less than 100 meters up to 2,200 metersabove sea level. The TAL area is a landscape conservation area of 2.3 million ha,consisting of approximately 15% of the country's total land area. According to the DoF (2005), about 1.18 million ha (51.5%) of the total land area was under forest cover in 2001 in which about 79% (0.9 million ha) is located outside of protected areas and 21% (0.3 million ha) is within protected areas. Following the implementation of community forestry, about 20.5% (241,484 ha) of the forest is under the community forestry regime and about 3.8% (45,154 ha) under a collaborative forest management regime (DoF, 2013). The remaining forests (54.7% or 613,362 ha) are mostly government-managed forests where Sal (*Shorea robusta)* is the dominant species. This species generates substantial revenue for the government, though much of this revenue has historically not been invested back into forest management. The forests in the watersheds in the Churia hills north of the Terai play an important role in regulating ground water recharge and surface water supply to Terai inhabitants, as well as in mitigating flood risks. In addition, they produce indirect benefits including soil and water conservation, carbon sequestration, and nutrient cycling for downstream farmlands (ER-PIN, 2014).As such, TAL is one of the priority landscapes in Nepal, both for the conservation of its biodiversity and the protection of the ecological services it provides (Joshi et al, 2014). The terrestrial ecosystems including rivers and wetlands of the TAL area are rich and diverse with many endemic species. They support 86 mammal species, 550 bird species, 47 reptile and amphibian species, 126 fish species, and over 2,100 flowering plant species (WWF, 2004)

The TAL area is also home to 7.35 million people from a number of ethnic and indigenous groups, and it continues to face in-migration from the north hills and out-migration of working age males to urban centres in Nepal and India (ER-PIN, 2014). The major deforestation drivers identified in the region include unsustainable and illegal harvest of forest products, overgrazing, forest fires and the conversion of forests to other land uses (encroachment, resettlement, and infrastructure). The underlying causes of deforestation and forest degradation include population growth and migration from hills, poverty, unemployment, political instability, weak law enforcement, lack of coordination among stakeholders, floods, lack of resources in DFOs to control illegal activities, lack of land use policy and corruption. These drivers and underlying causes may need to be prioritized to be addressed in the ER-PIN so as to mobilize local communities in forest management.

In this context, local stakeholders in TAL are concerned about fair benefit-sharing under the ER Programme, while non-local stakeholders (e.g., MoFSC) may need to bear direct, indirect, hidden, and unforeseen costs and consequences of ER activities. Also, the carbon fund methodological framework (CFMF) of FCPF requires that the ER Programme provide a description of the benefit-sharing arrangements. Therefore, it becomes essential to devise policy instruments and institutional arrangements that would ensure equitable rewards from the ER Programme to its diverse set of stakeholders with different rights and responsibilities. However, the existing policy and legislative frameworks, and governance and institutional arrangements in Nepal are inadequate to ensure successful implementation of the ER Programme with fair,

equitable, effective and efficient distribution of benefits. This calls for the realization of fair and transparent institutional arrangements and practices for cost and benefit-sharing.

This study attempts to review existing literature, policies and legislation related to access, benefit-sharing and incentive programmes promoting forest management and conservation in consultation with communities, and national and sub-national level stakeholders, in particular of the TAL area. This study hasanalysed current benefit-sharing practices including mechanisms and models from the field including Nepal and beyond, and has offered specific recommendations to devise benefit-sharing mechanisms that are equitable, effective, efficient, and well-governed. Moreover, conceptualization of institutional arrangements and identification of stakeholders, their capacity, roles and responsibilities, interests, perspectives, powers and functions that are crucial in order to manage ER initiative properly and effectively are clearly spelled out. This provides a framework that facilitates the flow of REDD+ funds from a national level to the concerned stakeholders.

This report builds upon literature review, institutional mapping, stakeholder analysis and consultations held at national, provincial/regional, district and local levels. It is organized in five sections. The first section provides an overview of the study, including context, importance, objectives and methodology of the study. The second section highlights the international and national policies and practices on REDD+ as well as the theoretical context of the REDD+ benefit-sharing mechanism and required institutional framework. The third section of the report broadens the understanding regarding existing forest regimes, organizational setting, stakeholders and their roles,particularly in TAL areas. Likewise, section four constitutes the core findings and analysis on proposed institutional as well as cost-benefit-sharing arrangements to implement the ER Programme in the TAL area. Section fivecompletesthe study with conclusions and concrete recommendations.

2. Study Objectives and Guiding Questions

The aim of this assignment is to support the government of Nepal (GoN) to develop a fair and transparent mechanism for cost and benefit-sharing so as to help facilitate reward to all land use sector stakeholders participating in emission reduction (ER) activities according to their contribution to reducing deforestation and degradation, and conserving and enhancing carbon stock. The specific objectives of the study are to.

- Identify and assess key agencies and stakeholders for the implementation of a future ER Programme in the 12 TAL districts and analyse their existing capacity and potential role in the ER Programme.
- Assess different options of institutional arrangements, including those being proposed in other REDD+ countries.
- Develop a model for theinstitutional arrangements for sharing costs and benefits of the ER Programme in the TAL districts that would be applicable to all forest management regimes (e.g., community forestry, government managed forest, national forest, collaborative forest or any other forests).
- Identify clear links between local, districts, provincial and national levels of forest-managementinstitutions including the national REDD-IC.

The study answers the following questions to achieve the above-mentioned objectives.

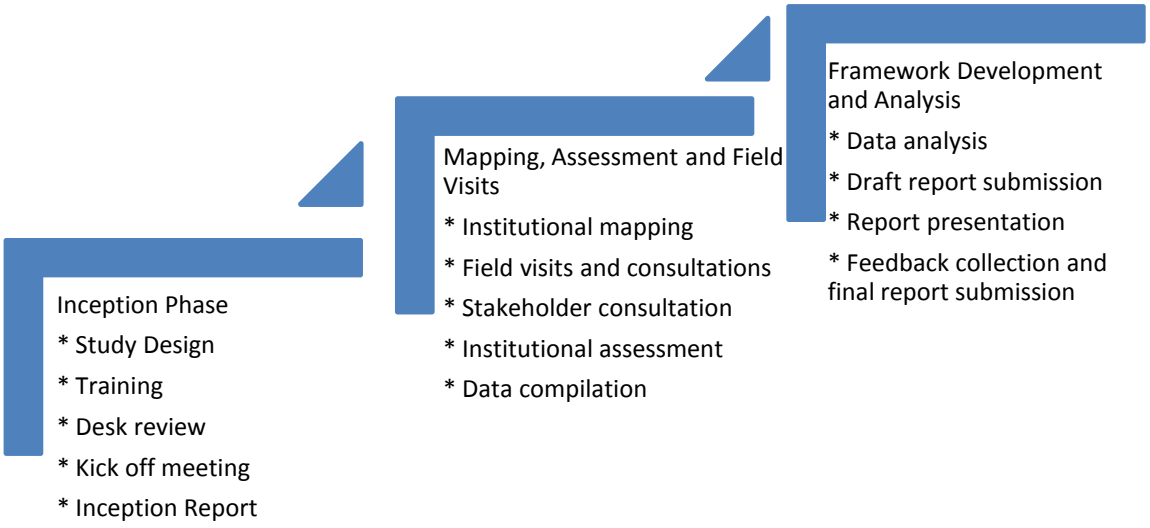
1. Which key agencies and stakeholders could be involved in the implementation of a future ER Programme in the 12 TAL districts with their existing strengths and capacity? Are these institutions accessible to most forest-dependent communities and trusted by them? Are they appropriate and capable to manage and facilitate REDD+ projects? Are they capable and reliable in managing conflicts or disputes related to REDD+ activities?
2. What are the strengths and gaps within existing practices and policy frameworks for institutional and cost-benefit-sharing arrangements? What are the different options of institutional arrangement in the national and international context and practices?
3. What are the existing practices, legal frameworks and provisions regarding institutional and cost-benefit-sharing arrangements for implementation of the Emission Reduction Programme? How are these linked to land ownership and forest tenure arrangements? What could be an appropriate institutional mechanism for sharing costs and benefits of the ER Programme in the TAL districts that would be applicable to all forest management regimes?
4. Which existing institutions will be most appropriate for enforcement and management of forest carbon rights, ownership and funds, and what would be the linkages between local, districts, provincial and national levels of forestmanagementinstitutions including the national REDD-IC?

3. Study Approach, Methods and Analytical Framework

3.1 Study Approach

Different approaches and methods were deployed to collect and analyse information to accomplish this study. By following the USAID's Institutional Assessment Tool for Benefit-Sharing under REDD+ (2012), the study was undertaken in three successive stages,viz.,(1) institutional mapping, which included the review of legal and policy frameworks for REDD+ in relation to carbon rights, land and tree tenure, existing access, benefit-sharing and incentive programmes promoting forest management and conservation in Nepal; (2) institutional assessment, which consisted of the qualitative assessment of existing benefit-sharing institutions at national and sub-national levels in order to identify strengths, deficiencies and weaknesses in institutional design and operations; and (3) framework development, with proposed benefit-sharing arrangements suitable for the REDD+ ER Programme in TAL area on the basis of the information gained from mapping and assessment. The phases of study are described below in Figure 2.

Figure 2. Study Phases



3.2 Study Method

Literature Review. Literature review was undertaken of a series of published papers, project documents, policies, plans, acts and regulations. Published papers helped to broaden the conceptual and theoretical understanding about the benefit-sharing and institutional arrangementsofREDD+ in Nepal and beyond.Documents related to international conventions, on the other hand, helped to identify opportunities that support the implementation of the ideas generated through the literature review. Similarly, national policies, plans and legal documents have been instrumental to identify and assess the legitimate and credible avenues available for crafting a new institutional framework in the country. Some of the project documents and case studies from across the continents providedinsights on the opportunities and challenges of instituting REDD+ benefit-sharing mechanisms in certain contexts. More specifically, the ER-PIN, REDD+ Strategy 2015, forest carbon ownership study report 2015 were substantially referred to as it is recent and very relevant to this study, which would also allow the ability to maintain consistency of different studies carried out by REDD IC.

Stakeholder Consultations.A number of stakeholder consultations were carried out with national, sub-national and local stakeholders (e.g., government officials, NGO representatives, forest-managing groups, indigenous groups, federations of forest users, forest dependent communities, distant forest users, academicians, legal experts, etc.) that are engaged directly and/or indirectly in managing forests and/or forestry projects affecting forest managing communities.The study team conducted multi-stakeholder consultations linkedto six major forest regimes - community forests, leasehold forests, collaborative forests, protection forests, protected areas and private forests in the TAL area. The consultations were instrumental ingathering stakeholders' perspectives, opinions, interests and ideas that helped broaden a practical understanding of benefit-sharing as well as provided insight on how to frame a new institutional framework for REDD+ benefit-sharing. It wasalso instrumental to identify the possible areas of conflict and collaboration among stakeholders at different levels. Consultations were instrumental for the development of institutional mechanisms, and strategiesto operationalize benefit-sharing in different contexts of forest management regimes.

Stakeholders for sharing benefit of REDD+ in the TAL area were identified through various methods. These were: brainstorming with concerned stakeholders, preparation ofamind map by the researcher, formulation of a list of concerned stakeholders and rectification with the district forest office, review of previous projects, use of organization charts and directories, and categorization of the stakeholders' engagement. Stakeholders were identified on the basisof their engagement, proximity, interest and influence for benefit-sharing of REDD+ ranging from local communities to the national level. A draft report of the study was shared with multi- stakeholders and their inputs were received at the national consultation workshop.The list of stakeholders and experts consulted during the study are provided in Annex 7.

Institutional Mapping. Thiswas conducted to map the existing benefit-sharing institutions within different forest regimes, in order to build an understanding of the system and identify institutional gaps. The rational was to identify and objectively describe the institutions governing the vertical flow of finance and horizontal distribution of FR benefits. While vertical flow of benefits was assessed at a national level to capture all major flows of REDD+ or ER finance within Nepal, horizontal distribution was studied to understand the transfer of benefits to local stakeholders within the community. Institutional mapping helped identify activities, types of benefits, key actors, beneficiaries and social values. A set of questions was developed and incorporated into the survey instrument.

Institutional Assessment. This entails assessing the application of best practices for reducing inequality against vulnerable groups (women and indigenous people), financial management procedures, mechanism of benefits distribution, independent monitoring of performance and the structural capacity to resolve disputes in existing forest regimes using a set of principles and criteria. The field sessions consisted of multi stakeholder consultations, mini-workshops, focus group discussions, bilateral meetings and individual consultations. This allowed insights to be obtained from stakeholders, including their concerns, experience and knowledge relevant to the REDD+ benefits sharing mechanism, and to integrate their needs, claims, roles and responsibilities into the formulation of such mechanisms to ensure effectiveness, equity, efficiency and transparency. Each criterion contains several diagnostic questions to be answered as “yes”, “no”, or “not applicable”. In addition, evidences, analysis, and documentation were provided to objectively support and justify the answer. The institutional assessment was only applied to the ER Programme region of TAL. The assessments were conducted using semi-structured questions, focus group discussions and consultation meetings.

Framework Development.A framework was developed to identify the opportunities and options for benefit-sharing that includes a model of institutional arrangement for sharing costs and benefits of the ER Programme in the TAL districts that can also be appliedat a national level under certain circumstances. Based on the findings and consultations, the team developed Options Paper for institutional, benefit-sharing mechanisms and social accountability for TAL. This includes overall guidance on how to establish a cost-benefit-sharing arrangement reflecting on different potential schemes for sharing costs and benefits. Similarly, it focuses on how these would link to the proposed REDD+ Strategy options for Nepal, risks of elite capture at the local level, the level of organization of communities, and administration at a local level. In addition, it highlights benefit-sharing schemes that would fit into existing institutional structures, risks of inter and intra-community conflicts arising from REDD+ benefits, and key governance challenges, fiduciary risks and recommendations for gaps to be addressed for an effective and functional cost-benefit-sharing arrangement.

Using the study framework below in Figure 3, the study has summarized the international REDD+ financing system's vertical and horizontal linkages from central and provincial governments to the community through different forest regimes.

3.3 Analytical Framework

A general analytical model was developed to guide the overall study, and organize data collection and analysis flow.It helped the study team to not only design data collection plans, but also to assess, examine, triangulate and evaluate the information collected through different sources. Five key areas of analysis were conceptualized, as depicted schematically to describe the importance of these areas and the way they relate (see Figure 3).

The study analysis was based on four key components including stakeholder mapping, assessment of existing institutional mechanisms, assessment of institutional capacity and framework design. These four components ultimately linked with the overall goal and objectives of the assignment toderive conclusions and recommendations for viable institutional and cost-benefit-sharing arrangements with a particular focus on the TAL area (see Figure 4).

Figure 3. Illustrative Diagram of Study Framework for REDD+ Finance and Benefits in the TAL

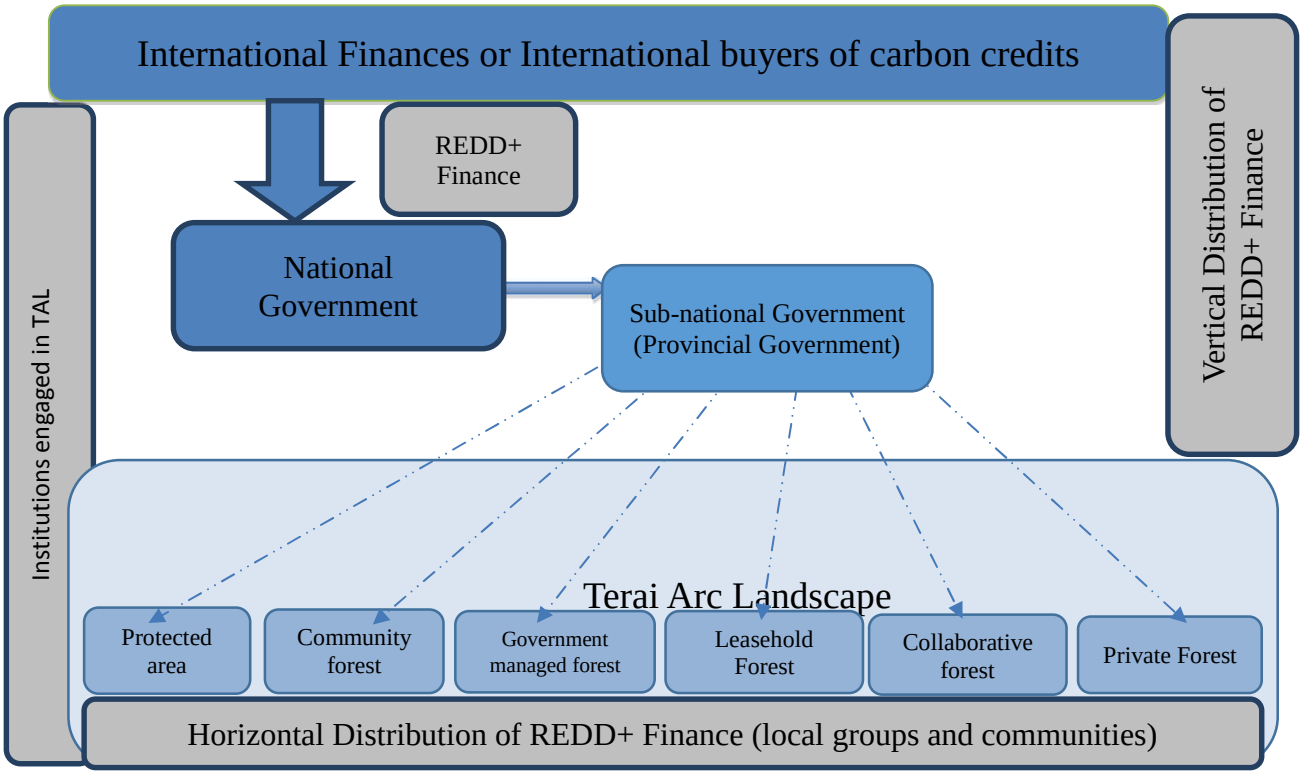
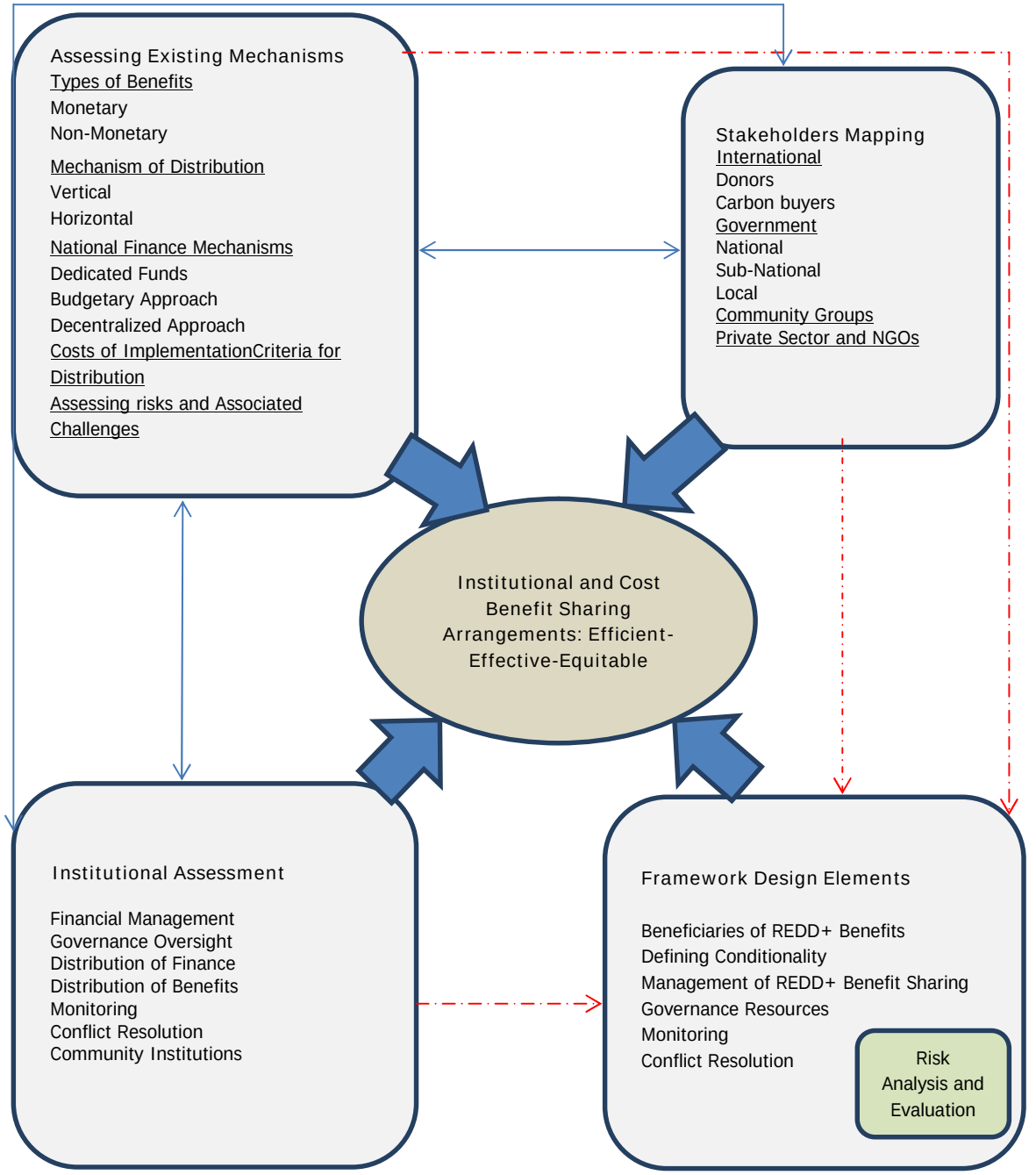


Figure 4. Analytical Framework for Designing Institutional and Cost-Benefit-Sharing Arrangements for the ER Programme in theTAL



The red dotted line depicts the contribution of the three components of study to design study framework
The blue line denotes the interrelationship between the three study components and their contribution to the study framework

CHAPTER II

2. Review of International and National Laws, Policies, Practices and Institutions

This chapter reviews international laws, policies, practices and institutions, especially UNFCC and CFMF provisions, as well as national laws and policies relevant to ER Programme implementation in Nepal. A synthesis of global experiences is drawn to understand the cost-benefit-sharing mechanisms and preconditions for REDD+ activities. The required institutional framework and guiding principles for REDD+ benefit-sharing are also discussed. Review of international laws and policies is important for ER benefit-sharing, particularly in the context of the TAL for two main reasons: (1) to access FCPF funding, compliance with the carbon fund methodological framework is required; and (2) as a signatory to the party, Nepal needs to comply with the decisions, conditions and provisions of UNFCC.

The REDD concept was introduced in Nepal in 2008 and was declared a Ministerial priority by the MoFSC. The REDD Forestry and Climate Change Cell (REDD Cell) was then established and subsequently approved by the Ministry of General Administration as the REDD Implementation Centre (REDD IC). Since 2008, Nepal has been gearing up for REDD+ by undertaking activities as envisioned in the R-PP. Different policies for the national implementation of the UNFCCC as well as Kyoto Protocol have been formulated by the government of Nepal. Among the prominent ones are the Climate Change Policy 2011, NAPA and LAPA. Forest Policy 2015 and National Biodiversity Strategy and Action Plan 2014 (NBSAP) also provide provisions and priority actions for adaptation to and mitigation of climate change impact, conservation and sustainable management of forest and enhancement of forest carbon stock. In addition, the Rangeland Policy and National Land Use Policy 2012refer to climate change and carbon sequestration, and provide working polices for addressing the impacts of climate change. R-PP is being implemented since 2010 and various preparatory works have been carried out so that the country would be able to enter into the demonstration phase. Though the country is yet to develop specific policies to govern REDD+ in Nepal, some landmark documents including the REDD+ Strategy, Low Carbon Strategy, Forest Carbon Ownership, and institutional arrangements for REDD+ have been prepared while some other studies are nearing completion.

2.1. International Policies for Governing REDD+

Nepal is party to a number of multilateral environmental agreements (MEAs) regarding biodiversity conservation and sustainable natural resource management. As a party, Nepal needs to follow certain directions and guidelines while managing national resources. The United Nations Framework Convention on Climate Change (UNFCCC) and Carbon Fund Methodological Framework (CFMF) are important international policy frameworks which mainly govern the ER Programme, including its institutional arrangement and benefit-sharing mechanism. Some such policies that are directly related to the benefit-sharing and institutional arrangement under REDD+ are briefly discussed below.

2.1.1 United Nations Framework Convention on Climate Change (UNFCCC)

The United Nations Framework Convention on Climate Change 1992 aims to stabilize greenhouse gas concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system. Such a level should be achieved within a time frame sufficient to allow ecosystems to adapt naturally to climate change, to ensure that food production is not threatened and to enable economic development to proceed in a sustainable manner (Article 2). UNFCCC sets out a number of international environmental principles to guide implementation of instruments and assist to meet the objective (Article 3).

The UNFCCC REDD+ rules do not use the term 'scale' in the context of implementation. Nor do they specify precisely at what scale activities should be carried out. Nonetheless, the rules do largely focus on creating a system where REDD+ is implemented at a national level (Baker and McKanzie, 2014). It suggests that REDD+ should be implemented at the national level with some flexibility for sub-national implementation (in relation to the establishment of Reference Emission Levels/Reference Levels (REL/RL), monitoring and MRV) as an interim measure[1]. There are three possible ways to measure and award reduced deforestation: at the national and sub-national levels or through a nested approach, which is a hybrid of the first two (Angelsen,2008).The non-UNFCCC REDD+ mechanisms divide scales into three broad categories: jurisdictional approaches (where the accounting 'jurisdiction' in question is either at the national or subnational level); project-level approaches[2]; or multi-scale nested approaches (Baker and McKanzie, 2014). It further divides jurisdictional approach into a national level approach, and sub-national level approach. Under the national approach, the state would establish a baseline reference at the national level to determine the amount of deforestation countrywide (Costenbader, 2009).

Parties are obliged to take precautionary measures to anticipate, prevent or minimize the causes of climate change and design policies and measures that take into account different socio-economic contexts [Article 3 (3)]. The UNFCCC creates an obligation on parties to promote sustainable management of all sinks of emissions [Article 4 (d)].Article 4(8)(c) requires parties to consider the impact of the Convention's obligations on developing countries with forested areas.

Nepal acceded to the Kyoto Protocol on 16 September 2005[3] and now the second commitment period is running (January 2013 to December 2017 or 2020). The parties included in Annex 1 are required to ensure that their aggregate anthropogenic carbon dioxide equivalent emissions of the greenhouse gases listed in Annex 1 are reduced by at least 25-40% below 1990 levels by 2020. The decisions of the UNFCCC's annual Conference of the Parties (COP) provide rules and guidance for countries to implement their commitments under the UNFCCC (Denier et al, 2014). While COP decisions have unique normative authority, they are not legally binding (Baker and McKanzie, 2014). REDD gained traction in 2007 at the 13th session of the UNFCC COP in Bali

1 Decision 1/CP. 16, para 71 (b).

2 A project-level approach means that incentives flow directly to project developers based on performance against a project baseline. Such stand-alone projects typically are smaller in area than governmental jurisdictions. Rane Cortez et al, 'A Nested Approach to REDD+: Structuring effective and transparent incentive mechanisms for REDD+ implementation at multiple scales' (2010) (www.nature.org/ourinitiatives/urgentissues/global-warmingclimate-change/index.htm, accessed on April 6, 2015).

3 Kyoto Protocol to the United Nations Framework Convention on Climate Change, Kyoto, 10 December 1997, in force 16 February 2005, 37 *International Legal Materials* (1998), 22.

and was a key element of the Bali Road Map, which set out the work that need to be done under various clauses of the UNFCCC negotiating tracks in order to reach a secure climate future (Denier et al, 2014). The forward-looking roadmap was designed to create climate change legislation beyond the Kyoto Protocol, emphasizing the importance of "long-term cooperative action" within the international community (Baez, 2011).

The Copenhagen Accord recognizes that any successful REDD+ scheme must provide positive incentives for countries that take action to reduce deforestation and forest degradation. Three principal sources of REDD+ finance have so far been identified,viz., (i) payments from international compliance or voluntary markets in exchange for emission reductions; (ii) payments from donors directly to forest countries or through multilateral or bilateral funds; and (iii) payments generated from forest country budgets (Denier et al, 2014).

COP 16 in Cancun in 2010 created a list of safeguards to be adhered to in the formulation of domestic REDD+ policies, and established the policy framework for REDD+ negotiations that include a national strategy or action plan, national or sub-national forest reference levels, and a national forest monitoring system. It settled the list of eligible REDD+ activities anddetermined the scope of REDD+. The Cancun Agreement further decided that REDD+ should be implemented in a phase-wise approach: phase one (development of national strategies or action plans; policies and measures; and capacity building), phase two (implementation of REDD+ policies and measures; national strategies or action plans that could involve further capacity-building, technology developmentand transfer relating to REDD+; and results-based REDD+ demonstration activities), and phase three (results-based actions that should be fully measured, reported and verified). Another crucial aspect of the COP 16 is that it requests developing country Parties, when developing and implementing their national strategies or action plans, to address, *inter alia*, the drivers of deforestation and forest degradation, land tenure issues, forest governance issues, gender considerations and safeguards identified in Paragraph 2 of Annex 1, ensuring full and effective participation of relevant stakeholders, including indigenous people and local communities.

COP 17 in Durban in 2011 established guidelines for setting forest reference emission levels and forest reference levels. It also clarified that all REDD+ activities should be consistent with the Cancun Safeguards, a set of principles within the Cancun Agreement which aim to ensure that REDD+ not only does no harm, but also delivers multiple social and environmental benefits (Denier et al, 2014). COP 19 in Warsaw in 2013 adopted the 'Warsaw Framework for REDD+', which makes REDD+ a reality under the UNFCCC and enables countries to move forward with the implementation of REDD+ activities under the UNFCCC (Climate Law and Policy, 2014). The core elements of this framework include finance, institutional arrangements, safeguards, national forest monitoring systems (including measurement, reporting and verification)[4] and reference emissions levels or reference levels (Denier et al, 2014).

2.1.2 Carbon Fund Methodological Framework (CFMF)

Nepal being a party to FCPF and having received support for the readiness phase needs to follow the Carbon Fund Methodological Framework (CFMF) 2013 for developing and implementing

4 For developing countries to obtain results-based funding for REDD+ they must fully measure, report and verify "anthropogenic forest-related emissions by sources and removals by sinks, forest carbon stocks, and forest-area changes" resulting from the implementation of REDD+ activities (Decision 2/CP.17 paragraph 64, Decision 9/CP.19 paragraph 3).

the emission reductions (ER) Programme.To this end, the first requirement is that the ER Programme entity demonstrates its authority to enter into an Emission Reduction Purchase Agreement (ERPA) and its ability to transfer title to ERs to the Carbon Fund (CFMF, Criterion 30). The proposed terms of the FCPF ERPA between participant entities/countries generating emission reductions for REDD+ activities and the FCPF include a warranty that the seller has full legal and beneficial title and exclusive rights to the generated emission reductions, free of any third party interests. The effect of this is that those selling REDD+ emission reductions will need to be able to secure carbon rights before entering into an ERPA (Baker and McKanzie, 2014).

It further requires that the ER Programme Entity can and should demonstrate its authority to enter into an ERPA with the Carbon Fund prior to the start of ERPA negotiations, either through: (i) Reference to an existing legal and regulatory framework stipulating such authority; and/or, (ii) In the form of a letter from the relevant overarching governmental authority (e.g., the presidency, chancellery, etc.), or from the relevant governmental body authorized to confirm such authority (CFMF, Indicator 36.1). This requirement is also in line with the Warsaw Framework for REDD+,which encourages countries to set up a national REDD+ entity or designate a focal point to liaise with the secretariat and the relevant bodies under the UNFCC for REDD+ related matters.This entity or focal point can nominate other entities to obtain and receive results based payments for REDD+, provided that these entities comply with the requirements of those providing the payments. This condition is also a prerequisite for the ER Programme in TAL.

Another key criterion is that the ER Programme needs to show that it has undertaken and made publicly available an assessment of the land and resource tenure regimes present in the Accounting Area(CFMF, Criterion 28).Indicator 28.1 of the CFMF further requires the ER Programme to review the assessment of land and resource tenure regimes carried out during the readiness phase at the national level (i.e., SESA) and, if necessary, supplement this assessment by undertaking an additional assessment of any issues related to land and resource tenure regimes in the Accounting Area that are critical to the successful implementation of the ER Programme. The Carbon Fund (CF) of the Forest Carbon Partnership Facility will provide payments for verified emission reductions (ERs) for the sub-national REDD+ programme in the TAL area.Some co-benefitsstem from upfront investments to prepare REDD+ programme, including efforts to clarify tenure, build local capacities, and enhance participative decision-making. Additional social outcomes might include enhanced provision of vital ecosystem services, new employment opportunities, and increased alternative livelihood options. In some cases, these non-carbon benefits may have greater value for local people than ER payments.

Since the creation of positive incentives for reducing emissions is key in gaining support for REDD+ activities (Denier et al, 2014), the FCPF CFMF Criterion 29requires the ER Programme to provide a description of the benefit-sharing arrangements, including information specified in Indicator 30.1, to the extent known at the time. Similarly, Criterion 30 requires the Benefit-Sharing Plan (BSP) to elaborate the benefit-sharing arrangements, building on the ER Programme, and considering the importance of managing expectations among potential beneficiaries. As one of the main determinants of the acceptability of an intervention such as PES or REDD+ is the perceived fairness of the distribution of the costs and benefits of the intervention (Sommerville et al, 2010), fairness should be considered while developing the BSP. The BSP is made publicly available prior to ERPA signature, at least as an advanced draft, and is

disclosed in a form, manner and language understandable to the affected stakeholders for the ER Programme (CFMF, Indicator 30.1).

The Carbon Fund Methodological Framework (CFMF) complements other documents and processes regarding REDD+ programme development while guiding pilot implementation of REDD+ programme so as to use positive incentives for ER from the forestry sector. Particularly the CFMF guides the utilization of Carbon Fund established by FCPF to (i) provide financial, technical and capacity-building support to eligible REDD+ countries so as to achieve their ER targets, (ii) pilot performance-based payment system for ER from REDD+ as a positive incentive while ensuring equitable benefit-sharing; (iii) test the way to sustain/enhance local livelihoods and conserve biodiversity; and (iv) build a knowledge-base by implementing RPP and ER Programmes. The CFMF provides overarching guidance on a consistent approach to carbon accounting and ER Programmes across projects and countries. It also contains guidance on non-carbon benefits and mitigation of social and environmental risks possibly induced by REDD+ programmes. Some of the crucial non-carbon benefits include enhancement in community participation in programme implementation and MRV, local livelihoods, transparency and effectiveness in forest governance, land tenure security and biodiversity conservation and/or other ecosystem services.

Based on the decision (No. 10) made by COP 19 held in Warsaw in 2013 related to the designation of a national entry or focal point to liaise with the UNFCCC Secretariat, the REDD IC may constitute an entity to deal with the financing institution, i.e., the World Bank, regarding the ER programme in the TAL area. The decision also indicated the functions of such national or project level entities which include (i) document information, knowledge, experiences and practices acquired at the national and project levels and share them at international levels as relevant; (ii) identify the need for support in coordination; (iii) encourage exchange of information between relevant bodies such as COP, the UNFCCC Secretariat, financing and research institutions; (iv) recommend improvements in financial effectiveness that may include financing approaches, technological advancement and capacity development of project implementer; and (v) coordinate withrelevant agencies to achieve the ER project objectives effectively, efficiently and equitably.Since an authorized entity can enter into ensuing responsibilities and obligations of the ER Programme and can also claim programme benefits; it must be shown that it is able to take the ERPA process forward. As the MoFSC is responsible for conservation and management of all types of national forests, plants, and forest products, and implementation of related multilateral environmental agreements (e.g., related to forest, plant, watershed conservation, biodiversity and soil conservation) in accordance with GoN (Business Allocation) Regulations 2013, it is an appropriate entity to own the ER Programme in Nepal. Since MoFSC has already established the REDD IC and is leading the REDD+ activities in the country, it can be expected that it will be able to shoulder the ER Programme responsibility.

2.2 National Legal and Policy Context

Constitution of Nepal 2015. The Constitution of Nepal (2015) guarantees the right of every person to acquire, own, sell and otherwise dispose of property, subject to existing laws. It provides rights to obtain occupational benefits and carry out other property-related transactions.The rightto live in a healthy and clean environment is defined as an individual's fundamental right. It also provides individuals with rights to receive compensation from environmental polluters in accordance with law. The constitution provides rights to the federal government (central government) for carbon related services. It entrusts the federal government

with tasks to manage National Parks, Wildlife Reserves and Wetlandswhile the management of national forests and environmental management related affairs fall under the jurisdiction of provincial governments.

The Constitution of Nepal 2072 (2015) provides several direct and indirect rights to the people. These rights include: right to clean and healthy environment, right to compensation from environmental polluter (Article 30), right to property (Article 25), right to justice (Article 20), rights to employment (Article 32), rights of consumer (Article 44) and right to constitutional remedy (Article 46). The state is guided by the policy of sustainable development and the policy ofprotection and conservation of available natural resources in the country in accordance with the principle of inter-generational equity (Article 51).The roles of signing, ratification, approval, and accession to a treaty are vested in the Federal government. Any treaty that is related to natural resources and its utilization requires to be passed by 2/3 majority of both houses of the federal parliament (Article 279).

The Constitution, under Annex 5 empowers the Federal government for formulation of international and national policies for environmental management, national parks, wildlife reserves, wetlands, national forests and carbon services. Federal and provincial governments are jointly responsible for the formulation of environmental protection and conservation policies in line with the principles of sustainable development (Annex 6). Similarly, provincial governments and local governments are also empowered to formulate necessary policies for the protection of the environment and management of natural resources and land use (Annexes 7 and 8). Necessary laws can be formulated and enacted for the implementation of these constitutional provisions at the federal, provincial, and local levels.

These following policies and legislative provisions are influential in shaping carbon sequestration, carbon rights, benefits sharing and institutional frameworks related to REDD+ directly and/or indirectly.

Forest Policy 2015. This policy aims to maintain environmental balance by means of conservation of forest, plants, wildlife, protected areas and watershed and to strengthen the governance of the forest sector. Some of the strategies of the policy related to payment for ecosystem services (PES) and climate change are to make appropriate legal and institutional arrangements for PES; enhance capacity of local communities to mitigate, adapt and become resilient to the negative effects of climate change; develop climate-friendly forest management systems; and increase access to required resources (e.g., technology, finance, capacity development, etc.) for climate mitigation and adaptation. It emphasizes equitable sharing of benefits received from conservation and management efforts. Though the term REDD+ is not explicitly mentioned in this policy, it has made several provisions that are crucial to promote REDD+ such as promotion of carbon sequestration, emission reduction, investment in forest management and fire control, climate-friendly forest management planning, and research.

The policy encourages formulating or revising necessary statutory law, guidelines, and procedures. Further, it rightly stipulates the need for legal arrangements, institutional frameworks, skilled and efficient human resources, and fiscal arrangements for effective implementation of the policy itself. As the policy is developed and endorsed by the MoFSC, it is logical to expect that the MoFSC will take necessary legal and institutional measures that help promote REDD+ schemes and benefit-sharing among forest managers.

Climate Change Policy. The goal of the Climate Change Policy 2011 is mitigating, and adapting to, the adverse impacts of climate change, adopting a low emission development path, and working in the spirit of the country's commitments to improving wellbeing of people. The policy makes provision to prepare a national target for carbon trade so as to benefit from international initiatives including REDD+, and formulate and implement a low carbon economic development strategy by 2014.

In order to implement the policies effectively, the strategies and working policies that are adopted include promoting the plantation of multi-purpose tree species in private fallow land, slope lands, and areas affected by soil erosion and landslides. Additional strategies consist of creating a favourable condition, through financial and technical facilitation, for communities involved in carbon sequestration to yield maximum benefits from those activities; and committing at least 80% of total funds available for climate change-related programmes at the community level.

The policy also proposes establishment of a separate Climate Change Fund for implementing programmes related to climate adaptation and resilience, low carbon development, risk identification, research, and development and utilization of technologies; and allocating at least 80% of the total budget from the Climate Change Fund directly to programme implementation at the community level. This arrangement is likely to contribute to addressing opportunity costs, discouraging land use changes and reducing emissions by preventing deforestation and forest degradation.

Forest Act(1993) and Forest Regulation (1995). This act defines forest as an area fully or partly covered by trees (Section 2 (a)). Although the definition is broad enough to cover products such as timber, non-timer, wildlife and sand and soil, it is silent about environmental services provided by the forests, let alone the carbon stored by forests. It is also not consistent with the UNFCC's definition of forest as an area greater than 0.5 hectares (ha) in size with 10-30% tree canopy coverage that reach a height of at least 2 meters at maturity (Sasaki and Putz, 2009, p. 226, 227; cf. Baez, 2011).

This law vests ownership over national forests and community forests, leasehold and religious foreststo the GoN (Section 67). It thus recognizes tenure of government over forestland whatsoever be the forest management regime. According to the Act, communities, central government and individuals (private owners) have ownership rights over timber and non-timber forest products from respective forests. However, rights of access, management, harvest, and so on, are extended to among community forests, leasehold forest user groups. After the passage of the Bill to amend the Forest Act from the Legislative Parliament, users group of collaborative forests will also have carbon tenure in accordance with the share proposed by the Bill. The act provides for the establishment of users groups and allows them to utilise forest products by developing and conserving forest for collective interest (Section 41). Thus CFUGs hold proprietary right to respective forests that havebeen handed over to them. They do not, however, have a land title of the community forestland.

There are three main tenure practices: state ownership, community entitlement, and private ownership of forestlands and forest products. Ownership of private-land (mainly cultivated land) is defined by the Land Act (1964), Land (measurement) Act (1963), and Land Revenue Act (1978). As per the law, the government has the tenure over land in all forest management regimes but there is no provisionfor carbon contained in all five carbon pools (above ground bio-

mass, below ground bio-mass, deadwood, litter and soil organic matter).There are a few contradictions among various legislations such asthe Mine and Mineral Act (1985), the Water Resources Act (1992) and the Public Road Act (1974) regarding ownership and entitlement.

National Parks and Wildlife Conservation Act. The National Park and Wildlife Conservation Act 1973 (NPWCA) describes five categories of protected areas, namely:national parks, wildlife reserves, controlled (strict) nature reserves, hunting reserves, and conservation areas(Section 2).

The 1993 amendment of the Act allows buffer zone communities to participate in conservation activities and receive up to 50% share of the annual revenue of the park/reserve in addition to designated rights to certain forest products for subsistence purposes.There is demand for and room for improvement in the management of protected areas by increasing participation of local communities in the governance of national parks and wildlife reserves. Of particular significance would be to make BZCF compatible to CF and provide for more meaningful technical and social support services to the BZCFUG and BZ user committees.

Buffer Zone Management Regulations 1996. The Buffer Zone Management Regulations (BZMR) 1996 were issued under the NPWCA to regulate land use, ensure compatibility with protected area management goals, facilitate public participation in the conservation and development of the area, and allow for benefit-sharing.

As per regulations, the government may channel 30-50% of the revenue generated by the national park or reserve (such as earnings from tourism) to local communities for conservation and development activities (NPWCA, Section 25A).

Conservation Area Management Regulations 1996. The concerned conservation officer is required to constitute a conservation area management committee (CAMC) in each VDC within the conservation area for effective implementation of the construction works related to community development activities, protection of the natural environment and management programmes related to wise utilization of natural heritage(Rule 8). The functions, duties and powers of the CAMC include: preparing and submitting an operational plan to the Chief for the protection of the natural environment, community development, development of natural heritage and its balanced management within its own area, collecting fees for fishing, using forest products, grazing livestock or using natural resources and also providing a license; and undertaking creative activities for the prevention of calamities such as landslides and soil-erosion, protection of forest products, conservation of natural resources and wildlife, environmental cleanliness and community development of the users (Rule 9).

A number of activities are prohibited in a conservation area, unless specific permission has been granted by the chief (Rule16). Such activities include hunting wildlife; cutting, felling or harvesting trees, and plants, setting on fire or carrying out any other destructive practices; mining, quarrying stone, soil or sand, or removing any substances; causing harm to wildlife, bird and destruction of public land; and using electric current in a river, stream or source of water flowing inside a conservation area.

Environment Protection Act 1996. This act obliges proponents to prepare an IEE and /or EIA report[5] in relation to prescribed plans, programmes or projects which may cause changes in existing environmental conditions throughphysical activity, development activity or change in

[5] Schedule 1 of the Environment Protection Regulations, 1997 provides the list of proposals that require preparation of an IEE and Schedule 2 provides the list of proposals in relation to which EIA must be conducted.

land use. The GoN is empowered to delineate as an environmental conservation area, any area that contains biodiversity, rare wildlife or plants and places of cultural or historical significance that are considered extremely important from the point of view of environmental protection (Section 10 (1)).

Only those activities that have been approved by the MoSTE for the management and development of the environment protection area have been permitted inside the environment conservation area (Rule 30(2)). Nevertheless, this law is also not clear whether the communities would have usufruct rights if forest area, which is managed by communities, is included in environment conservation areas.

Local Self-Governance Act 1999. Under this law, local government bodies including the District Development Committees (DDCs), Municipalities, and Village Development Committees (VDCs) hold the right to manage specified natural resources. A local authority performs functions related to a variety of matters, including agriculture, rural drinking water, irrigation, river control, prevention of soil erosion, tourism, and cottage industry (Section 28). As part of their function related to 'forest and environment', local authorities are empowered to prepare and implement programmes with regard to forests, vegetation, biodiversity, soil conservation, and environmental conservation in the village development area (Section 28(h)). Although the LSGA has been in force for the past 14 years, VDCs have not given priority to develop separate programmes for prevention and control of deforestation and forest degradation.

Municipalities are required, among other things, to assist in environment conservation by controlling air, land and water pollution in the municipality area; conservation of environment, forest, plants and other natural heritage; and collection, transportation and disposal of solid waste of the municipality area (Section 96(1) (c)). Most of the municipalities have concentrated on only collection and disposal of solid waste, which has largely been ineffective.

Although one of the functions of the DDC is to develop and implement a plan to conserve soil, vegetation, forests and biological diversity,(Section 189(1)(g)) most of the DDCs have not been able to prioritisethe development and implementation of programmes related to conservation of biological diversity and forests. The MoFALD needs to take special measures to ensure that DDCs can take up these functions.

The DDCs also can sell sand from rivers and canals, stones, soil and driftwood in its area, but are required to pay 35-50% of the proceeds to the concerned VDCs(Section 218). This provision has been one of the major causes of deforestation and degradation of forests and loss of bio-diversity in the Shivalik area. However, the implementation and enforcement of this Act has been patchy, in large part due to the inadequacy of expertise, experience and training of the local staff of DDCs and VDCs (GoN, MoEST, 2008a).

The LSGA authorizes the undertaking of certain functions with respect to DRR by local bodies. Some provisions have been made to establish Environment Protection Funds and Disaster Management Funds at DDCs, VDCs and Municipalities. Control of natural calamities, prevention of infectious diseases and epidemics, operation and management of fire brigades, developing mitigating and preventive measures against landslide and floods are some of the assigned tasks that local bodies can pursue by using the legal authority granted by the LSGA.

2.3 Reflection of REDD+ in the National Plan

Some sectoral and periodic plansmust be considered while developing benefit-sharing mechanisms for REDD+. Important among them are the National Biodiversity Strategy and Action Plan, the Land Reform and Management and Climate Change and Environment Sectors' Plan under the 13th Five-Year Plan.

National Biodiversity Strategy and Action Plan. The National Biodiversity Strategy and Action Plan (NBSAP) 2014 prioritizes actions for adaptation to and mitigation of the effects of climate change through the implementation of PES and REDD+ where feasible. Other priority actions envisioned by the NBSAP include: (i) devising mechanisms for sharing the benefits from such projects, (ii) ensuring participation of all stakeholders in the decision-making process, (iii) defining the goal of biodiversity conservation in the REDD+ strategy and the roles of different stakeholders, (iv) devising mechanisms to assess changes in biodiversity following REDD+ implementation, and (v) developing and implementing climate change adaptation plans and safeguards against possible negative effects of REDD+ implementation on biodiversity. It statesthat at least 5% of the forest ecosystem will come under REDD+ implementation by 2020. Although all priority actions are very important and useful for enhancing the carbon stock by increasing the quality and extent of forest cover, it is too early to say that the MoFSC will be able to implement these when we take into account the slow pace of the implementation of other projects included in the National Biodiversity Strategy Implementation Plan 2006.

It is categorically stated in the NBSAP document that the main responsibility of implementing the NBSAP lies with the relevant government ministries, departments and their district, sub-district, and VDC/municipality level line agencies. Local governments (DDCs, VDCs, and municipalities), NGOs, academic institutions, user groups and other CBOs, and farmer households are other key institutions to be involved in its implementation.It states that the National Biodiversity Coordination Committee (NBCC) will be the main institutional entity for coordination and monitoring of biodiversity related programmes at the national level. The NBCC is chaired by the Minister for Forests and Soil Conservation, and represented by the government, academic sectors, independent experts and I/NGOs. With respect to district, municipality and VDC level coordination and monitoring, the NBSAP stipulates that district level coordination and monitoring of biodiversity related programmes, projects and activities would be the responsibility of the Environment Friendly Governance District Coordination Committee (EFGDCC) to be constituted as per the provisions of the Environment Friendly Local Governance Framework 2013. As per the NBSAP, the Environment Friendly Local Governance Village Coordination Committee (EFLGVCC) and Environment Friendly Local Governance Municipal Coordination Committee (EFLGMCC) will be responsible for coordination and monitoring of biodiversity related programmes, projects and activities in respective VDCs and municipalities. However, this strategy is not fully aligned with FCPF and CFMF.

The 13thFive-Year Plan. Another more recent policy instrument in line with REDD+ is the 13th Five Year Plan approved by the government of Nepal in 2014. The Forest and Soil Conservation sector of the 13th Plan envisions that conservation and management of forests, plant resources, wildlife and biodiversity will be undertaken in accordance with participatory and decentralized systems. The Forest and Soil Conservation sector strategy aims at ensuring environmental services by conserving and managing forests, biological diversity and watersheds.

Almost all the aforesaid working policies are related to REDD+ and in one way or the other contribute to reducing emissions, managing forests and conserving and enhancing forest carbon stocks. However, the real issue is whether the MoFSC and other actors and stakeholders involved in conservation and management of forest would be able to implement these working policies and achieve the objectives within the plan period of three years.

The Environment and Climate Change sector has adopted 20 working policies, some of which are related to adaptation to and mitigation of climate change. The working policies consist of a wish list that the ministries not having district level institutional arrangements are unlikely to achieve.For example, the level of coordination and partnership among local bodies, NGOs, community organizations and other agencies that the policies envisage may require new and competent district level offices.

Since the GoN has recognized REDD+ as one of its highest-priority programmes (referred to as P1), its progress is monitored by several sectors beyond MoFSC up to the ministerial level as well as by the National Planning Commission (NPC), the Office of the Prime minister and the Council of Minister. Five ministries, viz., MoFSC, Ministry of Finance (MoF), Ministry of Agriculture Development (MoAD), Ministry of Energy (MoE), and Ministry of Science, Technology, and Environment (MoSTE) have expressed their commitment and strong support to the ER Programme. By connecting carbon finance with specific programmes and initiatives that deliver results, the GoN expects that the development and implementation of the ER Programme in Nepal will build further political support and advance Nepal's national readiness efforts thereby laying the foundation for additional results-based programmes. The MoF has also forwarded the ER-PIN with recommendations to the World Bank in Nepal, reflecting their interest and ownership in this process and the programme.

The different international decisions, protocols, rules and provisions under the UNFCCC and CFMF are important international policy frameworks in providing clear criteria governing the ER Programme including its institutional arrangements and benefit-sharing mechanisms.

The provisions made under different policies (e.g., Forest Policy 2015, Rangeland Policy 2012, Climate Change Policy 2011, and National Land Use Policy 2012) have provided somespace for taking climate change adaptation and mitigation actions. Forest policy is progressive as it (i) provides a basis for expanding the ambit of carbon sequestration through sustainable management of forests; (ii) provides necessary support to programmes that reduce emissions from the forest; (iii) encourages carbon sequestration, investing certain portion of the income in forest conservation activities including forest fire control; (iv) makes necessary legal arrangements to provide rights and responsibilities to local communities for conservation, (v) providesa basis for maintaining at least 40% of the country's land as forest area; and (vi) provides targets to bring at least 5% of the forest ecosystems under REDD+ implementation by 2020. However, policy initiativesareyet to be taken to provide statutory backup.

In spite of the fact that Nepal is among the very few countries that promotes the right to live in a clean environment as a fundamental right, neither have new laws been passed nor existing laws amended in line with the constitution's fundamental rights and different Multi-lateral Environmental Agreements (MEAs). New legislation is required to be formulated and enacted to ensure that citizens enjoy fundamental environmental rights, and the state successfully implements responsibilities, directive principles and policies so as to fulfil its obligations under different MEAs and national constitution. However, the state has not been able to

prioritiselegislation formation and enforcement. This is the reason why even the term ‘climate change’ is difficult to find in prevailing laws of Nepal, let alone ‘carbon sequestration’, ‘carbon management’ and ‘carbon ownership’. There is, therefore, a gap or disconnect between policy requirements, international commitments and the current legal framework of the country. Ownership of carbon, which impliesbenefit-sharing and long-term institutional arrangements for the ER Programme, is an issue that requires substantive legal provisions. As long as the country lacks substantive legal provisions for carbon ownership, title transfer and associated procedural arrangements, full implementationof REDD+ is unlikely to be possible.

2.4 Overview of Global Experiences and Lessons

There are important lessons to be drawn from global experiences, which are relatively in an advanced stage of REDD+ implementation. Key lessons can be learned from these three examples: Land Tenure in Africa; Equitable Payment for Ecosystem Services (PES) in Latin America; and Strong Monitoring and Verification in Asia. There are no silver-bullet lessons that can be applied, however, as Nepal has diverse forest management regimes and prevailing benefit-sharing mechanisms.Threebrief global experiences are provided below.

Land Tenure inAfrica. In Africa, deforestation is primarily driven by subsistence agriculture (54%) and industrial agriculture (35%). Commercial logging also accounts for approximately 10% of deforestation. The lack of secure land tenure leads to increased pressure on forest ecosystems from population growth and agricultural expansion, as people continue to clear forests for crop cultivation. Due to the decentralized nature of deforestation drivers, benefits sharing via participatory forest management (PFM) approaches seem to be the most appropriate way of addressing community-level land clearing. A significant obstacle to effective implementation of REDD+ in Africa is the lack of strong forest governance capacity. Even in Tanzania, a country with substantial experience with PFM, REDD+ projects require more safeguards to ensure that benefit-sharing is horizontally and vertically efficient and equitable. Tanzania’s Joint Forest Management (on state controlled lands) has proven to be less effective than Community Forest Management programmes, where local communities have successfully reduced deforestation and improved forest health. In both Kenya and Tanzania, the benefit-sharing systems of REDD+ pilot projects have been hindered by unclear or non-existent legal frameworks for carbon rights and carbon credits.

Equitable Payment for Ecosystem Services (PES) inLatin America. In Latin America, the primary drivers of deforestation are ranching and pasture conversion (65%), along with subsistence agriculture (31%). Industrial agriculture and logging are minor drivers in comparison. Many countries in the region have already implemented payments for ecosystem services (PES), but REDD+ benefit-sharing will have to target cattle ranchers and forest-based agriculturalists to prevent further deforestation. Any benefit-sharing mechanisms will have to take into account the needs of forest-dependent communities and offset the opportunity costs of not expanding cropland. There is a need for more engagement with local and indigenous communities in decision-making processes regarding benefit-sharing, in order to create an equitable, transparent and efficient distribution system.

Government subsidies that promote land conversion to pasture, and property and tax laws that incentivize cropland expansion will need to be altered or eliminated for PES approaches to work effectively. Costa Rica has maintained a PES system since 1996, with a portion of fossil fuel taxes being directed towards a national fund, which distributes payments to forest owners and

users for preserving forest services. Brazil established the Amazon Fund in 2008, which focuses on climate change mitigation efforts such as reducing deforestation, but suffers from high capacity-related barriers to participation. The Amazon Fund's performance-based PES system is also nationally accounted, and is not intended to directly compensate local actors. Peru is in the process of establishing nested approaches to financing REDD+, while Mexico is pursuing a rural sustainable development model that incorporates a performance-based PES system for REDD+ activities. In most cases, PES-based benefit-sharing mechanisms require more engagement with local and indigenous community to ensure equitable transfer of funds from the national to a local level.

Strong Monitoring and Verification in Asia. In Asia, the main driver of deforestation is industrial and subsistence agriculture, accounting for 88% of deforestation. The lack of strong forest governance capacity and active development of large timber and agro-industrial commodity sectors also facilitate agricultural expansion and related forest clearing. Various countries in Asia have had experience with PFM and other forms of community-based forest management (CBFM). Such programmes have been successful at fostering forest recovery, but the methods involved have often been inequitable to local and indigenous communities. Land tenure and carbon rights need to clarified, and better enforced, in order to create a sustainable framework of economic development for local actors. In order for REDD+ carbon financing to support sustainable development in Asian countries, governments and non-state actors will have to invest in capacity building at the local level to ensure that sustainable resource extraction and equitable benefit-sharing can take place. Vietnam has had previous experience with large-scale forest environmental services projects, complemented by strong governance capacity and high tenure security. CBFM programmes in Vietnam have been effective at involving local communities in forest protection, but less successful at increasing local participation in forest management, due to the lack of legal recognition of forest peoples' rights and the government's centralized control of high quality forests. In Nepal, REDD+ finances are integrated into the state budget, while management of forest resources is devolved to local level actors. CBFM in Nepal grants full ownership over management and revenue from legally recognized community forests, but has not necessarily been equitable in terms of access for indigenous communities and disadvantaged groups. Indonesia has adopted an integrated financing approach to REDD+, with revenue also being derived from forest concessions. In both Indonesia and Nepal, weak forest governance and enforcement capacity prevents effective implementation of both forestry and REDD+ policies. As such, significant investment in monitoring and verification processes and reform of legal frameworks are required for effective REDD+ programmes in Asian countries.

Nepal can learn a number oflessons from global experience that can be useful while designingan institutional framework for theER Programme in the TAL area. Key lessons from Africa are that secure land or forest tenure is fundamental to reduce pressures on forest. Clarifying forest tenure through decentralized forestry may be the most appropriate way to address community-level issues related to the conservation and management of forests. Decentralized forestry may need to be strengthened with appropriate and facilitative governance and adequate and appropriate social safeguard systems. Similarly, Latin American's experience suggests the need and possibility forequitable PES among forest owners and users for the long-run. However, engagement and capacity building of local and indigenous communities and maintenance of the ER Programme with intended outcomes (e.g., both carbon and non-carbon) could be critical and challenging. In addition, experience from the Asian region highlights the need for(i) clarity in forest tenure and carbon ownership, (ii) equitable methods for effective CBFM, (iii) local level capacity building

through government and non-government sectors, (iv) strong monitoring and verification systems for performance, and (v) coherence between financing and forest management responsibilities.

2.5Nepal's NationalExperiences from Other Sectors

Important lessons can also be drawn from existing benefit-sharing experiences from Nepal. This study reviewed and observed some practices carried out by different agencies and programmes in both forestry and non-forestry sectors. Six pertinent ones are noted here: Revenue Sharing in National Parks; Institutional Arrangements in Annapurna Conservation Area Project (ACAP); Revenue Sharing with Local Governments; Revenue Sharing of Hydropower Projects; Equitable Payment for Ecosystem Services (PES) in Sardu Watershed Drinking Water Supply; and Carbon Credit Transfer in the Biogas Support Programme (BSP).

Revenue Sharing in National Parks. Legally, National Parks (NPs) should share 30-50% of the revenue generated with the local community and 50% withthe government of Nepal. The existing practice shows that NPs provide 50% of their revenue to the Buffer Zone User Groups through Buffer Zone Council. The local community can invest such money in conservation and development activities as prescribed in the Buffer Zone Regulation (Buffer Zone Guidelines, 2056). They have to invest such revenue in conservation activities (30%), community development (30%), income generation (20%), conservation education (10%),andadministrative costs (10%). Thesebenefit-sharing practices could be very useful for the ER Programme. An integrated planning and monitoring system with established criteria for the investment could be the basis for REDD+ benefit-sharing and synergy.

Institutional Arrangements in Annapurna Conservation Area Project (ACAP). ACAP is the largest undertaking of the National Trust for Nature Conservation. The ACAP approach focuses on community-based conservation. This provides an opportunity to reduce huge costs associated with conventional PA management. NTNC is the pioneer NGO to initiate the idea of reinvesting all tourist entry fees into Integrated Conservation and Development Projects (ICDP) in the area. Local institutions such as Conservation Area Management Committees (CAMCs) have been authorized to collect and utilize certain fees and revenues, which is utilized as matching funds to ACAP's support, which comes from entry permit fees or sometimes from donor funding for specific projects (Bajracharya and Dahal, 2008). The ER Programme can learn from institutional management of community managed conservation areas.

Revenue Sharing with Local Governments. The Local Self-Governance Act and Regulation (LSGA/R) defines and clarifies revenue collection rights of DDCs, VDCs and Municipalities in more or less similar manner. The law authorizes VDCs to levy tax on utilization of natural resources. They are also entitled to a share of 35-50% on tax collected by DDC from recyclable and waste materials and income earned through the sale of sand, soil, aggregate, boulders and wood swept by rivers. DDCs also receive 10% share of central revenue accrued from the sale of timber in respective districts. They also have a revenue sharing arrangement with central government on royalties from hydropower, forest and mines, royalty and entrance fees collected from tourists, trekkers and mountaineers, and house and land registration fees. DDCs also receive15% of the revenue collected by the central government from land registration, and Municipalities/VDCreceive 35%. In this context, the natural resources revenue can be interlinked with the ER Programme.

Revenue Sharing of Hydropower Projects. 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. The Hydropower Development Policy of 2001 formalized the sharing of hydropower revenues with district governments (GoN, 2001). At present, 50% of the annual revenue collected by the central government from hydropower projects is shared with districts irrespective of the existence of hydropower projects. These transfers are in addition to any compensation and restitution payments made by project developers to affected communities. Hydropower revenues have increased in real terms, but still form a small part of fiscal transfers from the central to the subnational level (Balasubramanya, 2014). However, the practice is that very little money is spent directly on conservation activities. For example, Makwanpur DCC has been sharing 20% of the total revenue generated to upstream communities of Kulekhani under the PES mechanism.

PES in Sardu Watershed Drinking Water Supply. Payment for Ecosystem Services (PES) Schemes for Conserving Sardu Watershed drinking water supply and recreational services in Dharan can be considered as a good example of the PES mechanism. A study carried out by IUCN estimated the value of ecosystem services to be more than NRs. 60 million a year. However, the economic value of the recreational and regulating services needs to be estimated to give a significant boost to the concept and idea of implementing the PES scheme. The project has placed the local poor communities at the centre in management and benefit-sharing. The result showed that about 47% of the total population living downstream are willing to contribute their physical labour (called *shramdan*), while 42% have agreed to allocate monetary contributions to the conservation fund for the sustainable management of the watershed. To initiate raising financial sources and advance the PES scheme, a conservation fund was set up, in which IUCN contributed an amount of NRs 1 million in the form of seed money (Khanal and Paudel, 2012).

Carbon Credit Transfer in the Biogas Support Programme (BSP). The BSP is the first Clean Development Mechanism (CDM) project in Nepal with registration of two CDM projects in 2005: 19,396 plants constructed under Phase IV have been registered with and approved by the CDM Executive Board (EB). An Emission Reduction Purchase Agreement (ERPA) for two projects has been signed with the World Bank for trading of Emission Reductions from the first seven years; 2004/05 was the first year to receive credit. The negotiated rate, in the final agreement signed in 2006, was 7 US$ per ton of carbon for Certified Emission Reduction (CER) (Manandhar and Bhatta, 2013). The BSP has already practiced carbon credit transfer to the BSP/AEPC before bio-gas plant installations at the household level. Trading in carbon credits accumulated from household biogas plants relies on the aggregate decisions of individual households to switch to renewable bio-gas technology and to transfer their carbon trading rights to the government. By doing so, households transfer future carbon revenue to the government (Barnhart, 2014).

From these local experiences, different lessons can be learntthat can be useful while designing institutional frameworksand benefit sharing for the ER Programme in TAL area. While the revenue sharing mechanisms under the NPs can serve as a basis and model for benefit sharing in community managed conservation efforts, the community managed institutions practiced in ACAP provide key insights about the efficacy of the community and their institutions to manage and sustain forests as well as the eco-system. Similarly, the practice of revenue sharing generated from natural resources, tourism, hydropower, etc., between the central and local government

institutions portrays solid evidence regarding the decentralisation of the benefit sharing mechanism at a local level. The other good examples of PES from hydro power projects and drinking water supply schemes provide locally initiated benefit sharing practices that can be adapted under ER Programme. Finally, the clean development initiative practiced by the BSP is another successful example of potential carbon trading opportunities in the global market.

2.6 REDD+ Initiatives in TAL

Several institutions in Nepal have implemented a number of initiatives and piloted activities on different aspects of REDD+. Seven examples are noted below. The FCPF supports the country's overall REDD+ readiness capacity development process. UN-REDD has been providing targeted support in identifying options for the design of an effective, efficient and equitable fund management system for REDD+ finance, and in assessing key policies and measures for addressing drivers of deforestation and forest degradation, and linkages to the overall national REDD readiness process. The government of Finland has been assisting in the Forest Resource Assessment Project. Finland, Switzerland, and the UK have been assisting in the implementation of the multi-stakeholder forestry programme (MSFP), which has a strong REDD+ component. Similarly, the WWF Nepal jointly with CARE Nepal, NTNC and FECOFUN has been implementing a USAID funded Hariyo Ban Programme which also has a REDD+ component. These development partners of Nepal play a meaningful role in shaping the national REDD+ implementation framework. The REDD+ initiatives carried out in Nepal during the period of 2008-2015 are outlined as follows.

Forest Carbon Partnership Facility (FCPF). The Readiness Preparation Proposal (R-PP) guides the REDD readiness activities for Nepal. The R-PP was approved by the Forest Carbon Partnership Facility (FCPF) of the World Bank in 2010, providing Nepal with a grant to implement the activities outlined in the R-PP. The FCPF, a financial body administrated by the World Bank, is a global partnership of governments, businesses, civil society, and indigenous people focused on the implementation of REDD+ in different countries across the world. FCPF's strategic plan is: (i) to assist countries in their REDD+ efforts by providing them financial and technical assistance in capacity building so that they benefit from REDD+, if implemented; (ii) to pilot a performance-based payment system for REDD+ activities, with a view to ensuring equitable benefit-sharing and promoting future large-scale positive incentives for REDD+; (iii) to test ways to sustain or enhance livelihoods of local communities and to conserve biodiversity using the REDD+ approach; and (iv) to disseminate broadly the knowledge gained in the development of the facility and implementation of Readiness Preparation Proposals (RPPs) and Emission Reductions Programmes (ERPs). Since the early stage of REDD+ development in 2008, Nepal has been listed as one of the pilot countries under the FCPF fund and continues to receive financial support to achieve the ER goal. The ER Programme in TAL districts is among theprogrammesfully supported by the FCPF.

Governance and Payment System for Community Forest Management under REDD+. This is the most comprehensive REDD+ project piloted in three sub-watersheds in Nepal by ICIMOD, ANSAB and FECOFUN. The project distributed payment to the communities for 3 years. While 40% of the payment was based on the forest carbon stock in the community forests, the remaining 60% was based on the socio-economic attributes of the community (e.g., proportion of poor, 20%; Dalit, 15%; indigenous peoples, 10%; and women, 15%). One of the project sites was located in the TAL (Chitwan).The benefit-sharing system was focused on socio-economic

indicators rather than forest conservation and management, which ultimately wascontroversial, as it did not provide benefit those who bettermanaged the forest.

Grassroots Capacity Building for REDD+.RECOFTC, FECOFUN, HIMAWANTI and ForestAction are implementing this project. It aims to capacitate grassroots stakeholders including CFUGs. It prepared a range of educational materials and media writings by mobilizing media personnel that are useful to create awareness and capacity building. The project has trained large numbers of people as grassroots facilitators and published various information materials to create awareness.

Social and Environmental Project. FECOFUN and CARE Denmark carried out this project with an aim to develop a REDD+ standard, suitable to the Nepalese context. A series of workshops were organized to improve social safeguards and develop measures to prevent violation of user rights and gain acceptance from the prevailing Nepalese Act. However, these efforts have not been nationally owned and adopted.

Climate Change and REDD+ Programme. NEFIN has implemented this programme in 40 districts to raise awareness and capacitate indigenous leaders for REDD+ and climate change. This project has developed educational radio broadcasts, education materials, and organized teacher-trainings. This programme is not specific to the TAL but covers TAL areas as well.

Poverty Alleviation through REDD+ Pilot. This project has been implemented by WWF Nepal in association with Winrock International to develop standard methods of forest carbon measurement at a landscape level, to generate forest carbon data, to develop a user-friendly mechanism to collate locally-collected data and make them centrally available at the national level, and to emphasize the importance of an equitable benefit-sharing mechanism. This project has been successful in establishing a baseline for certain regions, including the Terai, and has assessed the potential for carbon sequestration, leakage, and additionality within the Terai Arc Landscape (TAL).

Capacity Building to Southern Civil Society Organizations on REDD+. The National Forum for Advocacy Nepal (NAFAN) implemented this project with the help of the Forest Carbon Partnership Facility of World Bank and the Nepal Law Society. The project imparted training of trainers on REDD+.

The lessons learned from these pilot projects are crucial in developing national REDD+ strategies and REDD+ project implementation. However, due to inadequate coordination between REDD IC and forest authorities at sub-national levels, the knowledge and lessons have not been adequately conveyed at these levels and are limited to project scope only. One of the drawbacks of these projects was that except FCPF, others projects were implemented in isolation with limited or no coordination with the government. As such the efforts were fragmented with duplication of efforts within the sector.

In the TAL region, the level of information that most stakeholders had was scant, people talked mostly about rights and not so much about responsibility. Their expectations were very high. Except for a few people in government and project offices, most stakeholders were not aware that carbon payments are based on additions to carbon sequestration over the base year rather than forest management as such.

2.7 Preparation of Emission Reduction Project Idea Note (ER-PIN) for TAL:

The ER Programme serves as a model for activities in the national REDD+ strategy and will pilot the innovative policies and practices within forestry and related sectors that can potentially be expanded in other landscapes. Nepal has submitted the Emission Reductions Programme Idea Note (ER-PIN) to the FCPF in order to access the Carbon Fund. The ER-PIN has appropriately proposed five primary interventions in the project sites that include: (i) increasing supply of forest products, conserving forests and enhancing carbon stocks through sustainable management of forests (SMF), improvement in forest law enforcement and governance (FLEG), and effective conservation in protected areas; (ii) reducing demand of fuel-wood with expansion of alternative energy, e.g., biogas plants and cooking stoves; (iii) integrated land use planning to reduce forest conversion while advancing needed infrastructure; (iv) increasing supply by engaging the private sector in sustainable production and the value chain of forest products to bring new forest production to degraded lands; and (v) enhancing alternative livelihood opportunities to address underlying drivers.

The approval of Nepal's ER-PIN (FCPF approved it in 2014) has opened a new horizon in REDD+ readiness activities that claimsan additional 70 million USD for the conservation and management of forest in the project site. This is based on the resolution made at the Conference of the Parties (COP 9) to negotiate a Letter of Intent with Nepal for an estimated volume of up to 14 million tonnes of emission reductions (CO_2 equivalent) over a five-year period from 2015 to 2020. The GoN has been coordinating with concerned stakeholders, partners and the national REDD+ Working Group to develop an Emission Reduction Programme Document (ER-PD) based on the submitted ER-PIN.

2.8 Theoretical Understanding of REDD+ Cost-Benefit-Sharing Mechanism and Institutional Framework

Equitable benefit-sharing arrangements are imperative to making sure that REDD+ results in sustainable emission reductions realizes substantial benefits for forest communities and does not make vulnerable people worse off.Benefit sharing is generally understood as allocating, administering, and providing benefits to actors for certain activities or results through some form of positive incentive, opportunity, payment, rent/profit, or other compensation, whether financial or non-monetary (Hite, 2015).

The sources of reward or the benefits of REDD+ can be distinguished in three main types. First, it comprises the cash benefits from implementation of a REDD+ project, programme, or policy. Those implementing REDD+ derive benefitsfrom international and national transfers related to REDD+, such as the sale of REDD+ credits in a carbon market, or from donor or government funds linked to REDD+ readiness and/or payments based on results. Second, the benefits include changes in forest use and the gains in the form of better access to and higher income from forest products that do not reduce forest carbon. Third, there are also indirect benefits from REDD+ implementation that includes improved governance, such as strengthening of tenure rights and law enforcement, technology transfer, enhanced participation in decision, etc.

2.8.1 Context of REDD+ Benefit-Sharing

REDD+ benefit-sharing refers to the distribution of net gains from the implementation of REDD+ (Luttrell et al, 2012) for which REDD+ benefit-distribution system, a mechanism that allows allocation of benefits derived from REDD+ projects to relevant stakeholders (Denier et

al,2014), would be very crucial. Any mechanism needs to ensure that small groups of powerful elites are not over-compensated at the cost of many possible small landholders (Mohammed, 2011). Land management schemes (e.g., REDD+) could provide benefits more fairly by a declining reward for each additional unit of land while distributing the costs of, and benefits from, participation (Schwarte and Mohammed, 2011). This type of targeting needs careful planning and continuous monitoring and assessments (Kelley et al, 2012).

For REDD+ to effectively address the drivers of deforestation and forest degradation and enhance carbon stocks, REDD+ programs will need to target the most relevant stakeholders at any given level, including government entities, land managers, businesses, and smallholders, among others.This is especially important because funding for REDD+ is limited, particularly in its early phases. REDD+ also has to effectively align incentives across levels. Targeting needs to be balanced with efforts to foster legitimacy. REDD+ programs need to create sufficient incentives for actors to actually change land-use practices that drive deforestation and degradation. If a program is too narrowly targeted, however, and focuses on just a few key actors, it risks not being sufficiently broad enough to align incentives, cultivate support, build legitimacy, and prevent leakage.

REDD+ programs need to target key drivers and various actors operating at different levels with tailored incentive arrangements that motivate these groups to change their behaviours. These arrangements do not always have to be financially focused, and can include regulatory enforcement and positive incentives. In all cases, they require an understanding of stakeholders' divergent priorities and constraints in order to deliver benefits that are meaningful to the different stakeholder groups. REDD+ programs need to tailor incentive arrangements to deliver meaningful benefits to different stakeholder groups. To effectively catalyze a shift to lower-carbon land-use practices, a REDD+ program must create customized incentive arrangements for key stakeholders that motivate different groups to change their behavior. These arrangements do not always have to be financially focused but do require understanding of stakeholders' divergent priorities and constraints (Myers Madeira et al. 2013).

The development of benefit-sharing mechanisms will depend upon various policies including those that provide for carbon rights, a new and unique type of property right (Streck, 2008), that would commoditize carbon as a form of property in order to allow it to be traded in voluntary and regulatory markets. On the other hand, defining the process, procedure and institutional arrangement for benefit distribution is very important to ensure the participation of everybody in the process. The conditions of benefit disbursement relates to the question 'what should be rewarded'; i.e., input or performance? Who should be rewarded and on what basis? In this regard, provision of incentive policy arrangements will encourage forest managers/users to earn monetary and non-monetary benefits by keeping their forest intact while selling carbon credit (Fletcher et al, 2009).

Different REDD+ benefits (e.g., monetary, non-monetary) are relevant to different stakeholders and can be used to best align their interests with the long-term goal of changing land-use practices (Lutrell et al, 2012). However, to make the programme effective, REDD+ programmes need to target particular benefits to the most relevant stakeholders (Lutrell et al, 2012). Such a targeted programme can bring compelling value propositions for different stakeholders by tailoring their interests, needs, burdens and abilities to tolerate risk (Maderiaet al, 2012). Tailoring benefits equitably depends on an understanding of what the interests of beneficiaries are (Kelly et al, 2012).

To distribute the REDD+ benefits, different types of systems have been carried out in practice and can be tailored with different REDD+ stakeholders.The most common system include those where funds are held, managed and distributed through a structure that is separate from the national budget referred to as a*Dedicated fund*; funds are disbursed via existing budgetary structures and pathways, called a*Budgetary approach*; and where direct access to funds is given to sub-national and project-level actors, called a*Decentralized approach*. However, the financial structure of REDD+ will depend on each program's focus and host-country circumstances, including existing institutions, forest tenure regimes, and financing sources.REDD+ programs will include broad policy measures as well as site-level actions, and there is no one-size-fits-all financial mechanism that can mobilize funds for the breadth of different needs.REDD+ programs will therefore be likely to utilize various financing mechanismsto channel resources to priority activities at different levels.To be successful, these different mechanisms need to be aligned with broader environmental and development objectives (Hite, 2015).

A key element to build legitimacy in the benefit distribution process is by ensuring local participation in the design of benefit-sharing mechanisms, and calls for approaches that involve forest managers to take control of local decisions and resources. These approaches need to be pragmatic, flexible and suitable so as to ensure the effectiveness of forest managers' efforts to reduce deforestation and forest degradation. Maintaining active and continued participation of stakeholders as well as ensuring reward for their efforts, rights to receive carbon benefits, secure land rights, implementing good governance and decision-making process are crucial and need particular attention when developing benefit sharing mechanisms. It is equally important to devise an effective, efficient and equitable (3E) benefit-sharing arrangement (Box 1).

Box 1. Understanding of Equity, Efficiency and Effectiveness

Equity: Equity is a dynamic concept that denotes both fairness and justice in the way people are treated. It implies giving as much advantage, consideration, or latitude to one party as it is given to another. Along with economy, effectiveness, and efficiency, equity is essential for ensuring that extent and costs of funds, goods and services are fairly divided among their recipients. In REDD+, certain uses of forest resourcesare inevitably prohibited; this must be done with due process and compensation, and without increased hardship for poor forest peoples. When tenure is unclear or not formalized, forest people may be excluded from forests and/or from participation in REDD+ benefits; in particular, if REDD+ increases the value of standing forests, a resource rush may result that places the rights of current residents at risk.

Efficiency: Efficiency is defined as the ability to produce something witha minimum amount of effort. Efficiency denotes clear tenure rights, and reduced transaction costs, such as time and funds required for conflict resolution. At the same time, secured tenure rights increase the policy options available, and thereby enable governments and project proponents to choose more cost-efficient implementation strategies.

Effectiveness: Effectiveness refers to the amount of emissions reduced or removals increased by REDD+ actions. Flexibility and robustness may be useful to control or avoid leakage. Permanence and liability are also likely to serve as key drivers of effectiveness. Governance and corruption are also important considerations (Verbist et. al, 2011).

In the benefit-sharing mechanism, the governance system underpins the orthodox institutions to change their actions in such a way that enable the stakeholders for maintaining transparency and accountability of their actions and the involvement of the hitherto voiceless in decision-making processes. The actions may be related to the delegation of powers (e.g., revenue raising powers), the provision of resources (e.g., finance, manpower, and capital assets), and institutional mechanisms, professional and technical human resources. The delegation of power may extend to greater opportunities for involvement in public policy making, greater likelihood of being

treated equally by the law, more space available to associate and pursue interests and better chance by lesspowerful actors.

2.8.2 Phases of REDD+ and Delivered Benefits

REDD+ programs must deliver positive incentives throughout their development and implementation. Costs associated with the initial stages should also fund the provision of near-term benefits, such as the creation of sustainable forest enterprises and streamlined regulatory processes. These near-term benefits are concrete and real to the stakeholders affected, and make key contributions to the long-term goal of reduced emissions.REDD+ projects are expected to affect local wellbeing by (i) creating (or blocking) material opportunities for wealth creation and well-being (e.g., jobs, revenue streams, infrastructure, and improved educational conditions); (ii) enhancing (or weakening) populations' security (e.g., tenure security, food security, livelihood security, and adaptability to climate change); and (iii) facilitating (or preventing) the empowerment of individuals and communities to participate in decisions affecting local land-use and development (Lawlor et al, 2013).

Each phase of REDD+ can and should be designed and implemented to maximize benefits to key stakeholderssuch as indigenous people, local communities, small holders, and other partnerswhile maintaining the effectiveness and efficiency of the program.Early benefits are necessary to build support and maintain interest and momentum during the longer process of establishing new markets for sustainable products and carbon.Some analyses of integrated conservation and development programs (ICDPs) have found that providing visible and sustainable benefits for communities at an early stage results in improved outcomes (Chan et al.2007).Nonmonetary development benefits that are visible and community-wide are more likely to generate long-term benefits that mobilize community buy-in (Blom et al.2010).For example, investing in securing recognized management and land rights for forest-dependent communities, empowering communities to participate in land-use decision processes and education programs will yield long-term social benefits.These investments in early phase benefits are "no regrets" in that they yield real, permanent improvements in wellbeing that will persist even if large-scale pay-for-performance schemes take a long time to materialize.Once performance payments do come into play, they can be invested in activities that reinforce this shift to sustainable economic activities.

Box 2. Broader Cost Headings for the ER Programme

The ER-PIN has proposed broader cost headings for the ER Programme, viz., sustainable management of forest (SMF) by government and community, 25%; diversify alternative livelihood options, on a demand-driven basis, for forest dependent poor community, 35%; reducing forest demand with expansion of biogas plants and cooking stoves,10%; land use planning to reduce forest conversion, 5%; engaging private sector to bring new forest production to degraded lands, 10%; field monitoring and reporting, 5%; and operational cost (e.g., meetings, travel, office running costs), 10%.

To make sure that REDD+ yields positive and desired outcomes, countries need to put required policies, institutions, and financing and benefit-sharing mechanisms in place, which are regarded as essential for the REDD+ mechanism to work on the ground throughout all phases of REDD+. Through community consultation, it is possible to assess the preference of the participant communities for the amount and type of benefits, and thereby develop positive attitudes and promote a sense of ownership among local communities (Mohammed, 2011). Along this line, CFMF Criterion 31 requires benefit-sharing arrangements for the ER Programme, which should be designed in a consultative, transparent, and participatory manner appropriate to the country

context that reflects inputs of all stakeholders. This process is informed by and builds upon the national readiness process, including the SESA, and takes into account existing benefit-sharing arrangements, where appropriate. Equitable participation, access and distribution of costs and benefits are rarely a by-product of a mechanism's operations, and instead, they have to be the explicit focus of benefit design and delivery (Maderia et al, 2012). Table 1 demonstrates the types of activities that can be undertaken during different phases of REDD+, and the benefits that can be delivered through these activities.

Table 1. Schematic Representation of Three Phases of REDD+ implementation and benefits from each phase (adapted from Maderia 2012)

Readiness Phase	**Activities:** REDD+ readiness, capacity building, development of REDD+ strategy. **Benefits:** Improved forest governance; Improved stakeholder participation in land-use planning; Enhanced tenure and access security when mapping efforts help resolve tenure disputes and identify areas of social importance.
Scaling up phase: Demonstration, Policies & Measures	**Activities:** Institutional strengthening; Policy reforms and measures; Demonstration activities that pilot site-based mitigation strategies; Improved monitoring systems and participatory processes for stakeholders. **Benefits:** New enterprises and improved performance of existing enterprises, including some focused on accessing niche markets for sustainable goods; Improved tenure and access security as tenure disputes are resolved and mapping efforts mature; Better land-use decision-making; Improved forest governance resulting from cross-sectoral spatial planning, improved data, and regulatory streamlining; Pay-for-performance funding may be piloted during this phase.
Implementation or Result-based Phase	**Activities:** Widespread implementation of strategies, policy reforms, and creation of new low-carbon industries; Robust MRV system; Quantified and verified changes in greenhouse gas emissions and/or removals that generate payment for results. **Benefits:** Improved institutional architecture; New enterprises and low-carbon industries; Payments for performance; Technical capacity and partnerships; Increased clarity around tenure and rights.

2.8.3 Required Institutional Framework and Guiding Principles for REDD+ Benefit-Sharing

As an institutional framework is steered by the systems of formal laws, regulations, and procedures, or informal conventions, customs, and norms, that broaden, mould and restrain socio-economic activity and behaviour (Acharya, 2013), institutional arrangements for any particular initiative can be dynamic and inclusive to accommodate all applicable concerns. For instance, institutional arrangements for REDD+ benefit-sharing mechanisms can be organized along two main axes: (i) a *vertical axis* of benefit-sharing across scales from national to local (top-down or bottom-up redistribution of REDD+ finance among government and/or non-government actors at community – district – province – national levels via fiscal transfer mechanisms (e.g., taxes, fees, budgetary allocations, grants, etc.), and (ii) a *horizontal axis* of

sharing within scales, including within and across communities, households and other local stakeholders (Lindhjem et al,2010). Both vertical and horizontal aspects of a REDD+ benefit-sharing mechanism needs to be designed to maximize equity among the actors responsible for the reduction of deforestation and forest degradation, improve the effectiveness of forest management and increase the efficiency of national and subnational programmes (Brockhaus et al,2012).

Institutions are organizational entities (governmental or non-governmental), rules, and procedures governing the vertical distribution of REDD+ finance and the horizontal distribution of REDD+ benefits. Institutions and stakeholders are inclusively mutual in decision-making or implementing processes of the project or outcomes of project (Schmeer, 1998). In many contexts, stakeholders range from persons, groups or institutions and they can be categorized into three broad sets of groups namely key/primary, secondary and tertiary based on their interests in a project or programme.Key/primary stakeholders are actors of the programmes and projects who directly influence others either positively or negatively while secondary stakeholders are those who play some intermediary or facilitating role and may have an important effect on the project/programme outcome. Their effects remain both positive and negative. Tertiary stakeholders are the subsidiaries in the influencing mechanism. Apart from these, stakeholders' engagement and their relationships rely on attitudes and behaviours of the key/primary actors, which can be determined through a stakeholder analysis (Acharya, 2013).

REDD+ mechanismsare required to have safeguards that protect knowledge and rights of local and indigenous communities, especially regarding the structure of the country's benefit-sharing arrangements for forest-managing communities under different management regimes. However, there is no explicit formulation of what kind of benefit-sharing arrangement is necessary in what type of forest management regimes. It is pertinent for REDD+ project planners and evaluators to identify governance institutions, rules, and procedures relevant to the beneficiary eligibility, carbon accounting, sources and management of REDD+ finance, types of benefits, and structures of benefits distribution and allocation. Here we provide six key substantive themes that need to be critically assessed while designing institutions for benefit-sharing mechanisms that achieve 3E.

'Pro-Poor' Benefit-Sharing.A pro-poor benefit-sharing arrangement is one that ensures equitable participation of, and consultation with, affected actors. In absolute terms, a pro-poor REDD+ programme results in net positive benefit to the poor and marginalized actors, and in relative terms, will benefit the poor proportionally more than the relatively well off (Mohammed, 2011). Such programmes may enhance and make use of the poor population's assets of labour and social capital to ensure proper and sustainable management of forests. However, for such a pro-poor REDD+, a benefit-sharing arrangement needs to properly define beneficiaries' wellbeing in a way that is locally appropriate and takes into account local views on eligibility. This will help increase the social legitimacy and acceptability of not only the benefit-sharing institutions but also the REDD+ project as a whole. Benefit-sharing institutions should be developed at various levels of governance, with particular attention paid atthe local level and their functional connection with higher levels. Inclusion of pro-poor principles and the poor should be extended to the procedural dimensions of the REDD+ and benefit-sharing process. Equally, care should be taken to ensure that the benefits distribution methods are cost-effective and transparent and also that the benefits are distributed equitably according to stakeholders' needs and investment.

Critical Eligibility Criteria for Beneficiaries. One of the critical eligibility criteria to access REDD+ benefits include the country's formal and informal land tenure rules. On the basis of statutory rights, those who directly contribute to emission reductions from, and on, their legally owned forest or land receive benefits. On the basis of de facto forest use rights, those who reduce emissions on customarily owned forest or land would also receive benefits. As such, benefit-sharing design needs to assess pre-existing land and forest tenure arrangements, and clarify customary rights to land and forests. However, land tenure formalization may be biased against economically disadvantaged stakeholders. The landless poor are only able to benefit indirectly from REDD+ schemes. Other vulnerable groups, such as women, who tend to have fewer rights, will often not have access to land tenure due to statutory or customary laws. Early analysis of rights to REDD+ benefitsattest that security of tenure and financial and other forest benefits to marginalized communities facilitate effective REDD+ programme development. Adoption of an equity-based criterion based on the socio-economic profile of beneficiaries would help the poorest and the marginalized communities get their share of benefits.

Carbon Accounting and Rights. The level of benefits to be shared among forest-managing communities is an important factor to consider. It is imperative to determine the amount of emission reduction that occurred due to a particular REDD+ activitywhile devising the benefit-sharing mechanism.Therefore, knowledge about carbon pool and carbon accounting are crucial as these help determine the amount of carbon credits and thereby the total amount of benefits. Carbon accounting can be conducted at the national level, with a national system for measuring, reporting and verifying emission reductions, while international carbon credit buyers transact only with national government. The other option is devolving carbon accounting to the sub-national level such as the TAL area where international buyers transact directly with sub-national REDD+ project implementation entities. Also, a nested approach to carbon accounting would allow international buyers to transact with either national or sub-national entity, but carbon accounting would need to be harmonized across national and sub-national levels.

A crucial factor inREDD+ benefit-sharing is the rules that govern the interpretation of rights to benefit from carbon finance and sale of carbon credits. Carbon rights are likely to be linked to land or forest ownership, and in Nepal, the state is likely to retain legal ownership over carbon rights. Therefore, well-defined and accepted benefit-sharing mechanisms are needed to distribute REDD+ funds equitably across forest-managing communities and other stakeholders who may not have access to legal land titles, but still contribute to emission reductions.

Sources and Flowof REDD+ Funding. While REDD+ projects can be funded through a variety of means, from voluntary carbon markets to tax-based national funds, benefits sharing can be determined by statutory and customary laws, including national legislation and contracts for project developers, or national fiscal transfer systems that allow local level governments to administer fund. Development of clear national REDD+ regulations may facilitate decentralization of emission reduction programmesand fund distribution that would require investments in human resources and institutional infrastructure at local levels to be effective. Decentralization of the emission reduction programme requires high upfront cost resulting in a need to provide technical and financial support to institutions (e.g., banks, ministries, NGOs, government regulatory agencies, legal institutions, community groups) that administer the benefit-sharing systems at a local level.

Participation of Local Actors. Community participation and engagement of local stakeholders in initial REDD+ activities may be enhanced through the provision of incentives or subsidies on

the basis of opportunity cost. The REDD+ fund governance and distribution structure needs to be created in consultation with local actors so as to ensure legitimacy, proper representation of, and understanding between, parties in order to avoid future conflicts.

Community-based natural resource management projects are likely be involved in REDD+ schemes to reduce pressure on forest ecosystem through job creation, which could be in labour-intensive agricultural production, as well as carbon and biodiversity monitoring. Participation is key to local-level environmental conservation programmes, but effort is needed to reduce the transaction costs of doing so, for instance, by potentially employing information and communication technologies to improve information and knowledge sharing. REDD+ programmes may target the appropriate social unitsas well (e.g., NTFP collectors, fuelwood harvesters, grazers, loggers) that could be the main threats to forest conservation. Such programmes need to critically examine the context of local and traditional social organizations so as to prevent disadvantaged groups (e.g., social classes or landless people) from losing.

Monitoring andVerification of Emission Reductions and Benefit-Sharing. Monitoring is key to REDD+ functioning and legitimacy, and can be conducted by communities, local governments, NGOs and experts, as monitoring is needed to assess the impacts of benefit-sharing systems on communities. Monitoring performance and payments will facilitate a fair distribution of benefits. Care should be taken to prevent double-counting of emission reductions while monitoring the performance measures, and to prevent misuse of resources while sharing benefits.

2.9 Prospects of Benefit-Sharing in TAL

It is well known that forests are a source of multiple benefits that are shared by various groups. TAL forests have high potential forfast growth and long rotation cycle, which contributes to sequestration and sink capacity. Mostly, these forests exist in plain areas where surface forest fire is common, but it does not damage standing wood biomass in contrast to crown-fire in the hills. The Strategy of Terai Arc Landscape Nepal (2004-2014) recognizes forest conversion, uncontrolled grazing in forests, unsustainable timber harvesting, unsustainable fuel wood extraction, forest fires, Churia watershed degradation,wildlife-poaching and human-wildlife conflict as the direct causes of environmental degradation and biodiversity loss in the TAL area.

If these forests are put under improved management practices, carbon benefits can be increased. The benefits will also vary geographically and by management regime, with greater carbon benefits realized in the lowlands where intensive carbon enhancement practices are suitable. Studies conducted for the Department of Forests estimate that silviculture practices proposed in the OFMPs would increase forest growth 5-6 times over a 20-year period (OFMP 1995). Until more detailed baseline/intervention analysis is possible, the GoN has used the IPCC default value of 1.75 tons C/ha/year for forestland management in dry tropical forests (Section 4.4.1, IPCC Special Report on Land-use, Land-use Change and Forestry, 2000) for lowland areas where the most intensive SMF will be conducted. On the other hand, the government has used half of this amount, or 0.875 tons C/ha/year, for the hill areas where less intensive SMF will be conducted. Similarly, 1.0 tons C/ha/year for management of protected areas, and 0.5 tons C/ha/year for increased enforcement of forest laws on government-managed forests are used to arrive at CO2e benefits for the first five years of 9.9 m tons (ER-PIN, 2014).

Since the TAL area is home to diverse forest regimes and beneficiaries, it is crucial to understand the diverse contexts and implications of REDD+ in TAL. The following table and the subsequent text provide an example of diversity in TAL Area.

Table 2.An Example of the Diversity of Protected Areas in TAL

Protected Areas	Suklaphanta Wildlife Reserve	Bardia National Park
District Coverage	1 District: Kanchanpur (11 VDCs, 1 Municipality)	3 Districts: Bardia (15 VDCs) Banke (3 VDCs) Surkhet (2 VDCs)
VDC and Municipality coverage	11 VDCs, 1 Municipality	20 VDCs
Ward Coverage	61	110
Settlement Coverage	280	160
Area Coverage (square km)	305	968
Buffer Zone Area (square km)	243.5	507
Buffer Zone Household Coverage	22,413	16,619
Buffer Zone Population Coverage	143,395	117,633
Number of Buffer Zone Management Committees	1	1
Number of BZ User Committees	9	19
Number of BZ User Groups	501	262
Number of Savings and Credit Cooperatives in BZ	19	23
Number of BZ Community Forests	45	119
Annual Tourist Inflow	471	12,974
Annual Revenue (million NRs.)	3.53	30.7
Annual Revenue Shared with Buffer Zone User Committees(million NRs.)	2.0	11.4

Source: Suklaphanta Wildlife Reserve Office, Annual Report (2070/071) and Bardia National Park Office, Annual Progress Report (2069/70).

This table shows that significant diversity exists among different protected areas in terms of geographical and population coverage, number of local organizations, number of tourists visiting the area, annual revenue, and the share of annual revenue received by the BZ user committees.

The amount each BZ User Committee receives from the annual revenue of the protected area also varies significantly according to the annual plan for conservation, development, income generation, and conservation education approved by the park/reserve authority. In the case of the Bardia National Park, the size of the share of park revenue received by the User Committee ranged between about NRs. 300,000 and NRs. 1,358,000 in 2012/13. Of the 19 Buffer Zone User Committees, 3 received less than NRs. 300,000, 7 received between NRs. 300,000 and NRs. 400,000, another 7 received between NRs. 400,000 and NRs. 500,000, and 2 received above NRs. 1 million. The share received by the BZ Management Committee was over NRs 2.5 million.

A number of implications stand out for benefit-sharing in the case of REDD+. First, there is an existing and functional system of sharing the financial benefits from the protected areas with the local communities. Second, the funds are shared with the community organizations rather than the households or individuals. Third, the amount of protected area revenue shared with the community organizations depends on their plans. Fourth, the Regulations require that specific proportions of this share be spent on conservation (30%), community development (30%), income and skill development (20%), conservation education (10%) and administration (10%). Finally, the households and individuals receive benefits from their community organizations from public goods, skill training, seed capital, revolving fund, cooperative loans, and other services.

The BZ community forest user groups promoted by the national parks and reserves are different from the community forest user groups promoted by the DFO on several accounts. Unlike the CFUGs the BZCFUGs are not entitled to sell forest products outside of their membership, don't enjoy the same legislative backing to ensure their perpetual succession, and don't receive adequate technical and organizational support from the park or reserve authority mainly because ofthe shortage of dedicated staff for the purpose. The emphasis in the BZCF is on conservation of forests even though utilization is permitted to meet the household needs for forest products. At least three lessons can be discerned for REDD+. First, as there is no legislative uniformity even among the community forest user groups, cost-benefit-sharing arrangement also need to be kept flexible according to specific local contexts. Second, equity should be addressed in the context of specific objectives of the intervention programme rather than as a blanket concept. Third, wherever equity is compromised because of programme objectives, other avenues of promoting equity need to be explored and utilized.

CHAPTER III

3. Institutional and Organizational Capacity of Forest Management Regimes and Stakeholders in TAL

This chapter describes the different forest regimes in Nepal and their benefit-sharing mechanisms. This section also provides insightsinto existing institutional capacity, their current and potential role in the context of ER Programme implementation with specific focus on the TAL area.

3.1 Forest Management Regimes in the TAL Area and Existing Cost Benefit-Sharing Mechanisms

Several forest management regimes are practiced in Nepal, namely:government managed forest, community forests, leasehold forests, collaborative forests, protected forest, protected areas, and private forests. From a legal perspective, all forests, except private ones, are owned by the government and are allocated for management and use to different bodies with legally binding functions, rights and responsibilities. Different forestry regimes in Nepal reflect a range of government control, from very high to low. Government control is very high in government-managed forests; high in CFM, parks and reserves; moderatein CF, BZCF and leasehold forests; and low in religious and private forests.With the exception of Conservation Areas (CAs), all other forest regimes exist in TAL area.

A brief review of existing benefit-sharing arrangements, andthe strengths and weaknessesof different forest management modalities is important as it highlights the different levels of forest managers/users rights and opportunities. This section briefly outlinesa picture of Nepal's forest management regimes in relation to the ER Programmethereby serving as the context for the development of an institutional framework for REDD+ as well as benefit-sharing mechanism. Table 3 summarizes the benefit-sharing arrangements and strengths and weaknesses of various forest management regimes. (The details have been provided in Annex 2.)

Table 3. Existing Forest Management Regimes and Benefit-Sharing Arrangements: Strengths and Weaknesses

MANAGEMENT TENURE	EXISTING BENEFIT-SHARING ARRANGEMENT	STRENGTHS	WEAKNESSES
Government Forest	• 90% of the revenue generated from government-managed forests goes to the GoN central treasury. Of the total revenue generated from the sale of timber from government-managed forests, DDC gets 10%. DDC also receives 50% income generated from the sale of unclaimed or stray (*dariyaburdi*) timber.	• Source of central government revenue • Local people are indirectly involved in the protection of forest. • Source of livelihood of local people as they collect fodder, litter, firewood from the forest.	• Weak management and planning of government forests • Non-compliance of DDCs towards forest revenue expenditure in forest and environment protection.

Table 3, *continued* –

MANAGEMENT TENURE	EXISTING BENEFIT-SHARING ARRANGEMENT	STRENGTHS	WEAKNESSES
Protected Forest	50% share of the total income generated from PFgoes to government revenue and 50% goes to Protected Forest Management Committee (PFMC). Of the total share of DFO, 10% goes to DDC.	Source of central government revenue and PFMCs Source of internal revenue of DDCs PFMC must allocate 50% income for forest and biodiversity conservation	No guideline regarding the use of 90% revenue generated by DFOs No clear guideline for PFMCs for resource use and mobilization
Community Forest	Forest Act 1993 provisions that at least 25% income of CF must be spent for protection and management of community forest. Forest Development Guidelines 2009 provisions that of the total income of CF, 35% should be spent for the poor, women, Dalits, and indigenous nationalities (ethnic groups).	Major source of income Established institutional set up, laws, by-laws and statutes. Strong compliance to policies, laws and by-laws Contribution towards sustainable forest protection and management vis-à-vis livelihood opportunities Equity and inclusion provisions are by and large adhered to.	Elite capture in benefit-sharing and decision making Political influence Weak governance Vulnerability to external pressures because of some minute legislative loopholes in OP approval and renewal process. Size of individual CF tends to be relatively small thereby needing clustering of multiple CFs for carbon accounting purposes.
Collaborative Forest	• 50% of income generated from CoF goes to CoFMG while 50% goes to government treasury through DFO. • Expenditure of CoFMG is as follows: o Management of Collaborative Forest - 40% o Poverty reduction, community development and capacity enhancement - 50% o Administrative cost - max 10%	• Source of government and community revenue • Based on the principles of scientific forest management • Involvement of large direct and indirect beneficiaries • Fulfills local timber and fuelwood demand • Benefits both local and distant forest users. • Addresses the problems of regional inequality of forest endowment within district to some extent.	• Growing interest in timber extraction than forest management • Landless and people occupying unregistered land are excluded from the benefits • Rich, urban-centric and politically active people are prime beneficiaries • Conflicts between local communities and DFO about management objectives, timber pricing, investment of community funds and membership criteria. • Controversial regime of forest management • Contribution to carbon stock is debatable.
Leasehold Forest	• Leasehold forest is provided to two categories: Pro-poor Leasehold forest Management Group and Industrial Leasehold Forest Management Group. Both can utilize 100% income generated from the forest within the lease period.	• Monitory and non-monetary benefits specifically to the poor group • Promotes multiple use of forest (tourism)	• Less number of Leasehold forest in TAL area • Not feasible for carbon trading • High transaction cost

Table 3, *continued* –

MANAGEMENT TENURE	EXISTING BENEFIT-SHARING ARRANGEMENT	STRENGTHS	WEAKNESSES
Private Forest	• No provision of benefit-sharing with the government except royalty while trading timber	• Contribution to forest and ecological management • Source of subsistence tree products in areas with no natural forests. • More secured forest ownership.	• Small patches of forest holding • Not feasible for carbon trading • High transaction cost • Bureaucratic hurdles to obtain permit to cut and transport wood from private forest.
Religious Forest	• Right to manage Religious forest and 100% income utilization for the management of religious forest	• Income generated from the religious forest should be spent for religious purpose only.	• Not feasible for carbon trading • High transaction cost
Buffer Zone Forest	• 50% of the total revenue generated by National Parks is provided to Buffer Zone Council.	• Good source of income • Existence of planning process	• No active forest management involved • Legal standing of BZCF and rights of user groups are compromised.
National Park, Wildlife Reserve and Hunting Reserve	• 50% of the revenue is shared with the government • Allocate 30-50% income to the Buffer Zone Management Council (BZMC). • Investment should be made in the following areas: o Conservation activities: 30% o Community development: 30% o Income generating activities: 20% o Conservation education: 10% o Administrative cost 10%	• Source of revenue of the government • Initiation of People and park venture for forest management	• No active forest management involved • REDD+ component not integrated in PA regime • Under DNPWC
Conservation Area	• 100% income generated from the use of natural resources is utilized as per the approved plan. • 50% of the total income goes to management committee and 50% is utilized for protection and development works.	• Major source of community income • Established institutional set up, laws, by-laws and statutes. • Contribution towards sustainable forest protection and management vis-à-vis livelihood opportunities • Equity and inclusion provisions are by and large adhered to.	• Different management modality may create confusion • Variance in revenue generation may create imbalance in management.

In addition to the formal management regimes, several customary resource management systems are still in place in various parts of Nepal. Such systems are working in areas where the government's presence is negligible. These traditional management systems have been effective in many cases in preserving the forest and maintaining a system whereby access of all is guaranteed. But management decisions are often feudalistic, taken by a few village leaders.

These traditional systems have been functioning, but are practiced as extra-legal systems. Though they have been helping in the conservation of resources, the growing practice is that these traditional customs are used by the wealthy in obtainingmore benefits at the cost of poor households. However, no such forest regime exists in the TAL area.

Public Land Management Groups are another category active in forest management.There are more than 500 public land management groups that are engaged in managing forests through their own efforts in Nawalparasi, Rupandehi, Kapilvastu, Bara, Parsa and Rautahat. This public land/forest management modality does not yet have any legal backing although local people are planting and conserving the forest in coordination with DFO, CDO and local government authorities mostly with the support ofdifferent projects including MSFP. Theirbenefit-sharing mechanism is based on the group's decision and is informally approved by the DFO.

The Department of Soil Conservation and Watershed Management (DSCWM) has been implementing a watershed management programme in various parts of the country to mitigate land degradation problem. DSCWM works with local people on a user group basis concentrating its efforts on micro watershed management, based on an integrated plan. The user groups are formed for particular soil conservation and watershed management activities. However, unlike the community forestry programme, there is no legislation to recognize watershed user groups. Some of the watershed user groups have registered under the Non-Government Organization (NGO) Act.

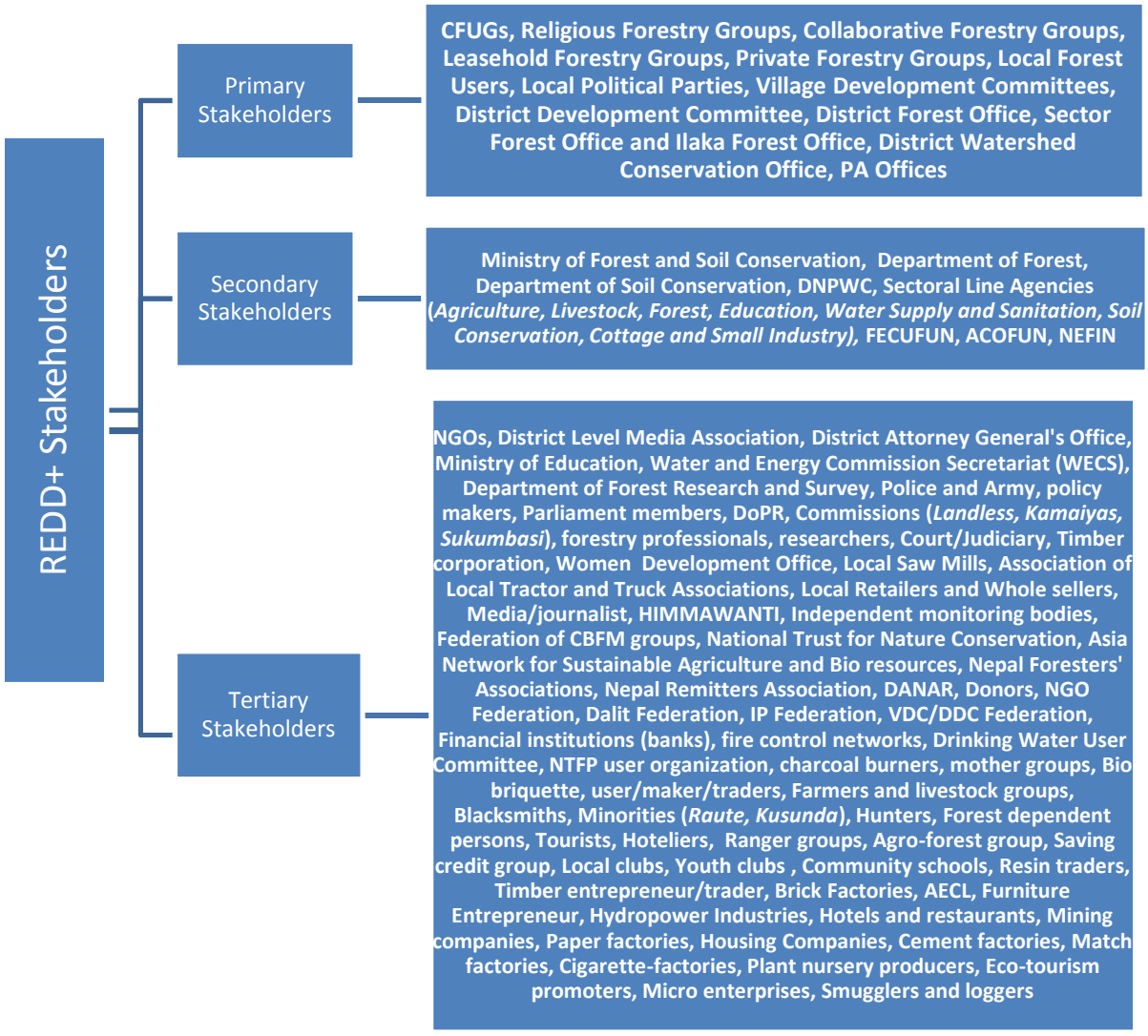
3.2 Stakeholders in TAL Area

The 'Warsaw Framework for REDD+' enables countries to move forward with the implementation of REDD+ activities under the UNFCCC (Climate Law and Policy 2014). The core elements of this framework include finance, institutional arrangements, safeguards, national forest monitoring systems including measurement, reporting and verification (MRV) and reference emissions levels or reference levels (RELs/RL). It entails that in order for developing countries to obtain results-based funding for REDD+, it must fully measure, report and verify "anthropogenic forest-related emissions by sources and removals by sinks, forest carbon stocks, and forest carbon stock and forest-area changes" resulting from the implementation of REDD+ activities. An assessment is made in subsequent chapters to map out institutions and stakeholders in the TAL area with their perceived and potential roles for ER Programme implementation.

In TAL, a number of institutions are working in the area of Natural Resource Management, Forestry, Biodiversity Conservation, and other ER related programmes already. The existing stakeholders are categorized as key/primary, secondary and tertiary for forest management and REDD+. These categories reflect their roles focusing on their underlying rules, systems and their actions as agents of institutional change. While the key/primary stakeholders are responsible for day-to-day functioning of forest management, they are also the principal right holders and beneficiaries' based on the management regimes. Figure 5 summarizes the various types of stakeholders working in the TAL districts.

The secondary stakeholders can directly and/or indirectly influence the forest management activities through legislations and policy reforms such as introducing various types of policies, guidelines, directives and/or decisions. The tertiary stakeholders primarily condition and/or affect local forestry practices as supporting and influencing agents. The level of support and/or influence by these stakeholders varies greatly depending on their organizational mandates and programme activities.

Figure 5. Stakeholders Working in the TAL Area



3.3 Stakeholders Capacity and Perceived Role forER Programme Implementation in the TAL:

The institutionalization process of forest sector has been strengthened by introducing the nationalization of private forest in 1957 that brought all forests in the country under legal purview. After that, the institutional structures and mandates of the forestry sector developed and specialized gradually. However, the paradigm shifted in the late 1970s with the emergence of participatory forest management approachesfor conservation, management and utilization of forests in a sustainable manner. Some of the milestone efforts include the Forestry Sector Master Plan 1988, Restructuring of the Ministry of Forests 1993, Forest Act 1993 and Forest Regulation 1995. These initiatives created an enabling environment for the forest sector to build strong institutions, strengthen institutional values and norms, engage stakeholders in decision making and manage resources thereby contributing to the local and national economy. Such legal frameworks have been instrumental to augment decision-making processes, regulate department

and district offices, and help coordinate sectoral line agencies, INGOs, NGOs, civil society and community federations.

In the TAL area, there are 4 regional directorate offices to facilitate REDD+ activities. Similarly, the DFOs in each districtareendowed with technical and executive capacity. At the district level, efforts for institutional capacity building has been important particularly after the implementation of the Forest Act 1993 as the roles of DFO changed from policing to facilitation, planning to monitoring, and regulator to evaluator. The district and subsidiary institutions of forestry have prioritised vigorous capacity building of institutions and human resources for achieving the developmental goals and sustainable results, through improvements in capacity indicators. Some of these indicators include an enabling environment, well-structured legal framework, financial and technical incentives, exposure training package, way of service delivery mechanism, public grievances hearing mechanism, inclusive democracy and participation, and governance effectiveness.

At the community level, the community based forest regimes are guided by the people centric forest Act 1993, Forest Regulation, 1995, and the Operational Guidelines (2008). These legal instruments have legitimized the community based forest regimes as an independent, autonomous and self-governing institution responsible to protect, manage and use any patch of national forest with a defined forest boundary and user group members. Although the grassroots level of forestry sector has a range of legal instruments and institutional mechanisms to draw upon for this purpose, it is indispensable to devise new institutional capacity to deliver the benefit-sharing measures to local communities that may be adversely impacted by forest regimes and operations.

This study outlines the existing roles of stakeholders in the TAL area as well as their potential role in the context of ER Programme implementation. The conclusions drawn from this analysis show that while the governance mechanisms are mostly poor in terms of planning, monitoring, policy compliance, transparency and accountability, the intuitions are vital in terms of their existence and have envisioned their potential role in the upcomingER Programme. The details of stakeholders' perceptions regarding their role are provided in Annex 3.

Table 4,below, provides a glimpse of stakeholder's perspectives on their current and future potential roles in the TAL area:

Table 4.Existing Stakeholders'Roles and Potential Roles in the TAL area

Stakeholders	Stakeholders' Role under Business As Usual	Stakeholders' Potential Roles In ER
Government Organizations	▪ Formulation of laws, policies and strategies in line with international and national obligations incorporating GESI concerns ▪ Development of programme implementation operational guidelines ▪ Planning, implementation, monitoring and evaluation of the approved programme and plans ▪ Administrative and financial works as stipulated for programme implementation ▪ Management, promotion and conservation of forest, national parks, watershed, non-forest products ▪ Technical and financial assistance in data and information dissemination ▪ Study and research on forest management and use ▪ Knowledge management and sharing as per national and international requirements	▪ Amend existing laws and formulate new ones in line with international and national obligations ▪ Introduce results based planning and monitoring system for ER effectiveness ▪ Create institutional, policy and regulatory frameworks ▪ Revisit HR needs and fulfill required posts with adequate representation of GESI ▪ Develop forest carbon benefit-sharing criteria in a participatory and consultative manner ▪ Monitor policy compliance ▪ Provide technical support and capacity building on Carbon assessment and cost benefit-sharing ▪ Establish Management Information System on REDD+ ▪ Develop impartial, accessible and fair mechanisms for grievance, conflict resolution and redress ▪ Enhance governance and programme effectiveness
Nongovernment Organizations	▪ Advocacy for ensuring peoples' rights ▪ Awareness raising for forest conservation and management ▪ Assistance in development of laws and policies ▪ Capacity building at provincial, district and community level ▪ Knowledge management and dissemination ▪ Assist in monitoring and evaluation works	▪ Advocacy for local people's special right to natural resources (water, forest, land) ▪ Advocacy for fair and equitable benefit-sharing of REDD+ ▪ Local capacity building on REDD+ ▪ Bring international lessons for local replication ▪ Support in research, documentation and knowledge sharing

Table 4, *continued* –

Stakeholders	Stakeholders' Role under Business As Usual	Stakeholders' Potential Roles In ER
Community Based Organizations Including Forest Management Groups	▪ Forest conservation, protection and management ▪ Benefit-sharing of forest resources ▪ Formulation of local policies and regulations ▪ Planning, implementation and monitoring ▪ Promotion of Gender Equality and Social Inclusion ▪ Advocacy for ensuring peoples' rights ▪ Awareness raising for forest conservation and management ▪ Capacity building at group and community level ▪	▪ Forest conservation, protection and management ▪ ER benefit-sharing ▪ Receive and manage performance based dividends ▪ Update and revised local policies and regulations ▪ Transfer carbon credit ▪ Result based planning, implementation and monitoring ▪ Ensure equity and equality in benefit-sharing ▪ Ensure rights of forest dependent (poor, women, Dalit and marginalized) and indigenous communities ▪ Awareness raising for forest conservation and management ▪ Capacity building at group and community level on emerging ER issues.
Indigenous Peoples and Other Forest Dependent Communities	▪ Advocacy for indigenous peoples right to natural resources ▪ Advocacy for meaningful and adequate representation in policy provisions and decision making ▪ Awareness raising and empowerment ▪ Climate Change and REDD+ related programme implementation	▪ Empower oppressed, Dalits, indigenous people to ensure full and effective engagement in forest management ▪ Support and facilitate in equitable and fair benefit-sharing of REDD+ ▪ Review and reflect the wellbeing of the group ▪ Promote and preserve socio-cultural significance of the group in relation to forest
Private Sectors	▪ Trading of forest products and enterprises ▪ Provide employment and income opportunities ▪ Contribute to economic development and reduce poverty ▪ Provide loan financing, and technical assistance to its clients	▪ Engagement in the ER Programme design and implementation ▪ Represent in the national, provincial, district and local level steering mechanisms ▪ Assist governments to engage private sector and local communities in achieving equitable carbon benefit-sharing ▪ Compliance to SESA

To better understand the local dynamics for the implementation of the ER Programme, a Strengths, Weakness, Opportunities and Threats (SWOT) analysis was carried out in all TAL areas. The major determinants of strengths and weaknesses as well as opportunities and threats are derived from an analysis of critical government institutions, NGOs and CBOs in terms of their institutional and organizational situation, policy environment, planning and implementation, financial resource management, human resources and information management system,

accountability measures and coordination mechanisms. While details of the SWOT analysis are given in Annex 1, the major points are summarized below.

Strengths and Opportunities:

Enabling policy environment.The GoN has already acceded international instruments related to REDD+ and is in the process of reforming legislation in line with international obligations. Most legal instruments integrate GESI concerns and mainstreaming in policy provisions and practices. This provides a favourable policy environment and opportunity for ER implementation.

***Organization and institutionalsetup*.** The institutional set up required for REDD+ is well established at the central level and is in progressive stages of institutional reform. At the local level, all forest regimes have well-established institutional set ups and this provides an opportunity for REDD+ implementation.

Planning implementation and monitoring. LSGA provides a legal basis for bottom-up participatory planning, implementation and monitoring while forest management regimes are governed by their internal guidance. The existing forums and platforms provide an opportunity for integrating REDD+ initiatives.

Accountability measures.There are well-established rules and measures to ensure upward and downward accountability. Forest Management regimes also have their own accountability measures for checks and balances in order to ensure good governance. This provides an opportunity to build on the existing accountability measures.

Coordination.Horizontal coordination with inter-sectoral ministries and vertical coordination with subnational levels is well established. This provides a platform for future collaboration and coordination for REDD+.

***Resource Mobilization and Benefit-Sharing*.** The existing benefit-sharing mechanism under various programmes, projects as well as forest management regimes were considered to be the starting points for REDD+ benefit-sharing by the TAL stakeholders.This already provides lessons, strengths and opportunities for REDD+.

Weakness and Threats:

To make REDD+ work favourably for local forest communities in a way that is equitable, effective and efficient is a highly challenging task, as there are already high expectations in terms of carbon, income and other benefits. There are serious concerns raised about REDD+ in part because some experts, NGOs and even the government stakeholders suspect that it may not be feasible to ensure equitable implementation and support local people's rights and interests. Some of the potentialweaknesses and threats include the following:

Lack of clarity in REDD+ benefits and costs.The community and stakeholders in the TAL area are unsure about the actual costs and benefits of REDD+. They are not certain about cost calculations, particularly for the most vulnerable. They state that there is a need for consensus and clarity in the concepts and definitions of benefits and costs.

Lack of clarity and consensus regarding equitable benefit-sharing.Though some international guidancehas emerged regarding the concepts of equity, stakeholders in the TAL had different and varying understanding of equity and equitable benefit-sharing. The unequal social structure in terms of class, caste, gender and regional disparity foster unequal access to decision-making

affecting the poorest, the vulnerable and the voiceless the hardest. It is imperative to reach a consensus around equity so that those who are the primary right holders benefit accordingly.

Issues around governance.For equitable and effective benefit-sharing mechanism in practice, governance plays a crucial role. Governance not only includes the REDD+ mechanisms themselves, but also the forest, land, and related sectors. Discussion around governance reform needs to put priority on interrelatedsectors even to improve governance of forests for effective and equitable REDD+.

Institutional gap. The existence of institutional gaps in REDD+ is indicated by a variety of ideas, situations and perspectives from global to local levels. There is a need forfurther studies as there are possibilities of both trade-offs and synergies between carbon sequestration and livelihood benefits. It is important to have a better understanding on the interconnections of institutional, socio-economic and biophysical dimensions of resource systems to know the implications of REDD+. The institutional capacity of local institutions was also identified as one of the most important determinants of carbon sequestration in the forest.

Centralization of forests. Since REDD+ promotion is just at an elementary phase and not fully acknowledged by the political, economic, technical, ecological, and social actors, growing fear was expressed by the stakeholders that REDD+ may probably destabilize forest governance and exacerbate the persistent efforts of governments and corporations to increase their control over forests, thereby reducing community autonomy and well-being resulting in sufferingof the forest dependent poor.

Emergence of new conflicts.REDD+ may reinforce existing, and/or induce new conflicts in community-based forest management. Unclear policy, land ownership and usufruct rights, forest management and cost-benefit-sharing, social safeguard systems and grievances and conflict redress mechanisms are some of the potential areas of conflict and its mounting.

Performance criteria.The REDD+ process is moving ahead of time in terms of clear policy amendments and implementation measures. For REDD+ payments to be equitable, it should be based on standardized, internationally defined and locally adapted criteria for performance. Pilot projects implemented in TAL and other areas could not provide sufficientlessons for performancecriteria as poverty and economic criteria mostly governed benefit-sharing.

Ambiguity over land tenure and carbon rights. Policies related to land tenure and carbon rights are ambiguous partly due to theabsence of or weak policy enforcement and partly due to overlapping laws and lack of inter-sectoral coordination for enforcement.

3.4 Forest Governance in the TAL, Issues and Possible Solutions

A key to equitable and efficient benefit-sharing arrangement both in policy and practice is good governance that includes transparency and accountability among all parties as the key guiding principle. Governance includes transparency and accountability in the operations and functions of stakeholders involved in REDD+ at all levels including international, national and participating communities. Timely information sharing is one of the key determinants of operationalizing transparency and accountability. This should start right from project conceptualization to design, implementation, and monitoring activities. All parties should have information that is in appropriate languages and written and oral mediums. In REDD+, verifying emission reductions is another aspect of accountability as communities and others implementing REDD+ have performance related responsibilities to which they will need to be heldaccountable.

The following points provide a glimpse of existing good governance practices in different forest regimes in TAL. Similarly, Box 3is an attempt to identify exiting governance scenarios in the area.

- Establishment of multi-stakeholder forums to ensure representation and voices of allconcerned stakeholders in policy formulations and decision making processes.
- Stakeholders are increasingly being more responsible, accountable, and transparent.
- Compliance policies, rules, regulation and decisions at a varying scale.
- Decentralizing and devolving power and authority with clear roles and responsibilities.
- Promoting participatory decision-making processes with gender sensitivity, enhancing fair practices of benefit-sharing.
- Information sharing and horizontal and vertical communication.
- Ensuring equitable participation of women and marginalized peoplein decision making processes and forest use.
- Promoting equity in benefit-sharing, ensuring more balanced gender relations.
- Enhancing civic engagement in forest management and deliberations.

Box 3. Patela CFUG: A Case of Local Level Good Governance

The governance practices of user groups vary in TAL area. Participatory, egalitarian, transparent and poverty reduction approaches continue among some localized communities including the Tharu as in Patela CF in Kailali. Here, the CFUG promotes gender equality by listing one male and one female as users from each household, and electing at least 33% women in the executive committee. The user group makes special provisions to benefit the poor, based on wellbeing ranking of households in the community in the group of five. These provisions apply to all CFUGs though the level and quality of actual practice varies.

In Patela CF, the village elders and traditional leaders (such as the Bhalmanus or Badghar in the Tharu community) and the general assembly of the users play crucial roles to make decisions by consensus and prevent and manage local level conflicts on alternative uses, rights and contributions. Annual planning, public hearing and annual audit by a registered auditor are required but the extent of practice widely varies.

The Patela CFUG follows the government conditions for CF fund utilization. The CFUGs are required to utilize their funds for forest production and enhancement (at least 25% as the first priority), poverty alleviation (at least 35% based on multiple levels of wellbeing ranking of households) and community development or infrastructure (at least 40%). Main categories of expenditure include salary of forest watcher and office secretary, office administration, allowances during forest management operations, construction or repair of public infrastructure such as school, road and water tap.

In the midst of mounting criticisms of community forestry in the Terai from technical foresters and forestry bureaucrats, example of Patela CF shows that the actual situation is much varied. The Patela CF in Kailali has been able to promote natural regeneration when genuine technical and moral support is available from the Ilaka forest ranger. This Terai CF has also been able to institutionalize the practice of good governance in the form of participation, inclusion, gender balance, transparency, accountability, pro-poor approaches and internal conflict management.

While good governance is practiced among different forest management regimes, they are also crippled with issues that impede smooth operation and forest management. The more general issues include the absence of local elected bodies, low representation of communities in policy forums resulting in their weak position, technical human resource challenges at the district and local level, and collusion between public institutions, political interests and private sector business based on their vested interests. Even civil society organizations have mostly symbolic and ceremonial representation to legitimize government policy and decision and vice-versa.Indigenous people and forest dependent communities and their voices find limited representationwhile powerful actors including government, technocrats and donors challengethe

traditional community knowledge and practices related to forest management. In addition, there are splits in responsibilities at a district level due to parallel governance mechanisms of DDC and DFO. More specifically, the issues of governance in TAL area are:

- TAL forests predominantly consist of *Shorea robusta* species which is commercially valuable and is eyed by all stakeholders.
- Most stakeholders are interested in operations like fire-line construction and thinning that need felling of *Shorea robusta* trees that are lucrative income sources. This concern is shared by the communities as well as the forest authorities alike. Conservation and management that are not linked with felling have tended to receive less attention from all fronts.
- TAL forests are prone to smuggling of timber in the country and across the border, which is in proximity and connected by road transportation. This dimension of leakage deserves great attention.
- TAL forests also suffer from encroachment. Official and unofficial resettlement (freed bonded labour, landless, people displaced by parks and reserves, and migrants) continues. Some of these resettlers have already obtained land titles while others have not yet received such titles. Their rights to forests (especially under collaborative management) have been affected by the absence of legal titles to land. This implies yet another aspect of equity that concerns legislative provisions.
- In the TAL area, natural forests generally occur on the northern belt bordering the Churia range which is generally home to hill migrants and new settlers. More concentrated settlements are generally distributed in patches on the southern belt bordering Indiawhich has little natural forest endowments but is home to the indigenous Tharu community and Madhesi population. Though the existing forest regimes like CF, BZCF, LF provide forest benefits to nearby communities, initiatives for controlling leakage and promoting social and regional equity would call for addressing the concerns of the people living on the distant southern belt as well.
- Rampant conflicts in collaborative forestry among stakeholders, especially local communities and the DFO, on issues like priority operations, membership eligibility, responsibility bearing, benefit-sharing, timber pricing, and level of DFO control and local autonomy have more or less paralyzed collaborative forests especially in places where commercial viability of timber is pronounced.
- Issues of balanced and facilitative role of DFOs in conflict situationsare exemplified in the case of the Baraban Collaborative Forest in Kailali.
- Collusion between the elite community leaders and forestry officials to cut and sell the timber and share the income privately without fully entering the transaction into the account books is another issue.
- Even within the local communities themselves, complexities related to the forest rights of settlers with or without land titles, CF users with or without official handover of forest from the DFO, people living nearby or at a distance from the forest, and users contributing unequally to forest conservation and management have added endemic conflicts and leakage potentials.

For successful ER Programme implementation, pertinent governance issues need to be addressed and the following points are suggested:

- By ensuring inclusion of the forest dependents, traditional forest users, poor and marginalized groups in planning and decision-making.
- By clarifying and resolving conflicts related to forest land tenure rights.
- By ensuring that the various forest regimes understand the process and internalize how they will benefit from REDD+ effectively.
- By ensuring timely information sharing and regular communication not only with the forest management groups but also with related village, district and provincial governments who are the local government bodies.
- By maintaining transparency in the dividends distribution process at all levels.
- By enhancing interdependence between forestry and other sectors for synergy.
- By strengthening the M&E system that is robust and linked with MIS.
- By building on existing institutional arrangements and benefit-sharing mechanisms as the criteria for benefit-sharing.
- By ensuring that social and environment safeguards are adhered to thereby reducing elite capture.
- By addressing the conflict provision and benefit-sharing criteria in the Collaborative Forest regime.
- By controlling leakage with adequate incentives to maintain vigilance and duly inform the authoritiesin bordering communities.
- By empowering local government bodies toaddress social and regional equity issues.
- By devising a more neutral institution to resolve conflicts and prevent collusion before it takes place.

3.5 Fiscal Decentralisation and Fund Flow Mechanism

Decentralization has been one of the critical parts of not only forest governance but also development of the forestry sector in Nepal. In Nepal, the practice of decentralization was initiatedin the early 1960s aiming to mobilize citizen participation in the development process. In 1962, a policy framework for decentralization was introduced that built a fertile ground to promulgate the Decentralization Act 1982 and the Decentralization Regulations 1984. Correspondingly, an effective local self-governance system was endorsed in 1999 after enactment of the Local Self Governance Act (LSGA) and its regulations (LSGAR), and the Local Bodies Financial Administrations Regulations 2007 (LBFAR). The LSGA and LBFAR not only give local bodies (LBs) greater political, administrative and financial powers to lead, facilitate, and manage local development affairs, but also define the local bodies' expenditure and revenue functions, ensure the fixed entitlement grants from the government and provide the underpinnings for local autonomy in planning and budgeting.

Fiscal decentralization, one of the important aspects of decentralization initiatives in Nepal, comprises the financial aspects of devolution to provincial/regional and local governments. It is a means of government control over local autonomy in managing, generating, sharing and utilizing financial resources. In some contexts, it is considered devolution of fiscal power from the national to sub-national governments aiming at improved efficiency of the public sector, increasing competition among sub-national governments in delivering public services and stimulating economic growth (Boschmann, 2009). It consists primarily of devolving revenue

sources and expenditure functions to lower tiers of government that reinforces public sector efficiency, and enhances accountability and transparency in service delivery and policy-making by bringing the government closer to the people.

The central government provides resources to the local bodies as well as sectoral ministries for the implementation of plans and programmes as per priority. The grants from the central government to the local bodies are of two types. The central government has set different amounts of minimum grants for different types of local government body. On top of that, the central government provides additional grants based on population, level ofdevelopment, capability to mobilize resources, necessity, record-keeping of income and expenditure, auditing and financial discipline. Grants for capital expenditure are decided based on a set formula. For the VDC, it is based on results of meeting minimum conditions (MC). For the Municipality and the DDC, the formula includes both meeting minimum conditions and performance measures (MCPM) based on pre-set criteria. However, the MCPM criteria are not applicable in the case of sectoral budget allocation. This might have implications in ER implementation and benefit-sharing.

Based on the budget ceiling provided by the central government as well as estimation of internal revenues of local government bodies, annual plans are formulated and submitted to the concerned authority for approval. Once the detailed budget is approved by the parliament and published in the Red-Book, the MoFSC delegates the authority of expenditure to the Forest Department, and the Department then authorize the DFO for proper expenditure. DFO receives budget from the District Treasury Office (DTO) for each budgetary transaction. It is the paper and electronic information that moves. Actual money is channelled through the DTCO as per the centralized and integrated system of the Treasury Single Account (TSA), which has been implemented in all districts since 2013. The process of how government budget flows to the DFO is described below (Box 4).

Box 4: Characteristic Features of the TSA Implementation in Nepal

- It is only the Nepal Rastra Bank (NRB) that holds the government's Treasury Account.
- Payments are made through zero balance TSA (reduced to 445 from 14,000 in the country) held at commercial banks.
- DTO is the sole agency to issue cheque in the district.
- All transactions at the DTO are entered into an Integrated Financial Management Information System (IFMIS).
- Zero balance single accounts are held at commercial banks for revenue collection.
- All the balances of government accounts with commercial banks are brought to a single Treasury Account in NRB for settlement at the end of each day.
- Real-time Budget Execution Reports (BER) are published daily by the Financial Comptroller General's Office (FCGO) for entire public expenditure covering all 75 districts.
- This arrangement helps to minimize the fiduciary risks associated with cash transactions, multiple bank accounts, reporting delays, cash planning and forecasting deficiency, and inadequacy of information about treasury balances.

At the district level, the District Forest Office (DFO) is responsible to manage and protect forests. Like any other government agency, the DFO receives its annual budget for the approved programmes from the TSA through the DTO, and deposits all the revenues it earns to the consolidated fund of the government in the bank.

3.6 Social Accountability Measures in TAL

Local participation in, and transparency of, decision-making and implementation processes, dispute resolution, and assessments and evaluation of the REDD+ project influence the rules that affect benefit-sharing governance. Participation of local stakeholders can be better facilitated by referring to the international legal safeguards, national REDD+ working groups' decisions and stakeholders' consultations, but in actual practice it is difficult to ascertain the impact of such mechanisms on the poor and marginalized. There is an acute need to devise systemsthat ensureresources to the poor and marginalized. Lessons gathered so far from a variety of community-based forest management regimes discussed above provide some indications of positive safeguard systems fostering good governance.

Monitoring of the fund distribution system is a critical component for sustaining transparency, effectiveness, efficiency and equity. The weak monitoring capacity at local levels will negatively affect the goals of benefit-sharing arrangements. Therefore, capacity building packages at local levels may be needed to include monitoring as one of the important ingredients of resources. REDD+ monitoring bodies may have to use proxy measures (e.g., number of forest patrol hours, or amount of forest cover) as indicators of performance, as performance based on carbon sequestration credits may be biased towards stakeholders having more resources.

To adequately represent local stakeholders' views and reduce potential abuses or failures of the REDD+ project, civil society organizations could be helpful in acting as a third party regulator. Transparency in the benefit-sharing arrangement will allow the identification of key risks of corruption, and provide incentives to mitigate corruption. This may require the creation of new systems of regulation and legislation. In many cases, local level corruption involving relatively powerful actors has the potential to undermine benefits sharing, and thus must be addressed in cooperation with local civil society.

Both obvious and unforeseen or hidden interests of stakeholders; inadequate legislation frameworks; and political, economic and social factors have arisen as influencing and challenging tasks to fair share distribution of REDD+ benefits in the TAL area. Apart from these, stakeholders raised pertinent questions on fair share distribution of REDD+ such as how benefits are being distributed and to whom; whether the benefits reach actual beneficiaries; and what measures would be adopted for benefit-sharing beyond forest-managing communities.

One of the ways to make REDD+ project socially accountable is to create a benefit-sharing plan (BSP) that clearly elaborates the benefit-sharing arrangements considering the interests and perspectives of all stakeholders particularly the forest-managing communities and key forestry stakeholders. Only the notion of fairness in benefit-sharing that yields equitable positive benefits helps increase the acceptability of REDD+ project. The publication of BSP in an accessible and understandable way forforest-managing communities and other stakeholders prior to ERPA signature, which could also help promote social accountability.

It is equally important that the sense of security for accessing benefits and co-benefits are provided to the forest-managing communities on the basis of usufruct rights even if the formal carbon rights are not clearly defined so as to protect the financial interests of the people (FCO 2015). More importantly, pro-poor benefit distribution mechanisms could be crucial, which can be promoted, as suggested by Mohammed(2011), by (i) ensuring equitable participation of, and in consultation with, the communities directly affected by REDD+ project; (2) delivering absolute positive net benefit to the poor; (3) benefiting the poor proportionally more than the

relatively well-off; and (4) enhancing and making use of the poor's primary assets (e.g., labour and social capital) (FCO, 2015). Moreover, the state can allocate revenue or benefits accrued from carbon credits to forest-managing communities if the state holds the carbon rights (WWF, 2013).

The TAL area stakeholders raised the concerns of equity, efficiency andeffectiveness (3E) of REDD+ outcomes as part of project's accountability. However, their opinions varied. For instance, forest-managing communities argued that the question of achieving 3E to be addressed at the very beginning of the project design while the forest bureaucracy, I/NGOs and civil society groups argued that it should be based on opportunity, implementation, and transaction costs.By taking the case of Cameroon, Indonesia, Peru, and Vietnam, they demonstrate that equity should be a priority at the beginning of the REDD+ process for ensuring efficiency and effectiveness in the long term. Addressing 3E may be equally crucial to reduce risk and increase social legitimacy that may appear during the course of REDD+ project implementation.

Field level difficulties were also experienced in many forest regimes due to unclear and contradictory legal procedures. More specifically, priority given to community forest regimes over other forest regimes has created cumbersome processes in community based regimes: some degrees of competition among these regimes, difficult to identify the ultra-poor, and elite capture, which were the major causes of difficulties in effective operation of community based forest regimes. Poor technical service delivery and absence of knowledge limited the capacity and commitment to engage in empowerment processes. Similarly, poor knowledge on marketing of products, networking, and difficulty in raising voices against legal hurdles as well as in knowledge sharing, and unrealistic and optimistic project design were critical influencing factors for inefficient social accountability measures.

CHAPTER IV

4. Existing and Proposed Institutional and Cost-Benefit-Sharing Arrangements for ER Programme Implementation in the TAL

Robust institutional frameworkswith sound financial management practices, governance and oversight,and well-defined rules and procedures are key toensure effective implementation of REDD+ and equity in benefit-sharing.This chapter provides a glimpse of existing and proposed institutional setupsfor ER Programme implementation at the national and sub-national levels.

4.1 Existing Institutional Arrangement for REDD+

In Nepal, REDD+ is still in a developmental phase, and institutional structure and governance mechanisms are yet to be finalized at all levels. Nevertheless, the government of Nepal is stronglycommittedtodeveloping policies to build robust institutional and cost-benefit-sharing arrangements as a part of the REDD+ architecture. To address these issues, a robust policy, legal and institutional foundation and well-functioning institutions for REDD implementation are essential. Nepal has put in place relatively impressive institutional frameworks for addressing adaptation to, and mitigation of, the impact of climate change, conservation of biodiversity and overseeing institutional mechanisms. There is a Parliamentary Committee that looks after the sectoral policies of forest and related sectors.

National level. Atthe central level, MoFSC is the highest level forestry sector authority mandated for sustainable management of Nepal's forests and watersheds including biodiversity and non-timber forest products. The MoFSC strives to promote participatory approaches in forest management and contribute to reduce poverty through promotion of forest based enterprises and employment generation.Currently, MoFSC is accredited as the lead agency to implement REDD+ and the ER Programme through REDD IC.

The MoFSC implements its policies, plans and programmes through four technical divisions, five departments, five regional directorates, 74 district forest offices, 56 district soil conservation offices and several projects under the ministry. The following sections provide a glimpse of the exiting national and sub-national level institutional arrangements that are to be directly involved to implement the ER Programme in the TAL area.

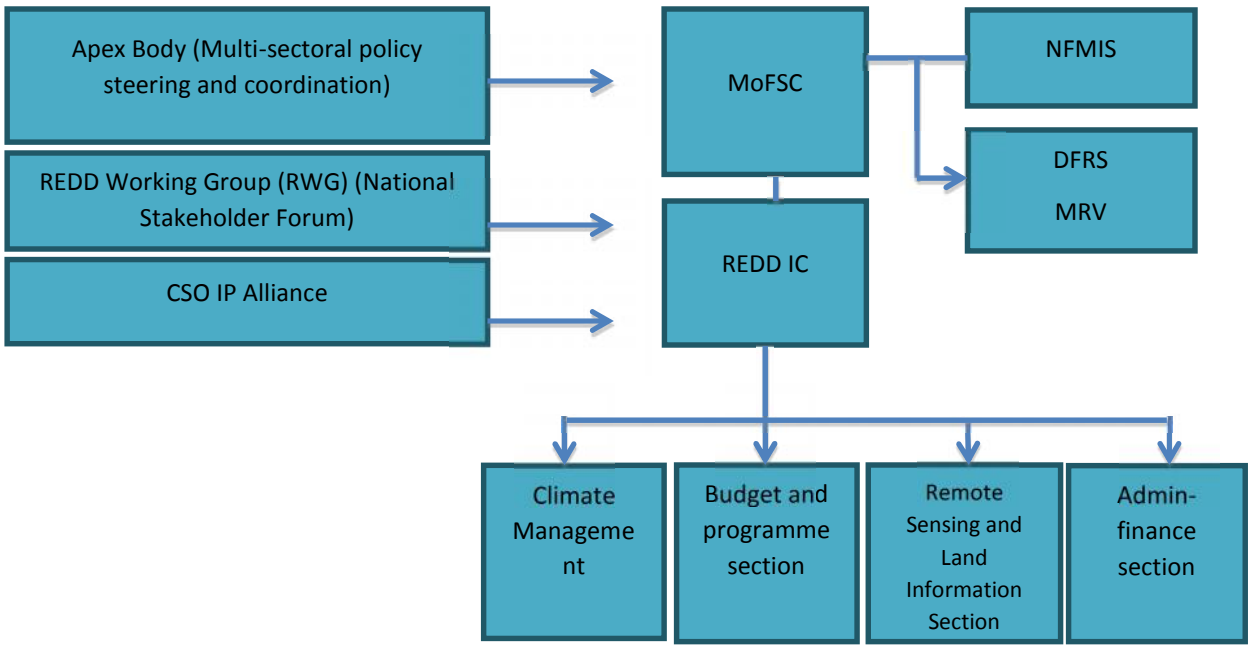
- REDD+ Apex body is an inter-ministerial high-level steering institution that directly synchronizes REDD+ related activities with national plans and policies, and promotes cooperation at the highest level. The minister of MoFSC is the ex-officio chair of the Apex Body while its members come from among the representatives of nine government and three non-government agencies.
- REDD+ Working Group (RWG) has been formed by the MoFSC comprising of 12 members, of which nine represent the government and three are selected from non-government agencies. The RWG is expected to proactively provide innovative ideas, monitor programme activities, and help integrate programme priorities with the national REDD+ strategy. In addition, the members of the RWG advocate and lobby at the political level to guarantee that stakeholders in their local constituencies are represented in the regional planning process.

- REDD+ Multi-stakeholder Forum has been set up to complement the REDD+ initiative as the principalconsultation, outreach and communication platform.
- REDD+ CSO and IPO Alliance functions as a platform to discuss and develop a common understanding on REDD+ on behalf of civil society organizations and indigenous peoples organizations.

REDD-IC (formerly known as REDD Cell) established by the MoFSC in 2010 under the MoFSC undertakes REDD readiness activities in Nepal with the responsibility of coordinating the readiness process at the national and sub-national levels among diverse stakeholders. Its power and functions include development of policy and programme; monitoring, reporting and verification; coordination among different agencies and stakeholders; disseminating information; capacity development; and ensuring benefit-sharing.It has been working as the lead organization for preparing the country to effectively participate in the global and national REDD+ initiatives.It contributes to further strengthening the climate change related activities through abatement of deforestation and forest degradation, and promotion of sustainable forest management. The set-up of the Climate Management Section, the Remote Sensing and Land Information System Section, the Budget and Programme Section, and the Administration and Finance sections has also been approved.

The following schematic flowchart (Figure 6)indicates the existing institutional structures at the central level for REDD+ implementation.

Figure6. Existing Institutional Structures for Implementation of REDD+ at the Centre Level



Provincial/Regional Level. As Nepal is in the process of state structuring under a federal structure, the existing regional structure will be superseded by the new provincial structure(see Figure 7). For the purpose of this report, the regional level structure is conceived ata provincial/regional level and coheres currentinstitutional set up.There is no specific REDD+implementation project mechanism at provincial/regional level and Regional

Directorates (RD) under the Ministry of Forest and Soil Conservation (MoFSC) are in operation under business as usual. The major role of RDis to monitor and supervise district forest offices in theirrespective regions including the TAL districts. Currently, there are 4 Regional Directorate (RD) Offices in the TAL area located in Dhangadi, Surkhet, Pokhara and Hetauda, which can provide technical support to implement REDD+ activities. However, they lack dedicated human resources for the ER Programme implementation. The RD offices of Surkhet and Pokhara are located outside the TAL districts.

District Level. The District Forest Sector Coordination Committee (DFSCC-2068) (known earlier as the District Forest Coordination Committees - DFCCs - 2062) have been constituted under the DDC chairperson with involvement of forest officials, political parties, representatives from community, civil society and the private sector in order to provide advice on forest development activities at the district level. The major role of this committee is to prepare and endorse the District Forest Sector Plan (DFSP), improve forestry sector governance, encourage citizen participation in district-level forest-related decisions, and provide a deliberative forum for stakeholders linked to various modalities of forest management. The committee hence serves as an institutional mechanism for deepening the process of democratization at a local level.

To execute the forest development activities at the district and sub-district levels, three tiers of institutional structuresexist.These are: District Forest Office (DFO), which is responsible for the overall protection and management of the forest in the district while Sector Forest Offices' coordinate and facilitate the Ilaka Forest Offices. At the grassrootslevel, IlakaForest offices are responsible for providing forest services related to scientific management training to grassroots communities. Additionally, District Forest Offices are involved in technical facilitation, monitoring, and oversight of community forests; leasehold forests; collaborative forests; religious forests; and private forests.

Figure 7. Federal Structure of Nepal

Community Level. At the community level, there is no government structure. However, various community-based forest regimes(community forest, leasehold forest, collaborative forest and religious forest) are guided by the people centric Forest Act 1993 and Forest Regulation 1995. These legal instruments have legitimized community based forest regimes.The user groups in the case of community forest are independent, autonomous and self-governing institutions responsible to protect, manage and use any patch of national forest within a defined forest boundary. To operationalize the community level forest mechanism at the sub-district level, the Village Development Committee level Forestry Coordination Committees (VFCCs) are also active in some TAL districts. They are formed by community groups, local government representatives and civil society organizations which are becoming increasingly active in planning, coordinating, implementing and monitoring local-level forestry activities.

Today, community forestry groups, leasehold forestry groups, collaborative forestry groups, religious forestry groups, and private forestry groups are formally functional as major grassroots level forest actors. Buffer zone users group, Conservation and Management Committees in the PAs are other community level forest management institutions.

REDD+ is a relatively new conceptand there are inadequate legal frameworks and institutional mechanisms to implement its benefit-sharing mechanism. Appropriate and adequate legal provisions and institutional frameworks are crucial. The existing forest-related legislative frameworks need to be amended to accommodate benefit-sharing mechanisms so as to ensure that the forest-managing communities including the poor, women, Dalit and indigenous peoples can accessfair and equitable carbon and non-carbon benefits (FCO, 2015).

4.2. Proposed Institutional Framework for REDD+:

In line with the Forest Policy (2015), REDD+ Strategy (2015) and Forest Carbon Ownership Study (2015),it is recommended that the institutional structure for the implementation of REDD+ strategies and programmes should be based on existing institutions that are already in place and/or approved as far as possible. These institutional structures are expected to cover a range of activities including policy formulation, capacity building, human resources development, MRV, benefit-sharing, steering and governing, and coordinating the REDD+ project. Based on the review of the REDD+ Strategy, the Forest Carbon Ownership Study, the REDD+ Implementation Framework and consultation with different stakeholders and experts, an institutional structure has been proposed focusing primarily in the TAL area. Due to the state restructuring process, some of the institutional arrangements cannot yet be specified and thus the existing institutions (Regional Directorate, DFO, etc.) should be used to promote functionality and reduce conflict among/between the REDD+ stakeholders while sharing benefits.

According to the new state structure, the TAL area falls under 5 different provinces. Kanchanpur and Kailali districts fall under Province 7. Banke, Bardia,Dang, Kapilvastu and Rupandehi districts are included in Province 5.Similarly, Nawalparasi and Chitwan districts fall under Province 4 and 3 respectively whileBara, Parsa and Rautahat districts fall under Province 2.Under the new federal structure, there is a provision of Inter-Provincial Council which could be the inter-provincial level structure to oversee the ER programme implementation in TAL districts falling within the landscape. Similarly, a coordination committee could be set up at the provincial level among RDs/DFOs/PAs within the TAL areas.This must meet periodically for

inter-province coordination and monitoring. A TAL area level coordination structure could be considered during ER-PD preparation.

Due consideration was given to other study findingswhile designing the proposed institutional structure for REDD+ at national and local levels so as to maintain coherence in existing and proposed institutional arrangements. Similarly, both vertical and horizontal aspects of REDD+ benefit-sharing mechanismsare considered while designing the institutional framework. Particularattention was givento the suggestions of stakeholders at TAL and national levels, relating to equity, efficiency and effectiveness of theREDD+ programme.

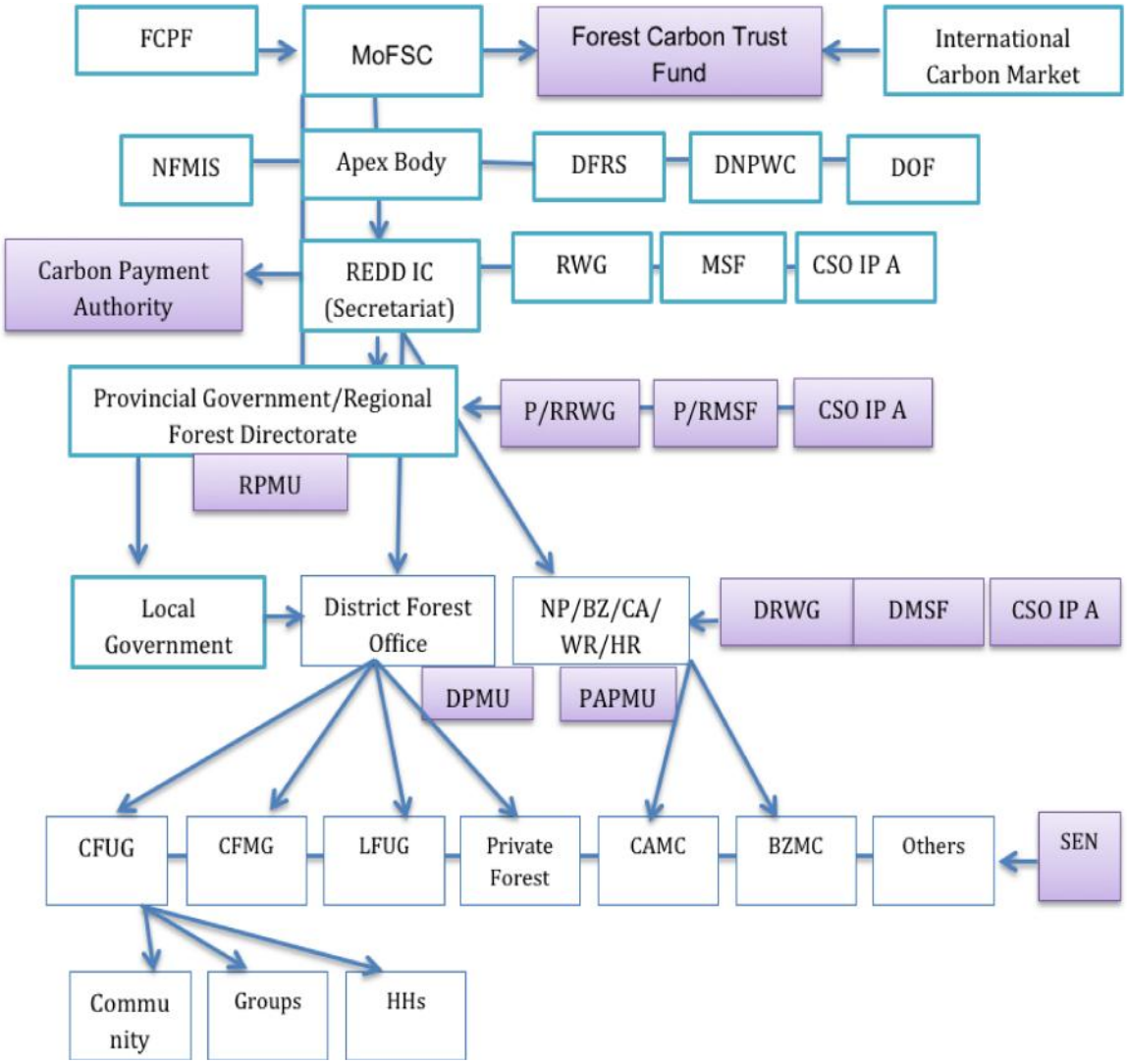
For effective ER Programme implementation in the TAL, vertical coordination with the national level institutions is essential to maintain coherence. While it is proposed that some of the institutions and theirunits be created such as the Forest Carbon Trust Fund (FCTF) and supported by appropriate legislations, authority delegation, and resources, some other proposed institutional units are already established and are fully and/or partially active. The newly proposed structures at the national and sub-national levels are colour coded in purple as depicted in Figure 8.

While Figure 8 shows the institutional structure at the provincial/regional level, it is equally important to understand the national context as this study also recommends institutional reform at the national level for effective and efficientimplementation. The proposed institutional structure seems to be complex at a glance.We provide explicit roles and responsibilities to help avoid duplication and find clear linkages aiming to enhance the efficiency of the institutional set up. In addition, we briefly describe the structures proposed at the national, provincial, district and local levels in the context of REDD+and provide further details regarding their composition and functions in Annex 4.

4.2.1. National Level

A high level Forest Carbon Trust Fund chaired by the Minister of Forest and Soil Conservation is proposed at the national level to function as an apex body that manages the forest carbon fund and financing. A Carbon Payment Authority with an executing unit has been proposed to be instituted at the national level. It is also equally important to institute a Central Carbon Registry (clearing house) for carbon accountingas per standards at the national level. There is a need to provide statutory recognition to these crucial and formal institutional arrangements.

Figure 8. Proposed Institutional Structure from the Central to Local Level



4.2.2. Provincial/Regional Level

With state restructuring as per the new constitution of Nepal, it is difficult to ascertain the institutional mechanism at the provincial/regional level. According to the Constitution of Nepal 2015,all forests, except NPs and CAs fall under the jurisdiction of the provincial government with legislative authority to decide onthem. Until such provision materializes in reality, an interim institutional set up has been proposed respecting the views and opinions of stakeholders of consultation meetings held in all TAL districts as well as the recommendations of the REDD+ Strategy, ER-PIN and other studies.

In eachProvincial/Regional Directorate Office (RDO), a Provincial/Regional Programme Management Unit (RPMU) is proposedin order to coordinate ER Programme implementation and provide technical oversight to the TAL districts.The P/RPMUcould consist of three staff: one Under Secretary, one forest officer and one ranger.The P/RPMU's main functions could include:

(1) Coordinating with the TAL districts for REDD+ programme implementation; (2) Providing advice and guidance to the District Programme Management Unit (DPMU); (3) liaising with the REDD IC, DoF, DFRS and DNPWC for technical guidance and advice; (4) Monitoring REDD+ implementation in the districts; (5) Reporting to the REDD IC and DoF/DNPWC; and (6) Ensuring MRV functions at a regional/provincial level.

Since the PAs are governed by the DNPWC, aProtected AreaProgramme Management Unit (PAPMU) is proposed to be established in the Protected Area Offices wherever appropriateasthe lead institution to coordinate and implement REDD+ activities in the PAs among diverse stakeholders and on-goingprogrammes. To support the PAPMU, a REDD Working Group should be formedthat could meet quarterly/every trimesterto ascertain the consideration of REDD+ safeguards during REDD+ implementation. It would be better to link PAs with theDistrict REDD Working Group for REDD+ Programme Implementation to promote harmonization and avoid duplication.

The Provincial/Regional REDD Stakeholder Forum (P/RRSF), Provincial/Regional REDD Working Group (P/RRWG), and CSO IP Alliance are also proposed at this level to steer and monitor programmes.

4.2.3. District level

At the district level,a District REDD Working Group (DRWG), District REDD Multi-stakeholder Forum (DMSF), and CSO IP Alliance is proposed that proactively provides innovative ideas, assists in the implementation of ER Programme activities/strategies, and monitorsprogramme activities at the district level. In addition to advocating and lobby at the political level, the DRWG is expected to guarantee that stakeholders in their constituencies are aware of and support the emission reduction programme. The composition of DRWG is proposed to be the same as provided in the ER-PIN.However, the roles and responsibilities of the group should be clearly defined.

District Programme Management Unit (DPMU). ADPMUshould be established in all TAL District Forest Offices as the lead institution to execute REDD+ activities at the district leveland be responsible for coordinating the ER Programme implementation among diverse stakeholders and on-going programmes like Hariyo Ban, MSFP, etc. and convene quarterly/trimester meetingsto ascertain the consideration of REDD+ safeguards during REDD+ implementation. The unit could be equipped with a forest officer, assistant forest officer (2), and one account keeper for effective ER Programme implementation under the DFO.

4.3 Proposed Benefit-Sharing Arrangement for the TAL

The Forest Act (1993) has clear provisions for benefit-sharing arrangements for forest products under all forest management regimes, which is consistently implemented, and forms a solid basis for designing benefit-sharing arrangements under REDD+. REDD+ is based on incentives from the transfer of financial benefits, and if well designed, implemented and enforced, can generate additional benefits such as enhanced governance, more secure (tenure) rights, improved environmental services, and income from REDD+ related activities.

4.3.1Potential Beneficiaries of REDD+Benefits

Before devising a benefit-sharing plan, it is important to identify potential beneficiaries from REDD+. From a legal perspective, a right to benefit needs to be linked to a legal instrument (such as a contract, a statute, or a national Constitution) as the law has an important role in clarifying who the beneficiaries of REDD+ are, and the formal basis for benefit claims.

In the TAL, benefit sharing will have to operate across multiple levels from international to national and local levels, national to local levels, across communities/ villages, and within communities/ villages. However, the Nepalese government doesnot have clear provisions for identifying beneficiaries for REDD+. It is likely that everyone involved in emission reduction activities could be a potential beneficiary.This is not a typical problem for Nepal since carbon performance is to be quantified within forested areas in relation to a baseline. The overall argument is related benefits should go to those individuals, groups or organizations holding rights over forest land.

Based on existing practices and stakeholder consultation, the potential beneficiaries of REDD+ in the TAL include:

1) Community based entities involved in managing forests in case of all CBFM regimes. This includes Community Forest User Groups, Leasehold Forest User Groups, Collaborative Forest User Groups, Religious Forests, and Forests managed as part of a community based modality under Protected Areas (Buffer Zone).

2) Government entitiesat national, provincial, district and local levels engaged in sustainable forest management. This includes government managed forest and Protected Areas as well as National Forest Authority (MoFSC,) Provincial Governments, District, Municipal and Village Councils.Government entities may be determined based on federal laws, rights and responsibilities.

3) Private forest owners engaged in managing forests on their private property. This may require proper criteria/ceilings to determine eligibility for benefit sharing determined by either of the legal instrumentsmentioned above.

4) NGOs, CSOs, IP alliance and federations including academia and private sectors also could be considered as major stakeholders for benefit sharing. They can benefit through “non-monetary benefits” such as research, advocacy and deliberations of REDD+.

5) Forest dependents, customary right holders, indigenous people, women and the poor could be considered as the fifth category of potential beneficiaries from REDD+ determined by either of the legal instruments mentioned above.

Table 5. Potential Actors and Roles in Benefit-Sharing Mechanisms

Beneficiary	Potential Roles on Benefit-Sharing Mechanisms
Users at Various Forest Regimes: • **Federal Government (forest authority)** • **CFUGs** • **Religious Forestry Groups** • **Collaborative Forestry Groups** • **Leasehold Forestry Groups** • **Private Forestry Groups** • **Other local groups involved in protection, management and use of forest products**	• Carbon trade arrangement, management of fund, coordination, strategy development, policy formulation and reform, and capacity enhancement, etc. • Programme/plan preparation, approval, implementation, monitoring and reporting • Community forest (carbon) tenure rights holders; Forest regimes and projects implementers - reserving forest, patrolling, etc. • Forest management and promotion, appropriate use of forest products • Forest protection and promotion (afforestation and reforestation) • Opportunity costs • Take on resource restrictions
District/Village Government Institutions: • **District Development Committees** • **District Forest Office, Sector Office and Ilaka Office** • **District Watershed Conservation Office** • **Village Development Committees**	• Technical and financial assistance to the people and institutions involved in data and information dissemination • Study, research and develop policy on energy source and utilization • Technical support to village and forest user groups • Develop and implement laws and policies related to forest at district level • Develop policy to confirm rights and profit sharing for women, indigenous and disadvantaged groups and Dalits • Development of cottage and small industries with forest products and regular monitoring and evaluation
Provincial/Regional Government Institutions	• Coordination, strategy development, policy reform, capacity enhancement, implementation and monitoring • Management, promotion and conservation of forest, watershed, non-forest product • Administrative and financial works as per requirement • Various possible roles, including developing policies to reduce forest loss
PAs Authorities: • **Buffer zone Forest User Groups** • **Buffer zone Council**	• Technical and financial assistance to the people and institutions involved in data and information dissemination • Study, research and develop policy on energy source and utilization • Technical support to village and forest user groups • Develop and implement laws and policies related to forest at district level • Develop policy to confirm rights and profit sharing for women, indigenous and disadvantaged groups and Dalits • Development of cottage and small industries with forest products and regular monitoring and evaluation
National Government Institutions (NPC, MoF, MoFSC, DNPWC, REDD IC, etc.)	• Carbon trade, coordination, strategy development, policy reform, capacity enhancement, implementation and monitoring • Management, promotion and conservation of forest, National Parks, watershed, non-forest product

	• Administrative and financial works as per requirement • National REDD Implementation and strategy development • Various possible roles, including developing policies to reduce forest loss
Cross-Cutting Sector: • **REDD Projects** • **NGOs** • **Users Federations** • **Private Sector** • **Research Institutions and Academics** • **International Organizations**	• Developing, testing variety of benefit-sharing mechanisms (including REDD+ Pilots Projects) • Technical assistance and research (Research Institutions and Universities) • Facilitators, assistance on development of laws and policies, service providers, project implementation (NGOs, private sector) • Capacity building and sensitization campaign (NGOs, private sector) • Development and management of information system • Work for providing carbon ownership on communities • Assist on monitoring and evaluation works • Monitoring on the implementation of laws and policies related to study of climate change • Assistance on development of laws and policies • Capable and skilled manpower production • Assistance in development and management of information system • Environmental Impact Assessment • Promote the inter relationship with the environment • Assistance and management of environment/forest promotion • Provide suggestions and pressurize the concerned body for policy making and implementation

4.3.2 Potential Monetary and Non-Monetary Benefits:

The monetary and non-monetary benefits are goods, services or other benefits related to payments received under the ERPA, ER Programme Document, Benefit-Sharing Plan and the Safeguards Plan or funded with such received payments, and (2) other monetary or non-monetary benefits which are directly related to the implementation and operation of the ER Programme.

Following the implementation of ERPD programme activities, REDD+ will generate a variety of benefits. These benefits include direct financial incentives through the sale of carbon credits or carbon payments, which are the primary mechanism for achieving emissions reductions.REDD+ proponents hope that monetary payments will flow to local forest communities and others directly contributing to REDD+. For example, a REDD+ payment could be made to a community, and that payment could be used to build a school, road, health center, or infrastructure such as a drinking water system, small irrigation canals, etc.

REDD+ also provides non-monetary benefits, which incorporates measures to enhance non-carbon benefits (e.g. improvement of local livelihoods, building of transparent forest governance structures, making progress on securing land tenure, and maintaining biodiversity and/or other ecosystem services, etc.) generated through the implementation of REDD+ projectsand programmes.Non-carbon benefits are usually referred to as ‘co-benefits’ that can arise from REDD+ through enhanced governance, secure land tenure rights, improved environmental services, and income related toREDD+ activities.

Similarly, REDD+ also introduces costs and risks that are typically categorized in terms of opportunity, implementation, and transaction costs. The government needs to estimate the costs and related timing for the implementation of new policies, restricting access to land and resources, and the costs of improving policy and governance frameworks.Thismay affect

national, sub-national and local budgets.Table 6below presents some anticipated benefits and costs respectively from REDD+ in the TAL region.

Table 6. Potential REDD+ Benefits in the TAL Area

BENEFIT TYPES	POTENTIAL BENEFITS
Economic and Social Benefits	Incentive payments, e.g. carbon credits sales; Income from employment in REDD+ schemes, reinforcing community forest management and generating related revenues, etc.; Enhanced local livelihood, health benefits arising from local environmental services; Improved/ enhanced availability of natural resource based materials, e.g. food, building materials, fodder, fuel wood, medicinal products, and sustainable timber supply; More secure land/ forest tenure; Enhanced local governance – e.g. accountability, transparency, law enforcement, conflict resolution, and participation (including of communities and marginalize groups) – where such governance enhancements are built into REDD+ projects; Enhanced capacity (institutional capacity, human resources) and knowledge; Enhanced resilience to climate change
Environmental Benefits	Maintained and enhanced local forests; Improved natural resource base; Maintained and improved local forest ecosystems and associated systems (water, soil, etc.); Maintained and improved local biodiversity; Increase value of biodiversity

4.3.3. Cost implications of REDD+ Benefit-Sharing:

All co-benefits including both goods and servicesor monetary and non-monetary benefits from REDD+ should be recognized as an important part of incentives to forest-managing communities so as to increase both effectiveness (e.g., fulfill multiple purposes for livelihoods, economy and environment) and efficiency (e.g., increase forest outcomes per unit area in a given time) of forest management. It is also equally important to consider the social capital of forest-managing communities as part of a bundle of forest services as it has bearing on the sustainable management of forests. Although much is anticipated from REDD+, its real benefits and costs are not yet clear. The trust and political will for REDD+ may be undermined if high expectations are not met.

There are associated costs and risks that need to be considered in REDD+ benefit-sharing. These costs are categorized in terms of opportunity, implementation, transactions, and institutional costs. Based on international practices, which was validated during the multi-stakeholders consultation process, these cost categories and their implications for REDD+ implementation areexplained in the following paragraphs.

Opportunity Costs. The opportunity costs are equivalent to benefits predictable by government, forest managers, farmers and local communities in protecting forests, rather than adopting potentially more profitable alternative land uses, harvesting timber and other natural resources in the area. It is the benefits from deforestation and forest degradation that are being lost by implementing forest conservation practices undertaken by the forest managers. In the context ofthe TAL, this issue can be addressed by providing the opportunity cost to forest dependent low income households particularly headed by women, Dalits, IPs, poor and marginalized groups in the form of physical or economic access to natural resources for livelihoods, subsistence use, or for value added activities, etc. It is expected that the provision of opportunity cost will reduce their dependency on the forests and help them adopt alternative livelihoods.

As per the proposed plan, it is recommendedto invest 40% benefit in this area. However, proper identification of this group is critical before sharing the benefits.A clear benefit-sharing plan should come from the community following a result-based participatory planning process that is owned and governed by the concerned authority and the community. According to local government and the local forest authority in TAL area, thethere are around 40% such community living in and around the TAL area.

Implementation Costs: These are costs relating to activities that address drivers of deforestation, promote forest conservation and reduce leakage. For ER Programme implementation, the potential costs may include land use planning, forest protection, improved forest and agriculture management as well as capacity building for reducing D&D including agriculture and alternative livelihood opportunities, job creation, etc. Additionally, this may involve costs associated with mobilizing and sustaining a project team, financing project investments, operations and management. As per current practice and international standards, this must not be more than 50%.

Transaction Costs: These are costs related to the policy and legislative reformsessential for REDD+, project design, negotiating agreements, measurement, reporting and verification (MRV) of carbon benefits and related benefit-sharing agreements, safeguards system development and monitoring. Considering the involvement of existing institutional and human capacity of the GoN, it is recommended to limit it within 5% as per international practice and stakeholder's feedback.

Institutional Costs: These are the costs incurred at the political-administrative level to develop, manage and enforce REDD+. These are the costs incurred by government to ensure a positive legal and policy environment, to address governance issues and to reduce unregulated / illegal forest use. Considering the involvement of existing institutional and human capacity of the GoN, it is recommended to limit it within 5% as per international practice and stakeholder's feedback.

4.3.4. Identification of Eligible Activities

REDD+ activities listed in Decision 1/CP.16, para 70 are: a) Reducing emissions from deforestation, b) Reducing emissions from forest degradation, c) Enhancement of forest carbon stocks, d) Conservation of carbon stocks, and e) Sustainable management of forest. In the context of the TAL, we have identified several activities inside and outside the forests that can be rewarded (see Table 6).While not as prominent in the literature, it is also important to address distribution between non-government actors (service providers) and local communities. REDD+ often involves NGOs, private sector, or other non-state organizations acting as facilitators and service providers for forest communities. There are important open questions about what their roles should be, what value they add, what benefits (and costs) should accrue to them, and how they can be held accountable.Table 7 below provides a glimpse of potential actors and roles in the benefit-sharing mechanism.

Table 7. Potential Eligible Activities in the TAL area

Type of Activities	Description	Example in TAL
Activities developed within the forests	Activities taking place in forestland by different forest	Fire control, improved harvesting techniques (rotation system), silvicultural procedures (reforestation, selective logging), buffer

	users with positive outcomes to forest management	zone management, conservation measures, community forestry, agroforestry system
Activities developed outside the forests	Essentially developed outside forests but has direct or indirect impacts on specific forest areas and their biomass density	Bio-gas project and improved stoves and charcoal kilns reduce extraction of fuelwoods; PES project (drinking water supply and irrigation), managed grazing area outside forest improves regeneration, etc.
General policies and arrangements (transversal, cross-sectorial)	Activities implemented to address specific drivers of deforestation or forest degradation	Monitoring of community forestry by DFO, The thirteenth five-year plan, different land and forest policies and measures; research activities to improve agriculture production, use of cook stove etc.

4.3.5.Criteria, Process and Timeline ofBenefit-Sharing

Benefit sharingis one of the most contentious areas while developing an ER reduction business plan. The lessons learned from past experience and the literature isuseful to make the benefit-sharing plan more credible, legitimate and acceptable to all stakeholders. Participatory processes have been found to be the foundation of developing such a plan. However, the capacity of stakeholders and well-established criteria are equally important for this purpose.

Eligibility criteria for sharing REDD+ benefits in Nepal have not yet been determined, and will likely vary by level and context in different forest management regimes. In this section, criteria that are critical to understand and need to be well reflected in the benefit-sharing plan are discussed, which include (i) rights/ownership, (ii) management inputs, (iii) performance (carbon and non-carbon), and (iv) welfare/equity.

Rights and OwnershipOver Land, Forest and Carbon. As carbon is inseparable from the forest and the land, it is difficult to isolate carbon rights without engaging land and/or forest owners, managers and users including the government, CFUGs and other users. Defining carbon rightsbased on both ownership and usufruct rights and its legal arrangement will only help to devise fair and equitable benefits sharing atall levels of stakeholders for ER Programme implementation. However, clarifying who is legally entitled to reap how much of the benefits from carbon under REDD+ is a complex process as multiple actors have overlapping forest tenure and usufruct rights. The flow of benefits depends primarily on the resource endowment (e.g., availability, productivity, size, condition and quality of resources) and governance conditions (e.g., tax, royalty, permit, etc.). The existing usufruct rights and land tenure ownership can be applied as one of the criteria for benefit-sharing. Under the usufruct rights criterion, all participatory managed forests are eligible for REDD+ benefits. Similarly, government and private landowners are also eligible beneficiaries under the land tenure ownership criteria.

Performance on Carbon and Non-Carbon Outcomes/Benefits.The ER Programmewill have to devisewell-defined outcomes that can be considered as benefits of the programme with carbon sequestration as the ultimate result. The potential benefits of the ER Programme can be of different types such as social (e.g., institutional enhancement; social capital; political empowerment; and strengthened tenure, capacities, welfare and security), economic (e.g., property rights, access to forest products, environmental services, forest-based income, agro-forestry yields, employment), and environmental (e.g., maintenance of biodiversity, soil health, agricultural productivity, carbon sequestration, air and water quality). Based on verifiable emission reductions, REDD+ financial incentives can be determined. Proxies for determining

emission reduction can be used such as deforestation rates. However, benefit-sharing based on performance may not lead to equitable results.As per the Forest Carbon Ownership (FCO) study 2015, one of the criteria for equitable benefit-sharing could be canopy cover and the carbon sequestration capacity of forest/s rather than the size of the forest so that even a small forest is managed sustainably and scientifically in such a way that can sequester more carbon benefits.

ManagementInputs for Land, Forest and Carbon Administration. Beneficiaries are considered to be those who bear the direct, indirect or opportunity costs of ER Programmeas well as therisks (i.e., social, economic or others). Under this criterion, the investment made by land and/or forest owners, managers and users, their governance, accountability and transparency measures, performance and human resource capacity as well as inclusiveness should determine the share of the benefit. However, the nature of benefits and their attribution may be different as different stakeholders have different environmental and public responsibilities beyond the ER Programmein managing forests.

Social Welfare and Equity. Assessing equity in benefit-sharing has always been a challenge in forest commons management. The set-up of a locally specific, but internationally and nationally appropriate benefit-distribution mechanism, which addresses the issue of equity remains critical and complex for the ER Programme to succeed. Since the TAL area is home to indigenous groups including Tharus as well as Terai disadvantaged, poor, ethnic minorities, Muslims, the meaning of "equity" can be locally interpreted with particular weightage on gender diversity, forest dependency, discrimination, and land ownership, etc.

Animportant dimension of the ER Programme is the project cycle and timeline for benefit sharing. Though the REDD+ benefits are finite, the development of REDD payment schedules will be hard to predict and will depend on the establishment and stability of carbon prices and other factors. Since, the ER programme in the TAL area is more or less defined by the ER-PIN, this is considered as a time-bound programme that follows defined planning, implementation, monitoring and evaluation processes.

4.3.6. Source of Funding and Distribution Mechanisms

While the REDD+ projects can be funded through a variety of means, from voluntary carbon markets to tax-based national funds, benefits sharing can be determined by statutory and customary laws, including national legislation and contracts for project developers, or national fiscal transfer systems that allow local level governments to administer fund.

Monetary benefits for REDD+ activities require sophisticated distribution mechanisms. The choice of distribution mechanism depends on the national planning process, its prevailing institutions and tenure regime, financing source, and the programme's focus. Theoretically, there are largely three types of national finance mechanisms: (a) *Dedicated funds*: Funds are held, managed, and disbursed through a structure that is separate from the national budget, which is practised by the Amazon Fund; (b) *Budgetary approach*: Funds are disbursed via existing budgetary structures and pathways and is practised in Indonesia; and (c) *Decentralized approach*: Sub-national and project-level actors can directly access funds. The central or provincial government plays a regulatory role and has a limited financial role. However, the central or provincial government may collect a levy on revenue generated to cover its regulating costs and/or to fund social priorities. The participatory forest management approach for REDD+, including community forestry, has been practising in Tanzania. Nepal's approach hasnot been

clearly defined and there is still a question as to whether the finance mechanisms will be heavily dependent upon international funding.

In Nepal, REDD+ finances are integrated into the state budget, while management of forest resources is devolved to local level actors. CBFM in Nepal grants full ownership over management and revenue from legally recognized community managed forests, but has not been equitable in terms of access for indigenous communities and lower castes. Before REDD+ financeflows, the legal clarification of "Who owns the carbon of community forests?" And "Who deserves the money made from forest carbon trade?" are key questions that need to be addressed within a legal framework. Furthermore, there are two important questions shaping the design of a financial structure, which are:What actors will have direct access to funding and at which levels, and to what degree is the financial mechanism integrated into existing government structures?

No single approach fits the type and scale of REDD+ implementation due to concerns about difficulties in implementing a national programme, in addition to concerns as to whether project-level or sub-national accounting can adequately address the challenges of leakage; and different views about appropriate incentive structures. In the TAL area, the 'nested approach' discussed below can be considered a compromise between the jurisdictional and project-level approach to allow REDD+ to be implemented at multiple scales.

Table 8. Approaches for REDD+ benefit distribution in the TAL area

Options	Possible Strengths	Possible Challenges
National approach (a): international payments collected by central body (National REDD+ Trust Fund) and distributed directly to local actors or their aggregation bodies	Avoid governance problems at local level, payment delays	High transaction costs before reaching local actors Strong fiduciary regulation system be needed
National approach (b): international carbon payments collected centrally and distributed through the regional and local government system (TAL)	Implementation cost reduced, empower District government and allow close monitoring	Timely and reliable payments will be critical—long delays
Project approach: Individual projects/ actors (or their aggregation bodies) directly access international markets, investors, or donors	Avoid transaction cost from centralized system, direct benefits accessed by communities	Challenges in carbon accounting and safeguards application. High investment risks
Nested approach: Hybrid approach including elements of national and project (/sub-national) approaches. Allows for site-level project development and scaling up. Requires consistent emission accounting between project-based, sub-national, and national levels	Increase awareness with substantial financial benefit, community engagement and participation, allow direct access to markets, capacity building in carbon accounting	May involve challenging governance arrangements and relatively high transaction costs, e.g., to ensure both project level market access and consistent application of national carbon accounting and reliable safeguards implementation and monitoring

Regarding the process of funding, as per existing practice the central government channels block grants on an annual basis from the national budget to the (provinces), districts and village level. To access funds,all sectoral offices and local government should developannual/periodic plans in line with national as well as the14-step local participatory planning process stipulated in the Local Self Governance Act 1999, with inclusive participation of women and marginalised groups.Though there are some anomalies in the current context, local government authorities are practicing this process while preparing their annual development plans. After endorsement of the

plan from the district/municipal/village council, it will be approved and funded from the district or central government fund. The National Planning Commission (NPC) has enforced the logical framework and result based monitoring system mandatory to all government agencies at national and sub-national levels. As REDD+ is a performance based mechanism, it can be funded through the same channel based on the result against the baseline with clear criteria of funding and project implementation. This will help to harmonise the national and local planning processes for effective ER programme implementation.

4.3.7Proposed Benefit-Sharing Plan

For effective implementation of the ER Programme that ensures equitable, efficient and effective benefit-sharing mechanism, a single framework and mechanism would be less confusing and efficient for management coherence and reporting of the ER Programme. The benefits accrued from carbon trade should cover the cost associated with carbon trade and net benefit should be shared. All the REDD+ income and expenditure should be transparent and made available online (FCO, 2015).

There is a clear legal provision for the benefit-sharing arrangement under different management regimes where forest users are consistently practicing the benefit-sharing arrangements. ER-PIN has provided clear guidance regarding the areas of investment and the proportions of costs that can be spent on cost drivers.

For management coherence and effectiveness, it is proposed that 70% of the benefits are distributed in the form of monetary benefits and 30% in the form of non-monetary benefits. Uniformly, provisions should be made that any beneficiary from REDD+ utilizes 50% of the total benefits for forest management, conservation and protection on a mandatory basis. For this, a strong results based monitoring system is required so that the performance of REDD+ benefit-sharing mechanism is routinely monitored and reported on by internal regular mechanisms as well as by independent institutions. An effective internal control should be in place such as regular data reconciliation, internal audits, and monitoring of compliance with accounting standards. The monitoring institutions should be mandated with clear and transparent responsibilities. In this regard, the development and fully functionalization of credible and cost-effective National Forest Monitoring System (NFMS) before implementing the ER Programme is crucial. In line with Forest Carbon Ownership (FCO) Study, the ER-PIN, existing rights, benefit-sharing practices and consultation at the central, provincial/regional, district and community levels, the following cost benefit-sharing mechanism has been proposed (Table 9). The Study of Forest Carbon Ownership (FCO, 2015) clearly proposedforest carbon ownership and resource allocation modalities based on management regimes. This study also recommends adapting the same modality for the ER Programme in the TAL districts. The modality has been presented in Annex 5. The given figures are adapted from the ER-PIN and international practices and validated through the stakeholder consultation process. Implementation of REDD+ is a participatory process and the cost borne by different agencies and groups should also be considered when designing programme/activities.

Table 9. Proposed Costs and Benefits Allocation forAll Potential Beneficiariesin the TAL

BENEFI-CIARIES	SOURCE OF FUNDING (REDD+ AND OTHERS BASED ON ER-PIN)	BENEFIT TYPE	PROPOSED SHARE OF BENEFIT	AREAS OF INVESTMENT (BASED ON ER-PIN)	RESPONSIBILITY
All Forest Management Regimes Government entities Private forest owners NGOs, IPO alliances Forest dependents, customary right holders, indigenous people, women and poor	• FCPF REDD+ grant • Revenue from non - REDD+ carbon activities, • Other funding from Ministry of Forests and Soil Conservation, President's Churia Conservation Programme, AEPC (biogas and cook stove), Multi-stakeholder Forestry Programme (MSFP), Hariyo Ban (USAID), WWF (TAL), etc.	**Monetary: 70%** **Non-Monetary: 30%**	• For Forest Management: 50% • For Environment and Social Safeguard (ESS), proportion of o Poor, 10% o Forest dependent (10%) o Indigenous peoples, 10% o Women, 10% • Monitoring and administrative cost, 10%	• Operational Cost (meeting, travels, office running costs), 10% • Sustainable management of forest (SMF) by government and community, 25% • Reducing forest demand with expansion of biogas plants and cooking stoves, 10% • Land use planning to reduce forest conversion, 5% • Engaging private sector to bring new forest production to degraded lands, 10% • Diversify alternative livelihood options, on a demand-driven basis, for forest dependent poor community, 35% • Field Monitoring and Reporting, 5%	• REDD IC – fund disbursement, planning, monitoring reporting • DNPWC – monitoring, reporting • NP/CA - Planning, implementation, monitoring, quality assurance, • Provincial Government/RD-monitoring, quality assurance, capacity building • DFO – Planning, implementation, monitoring, quality assurance, • Other stakeholders – implementation and quality assurance

4.3.6 Proposed Revenue Sharing Modality for ER Programme Implementation

As per the existing policy and practice, DDC receives 10% of the total revenue generated from government-managed forests, and 50% from the sale of unclaimed or stray *(dariyaburdi)* timber. Field consultation and review of the DDC plans shows that such benefits received by DDC are mostly spent on general development and only a small amount on reducing D&D activities. Based on this current trend, it is proposed in order to reduce duplication and for effective ER Programme implementation, a cost sharing plan be approved with DDCs to use at least 50% of such revenue specifically for forest conservation, protection and development.

Similarly, for the promotion of conservation, protection and development related activities, the NPs share 50% of their revenue to the local community of the bufferzone area through the BufferZone Management Council (BZMC). The BZMC should use 30% in conservation related activities, 30% in community development, 20% in income generating activities and 10% each in conservation education and administration. To avoid duplication, theBZMC can align 30% of revenue allocated for conservation related activities in the ER Programme in TAL.

Similarly, to reduce duplication in the CFUG forest management regime, the revenue allocated by CFUGs for forest protection, promotion and management (25%) and allocation for poor women, *Dalits*, and indigenous nationalities (ethnic groups) can be linked with the ER Programme that needs management and programmatic coherence.

Likewise, the allocation made by collaborative forests for forest management and poverty reduction, community development, and capacity enhancement of local bodies can be aligned with the ER Programme so that equity and fair cost sharing and distribution is harmonized.

The linkage of current allocation and expenditure patterns of other forest management regimes must be considered while preparing the ER-PD. As the Emission Reduction Programme Document (ER-PD) is in apreparation phase, it would be a wonderful opportunity to align the existing resource allocation and expenditure patterns of DDC and various forest management regimes in the ER-PD in consultation and consensus with relevant stakeholders.

4.4 Proposed REDD+ Benefit Flow Mechanisms

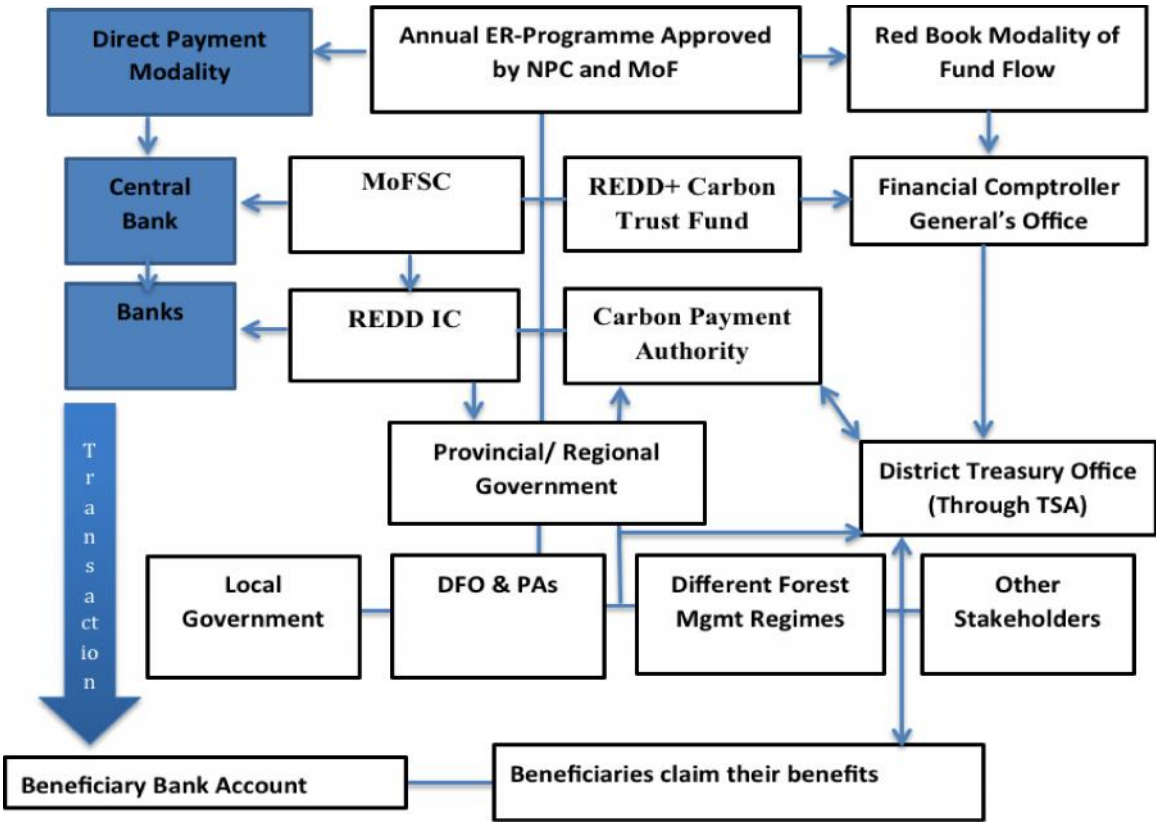
The revenue generated from REDD+ will be channelled through different institutions involved in the fiscal management of REDD+. The REDD IC should be the overall responsible government entity for the preparation and finalization of the ER Programme and budget, both long term and annual. The proposed National Carbon Trust Fund (NCTF) should legitimizethe plan, and budget prepared and finalized by REDD IC. Upon approval from NCTF, the budget flow should follow regular government systems and procedures.

During consultation with stakeholders at various levels, the issues of fiduciary risk and governance, particularly corruption, mismanagement of fund, political, bureaucratic and elite influences and systemic delays in the government budget disbursement and liquidation were raised. Alternative modality of direct payment to the parties or beneficiaries was suggested as a possible solution to tackle these hassle and delays.

For operationalization, the MoFSC delegates the authority to spend the budget to the REDD IC, which then authorizes the DFOs and PAs for expenditure, based on the approved plan. The budget reflected in Red Book is received by the DFO and PAs from their respective District Treasury Office (DTO), which makes payment to clients as per the centralized and integrated system of the Treasury Single Account (TSA). In this system, all government transactions are made through a single or a limited number of bank accounts.Through this process, the respective DFO of the TAL area will make payment to the beneficiariesas agreed. In case the government agrees to adopt a direct payment modality to the beneficiaries, then the authorized banks will make direct payments to the beneficiary. This model is in practice under AEPC, which makes direct payment of subsidy to clients through banks based on the recommendation received from the DDC, Regional Service Centers and accredited private companies.As per this provision, carbon benefit can be directly paid by the carbon payment authority though bank transactions uponrecommendation of the DFO. In Figure 9below, the fund flow modality with the option of

regular government Red Book mechanism and direct payment modality is explained. The boxes shaded in blue explain the direct payment modality as an alternative option.

Figure 9. Proposed Fund Flow Mechanism



The "Option Paper" in Annex 6 also provides a summary of cost-benefit-sharing mechanisms,transferring benefits,input or performance,benefit-sharing arrangements design,safeguards integration, andsource of funding and distribution mechanisms in REDD+ cost-benefit-sharing.

4.5Monitoring Provisions:

It is important to define the indicators and baselineto monitor REDD+ benefits in the ER programme document. The foundation of a fair and equitable REDD+ islocal participationwhere local communities themselves involve in monitoring forest carbon, biodiversity, and livelihoods by themselves. Independentand third party verifiers could also play arole in assessing whether benefits are reachingcommunities, at least in terms of some basicinformation on benefit flows (e.g., observableinfrastructure investments or lump sumpayments to community funds). Local governments and NGOs can playan important role in social and environmentalimpact assessments, and the implementation of approaches that aim to channel benefits to poorer actors. A clear simplified guideline will be required for this process.

The MoFSC (or REDD IC) should make a joint monitoring committeeconsisting ofrepresentatives from organizations at different levels. The joint-committee monitoring would help identify better ways to deal with stakeholders at different levels and pave the way for an effective ER Programme. In addition to these committees, the MoFSC (REDD IC) should make

a provision for independent third party monitoring for progress update and validating results foran independent programme and financial oversight.Experts on REDD+ could also be mobilized for periodic review to draw lessons that can be shared at awider scale.
The development and use of fully functional, credible and cost-effective National Forest Monitoring System (NFMS) including decentralised MRV to monitor forest reference levels and reflect the plans and progress in order to assess ER Programme performance should be the prerequisite before implementation of the programme. The programme should decide how best to distribute the benefits, both up-front and over the long-term. Based on the NFMS, the payment should be made after fulfilment of the required results.The Office of Auditor General (OAG) should perform the financial monitoring and oversight role.

4.6Integrating Safeguards in REDD+ Benefit-Sharing

REDD+ benefit-sharing should be designed, implemented and monitored in accordance with the national safeguards system. As Nepal has already prepared Strategic Environmental and Social Assessment (2014), the safeguards system should be based on it as well as other socio-economic protection mechanism that are adopted for the social and environmental safeguard. However, drawing on international safeguards, there are number of relevant considerations, including full and effective participation; free, prior and informed consent; effective representation; transparency; accountability; gender equality; respect of human rights; secure land, forest carbon and carbon tenure; dispute resolution; and monitoring.

Table 10. Relevant Safeguard Elements Considered in Benefit-Sharing Mechanisms

SAFEGUARDS ELEMENTS	DESCRIPTION	DIAGNOSTIC FOR CURRENT SYSTEMS IN TAL
Full and effective participation	UN-REDD Social and Environmental Principles and Criteria for REDD+ describe full and effective participation as "Meaningful influence of all relevant stakeholder groups who want to be involved throughout the process, and include consultations and free, prior and informed consent". The full and effective participation of forest communities and other stakeholders is critical for benefit-sharing	Political control in bureaucracy and centralized system (top-down) and manipulation by leaders and elites infect civil service deeply Organized at Community based organizations (CBO), but strong elites capture and political leaders influence
Free, prior and informed consent	Local communities should be able to give or withhold their free, prior and informed consent (FPIC) – to say yes or no – to REDD+ activities, including related benefits and costs, affecting their rights to lands, territories and resources. International guidance is increasingly available, including UN-REDD FPIC guidance (2012; IIED, 2012).	Not applicable for now—under development
Effective representation	Not every stakeholder can directly participate in the same way or at all levels. Fair and effective representation, particularly of vulnerable people, will therefore be an important factor in the governance of benefit-sharing	There is absence of elected representatives in different institutions at district level At community level, well organized and inclusive structure, but there is a dominance of elites in executive positions
Good governance, transparency and	Good governance of benefit-sharing mechanisms, including transparency and accountability among all parties, is key to equitable arrangements in policy and in practice (see Peskett, 2011a). This includes transparency and accountability in the	Low orientation about planning and implementation process Lack of accountability to people and transparency, unfair competitiveness

accountability	operations of, among others, the National REDD Task Force and Technical Working Groups, international and national organizations supporting REDD+, and participating communities. A key component of operationalizing transparency and accountability is timely information sharing – in project conceptualization, design, implementation, and monitoring. Information should be accessible to all parties, including communities, using appropriate languages and written and oral mediums.	among sectional heads, highly compartmentalized, top-down type of decision-making system, and delay in decision-making.
Gender equality	Gender equality is important in benefit-sharing as REDD+ will have gender differentiated impacts, due in part to women's and men's different powers, roles, rights and responsibilities in forest governance.	Well represented and CBO, but the wives of those elites have taken leadership of women groups
Secure land, forest carbon and carbon tenure	Related to rights, land and carbon tenure security are central to equitable benefit-sharing. In many countries, lack of clear, recognized, or enforced tenure rights for local forest communities, including pastoralists, is a primary obstacle for equitable benefit-sharing	Existence of legal and policy framework, but there is no specific law to spell out forest carbon rights and beneficiary sharing system
Dispute resolution	Operationalizing benefit-sharing is likely to involve disputes. The goal is not to avoid dispute; rather welcome constructive conflict helps effectively make and resolve claims, and the "cost of not taking action might be higher in long term" (Peskett, 2011b)	Policy response has often been *ad hoc*, inconsistent and unstable, leading to confusion and conflict on Terai forest management.
Respect of human rights	Sharing benefits helps ensure that REDD+ respects and furthers the realization of human rights, e.g., to adequate food, water, housing and health	Still influenced by political leaders.
Monitoring	Knowing if, in practice, benefits are being fairly distributed will require effective and transparent monitoring and reporting. A costs and benefits monitoring system should be integrated with related REDD+ systems, including the national carbon accounting system and the safeguards information system. It will be imperative that costs and benefits monitoring be robust, but also practical to implement and oversee. Monitoring should involve the participation of impacted communities as well as independent verification	Poor legal enforcement, growing fiduciary risk at authority, organizations and groups Weak monitoring and database system lack of result-based planning and monitoring system.

CHAPTER V

5. Risks and Challenges, Conclusions and Recommendations:

5.1 Risks and Challenges

The purpose of each forest regime is to conserve and manage both the forestland and biodiversity. In this course, local communities are extensively involved as their livelihood system is dependent on forest activities. In the TAL area, more than 70% of the population directly or indirectly relies on forest related activities for their subsistence. They depend on forests for fuel wood, fodder, leaf litter, animal bedding material, timber, organic fertilizers, income generating entrepreneurial activities and environmental concerns. Conversely, a new discourse for improvement of forest and benefit extraction was introduced after the summit of Earth 1992. This new course of management and benefit mechanism has encouraged local communities to shift from livelihood concerns to benefit extraction. Their rigorous contribution in mitigation of climate change activities and carbon tax mechanisms leads them to be a part of sharing benefits from REDD+ activities.

All communities who are involved in forest conservation and management activities are major stakeholders for benefit-sharing. However, REDD+ poses risks to local communities, around the issue of efficiency versus equity. If designed in this way, REDD+ would discriminate against local communities who have already conserved forests or taken early action to do so.

The local communities in the TAL are characterized by caste/ethnic diversity,complex feudal power structures, elite dominationand a pervasive social inequality based on caste, ethnicity and gender. These have caused great apathy to groups, especially from the poorest and the most marginal segment of the communities. The community dynamics further illustrate that some forest user groups are involved to control and manage forest resources unswervingly in which only they are benefitted by forest products and other incentives while others are lagging behind. Field evidence indicates that most of the CFUGs leaders stay in the town centre and rarely visit their villages and communities.Delayed decision-making processes and irregular group meetings adversely affect access to forest resources at the time of need and also limit opportunities to participate in REDD+ activities.

The formal community-based forest management process has endowed the authority of forest management to those communities who are settled near the forest. These communities are formalized by their respective group constitutions (e.g., CFUG, CFM, LHFG, BZCFUG, RFUG, CAMC, etc.). These communities have free and direct access to forest areas unlike remote communities. In such a context, only the formal forest user groups can claim REDD+ benefits as they put in effort and invest in forest management. In contrast, remote communities assert that they have paid the state tax and other payments but that they have not obtained any kind of benefits that accrue from the forest. To address the demand of remote communities, 'equity' approach can best meet the demand, balance power relations and help mitigate the conflict.

REDD+ benefits may raise the risk of inter and intra-community conflicts as the forest management priority may change from local provisioning services (e.g., forest products) and local environmental services (e.g., watershed conservation) to global regulating services (e.g., carbon sequestration and stock).

With substantial increase of the market value of forests, REDD+ could provide new incentives to central governments to "re-centralize" control over forests posing risk to the current decentralized forest management system. This could end autonomous decision-making about forest use at the local level and could involve the imposition of excessive control over indigenous and local communities. It could also lead to the displacement of local forest users. Realizing these risks, right-based organizations such as FECOFUN, NEFIN, HIMAWANTI, and DANAR Nepal have already started to advocate on behalf of forest managing communities, indigenous peoples, women, Dalits and marginalized.

The proposed benefit-sharing institutional mechanism may face a range of challenges or risks. Some of such pertinent risks are listed below.

- Looking at the current pace of sectoral policy formulation and also the overall state restructuring processes, it can be anticipated that there will be delay in formulating new legislative provisions and/or amending the existing one in favour of REDD+ benefit-sharing following the 3E principles.
- Even if the required policy and/or legislative frameworks areprepared, considering the ever increasing rate of impunity in several sectors in the country, the question may arise about their effective execution.
- Considering the current social system and bureaucratic practices of the country, there are loopholes that provide space for corruption, bribe and mal-practices. This is particularly true in case of benefit-sharing as financial benefits and transactions are more susceptible to corruption.
- Overall and sectoral governance issues have been rampant in Nepal since the last few decades largely due to the prolonged political transition.Its reflection may negatively affect the forestry sector and the REDD+ project. This could be aggravated during the process of power and resources division between different levels of governance.
- It is likely that the provincial/regional and district level institutional development will be delayed as it needs large upfront costs. This may seriously jeopardize efforts to institutionalize REDD+ activities at the local level, and therefore, the expectation of forest-managing communities may not be met. This may hinder the process of building trust between forest bureaucracy and forest-managing communities.
- Consensus on cost-benefit-sharing is unlikely to take place in a bid to satisfy all claim-makers, some of whom often have conflicting claims. It is often those with official and political power who are known to co-opt the village folks and manipulate documents for their own individual benefits.
- REDD+ is expected to motivate forest-managing communities for their behavioural change regarding forest use and help offset the various costs associated with implementing REDD+.However, there could be many other variables that are equally important for the communities' behaviour change. In such case, REDD+ incentives might not be adequate.
- REDD+ implementing partners (GoN and non-GoN) organizations do not have well governed and transparent management accounting, social accounting and assisting fiduciary

risk[6] assessment systems, and therefore have limited absorption and fund utilization capacity that limits trust, reciprocity and credibility between and among stakeholders.

- It is very risky to overemphasize carbon benefits while the main thrust of the community based forest regimes is on enhancing livelihood and reducing poverty together with conservation. Too much emphasis on production, marketing and revenue oriented management strategies that the DFOs tend to prefer is likely to create peoples' distrust on government policy and DFO motives.
- Infiltration of party politics and capture of community organizations by political elites continue to pose threats to the participatory and egalitarian principles of community approaches to forest management in Nepal.
- If large fund flows to local communities beyond their management capacity, it might be subject to misappropriation.
- Attempts to individual based sharing and cash payments can become counter-productive because of conflicting claims, elite capture and governance failure.
- Already resource-rich communities may become richer with carbon funds while forest poor regions might be deprived from the carbon fund, generated through performance based approaches.
- There is the possibility of capture of community resources by political elites through political and institutional manoeuvring.
- There is the possibility of non-implementation due to the complexity of the programme and its procedural difficulty.
- There could be distortion of information, messages, perspectives, and ideas of communities as they are communicated at higher levels because people engaged in communication channel may partly filter or re-interpret the message to fit with the global discourse and broader view from their own perspectives.

5.2 Conclusions

REDD+, a performance-based incentive system, provides a unique opportunity to achieve large-scale emission reductions at comparatively low costs. It requires an institutional mechanism for benefit-sharing system at its core so as to motivate forest-managing communities by defining who gets rewarded and how, under what conditions, in what proportion and for how long. The institutional mechanism needs to not only be supported by legal provisions but also be equipped with instruments, tools and techniques for distributing monetary and non-monetary benefits accrued from REDD+ programmes and also from the management of forests. One of the most important pre-requisites for designing benefit-sharing mechanisms is clarifying carbon ownership in relation to the overall forest tenure, forest rights and usufruct practices of the forest-managing communities.

There are ambiguities, complexities and challenges in devising REDD+ benefit-sharing mechanisms due to diversities in the nature of benefits, scope of benefits, forest management regimes, stakeholders' interests and rights, legal provisions, institutional practices and so forth. These challenges are particularly true as Nepalese society is historically different and unequal

6 A fiduciary is a person or organizations who/which hold a legal or ethical relationship of trust with one or more other parties (Parker, 2002).

from gender, caste, ethnic, geographical, linguistic, religions, and cultural perspectives. In this context, only usufruct and traditional benefit-sharing practices may not be adequate to address the emerging interest of forest-managing communities and stakeholders.Therefore, international and national policies and guidelines prepared on the basis of widely accepted principles are considered to be essential to add value on the local initiatives of benefit-sharing from a fairness, equity, effectiveness and efficiency point of view. While bringing such policies and guidelines consciously and with good intention at the local level planning, some of the challenges can be overcome.

As REDD+ is a highly debated novel programme that needs to be implemented in a highly complex and challenging environment in developing countries, field-tested knowledge is highly desirable to demonstrate its applicability form the political, scientific and practical point of view.Therefore, stakeholders in Nepal and beyond are carefully observing and expecting critical knowledge from the implementation of the emission reduction programme supported by the FCPF of the World Bank in Nepal's TAL area. In such a situation, a well-crafted systematic monitoring programmein an inclusive, participatory and transparent way could be productive and effective to control mal-practices, guide project activities and/or document lessons so as to ensure successful REDD+implementation. Perhaps a tailored action-research programme could be critical to add value not only in project implementation and policy processes but also in informing wider scientific communities.

Different issues applicable to the institutional arrangement for benefit-sharing emerged during the course of this study. These include ambiguity in forest tenure and carbon ownership, and prevalence of inequity, elite domination, poor governance, bribe and corruption and low levels of benefit accrual in traditional benefit-sharing systems. Also, the technical and managerial services, monitoring and capacity building support for instituting innovative benefit-sharing mechanism at the forest-managing communities are inadequate. Due to conflicting policy provisions and practices, there are possibilities of inter-sectorial conflicts regarding the use of forest resources (e.g., mining, stone quarry) or forestland for development purposes. Such situations may create hostile relations among development stakeholders. Therefore, a pro-active approach of the MoFSC to collaborate with other development sectors is critical for REDD+ to be effective in the long-run. Also, a finer level of analysis regarding the complementarity and competitiveness between sectorial policies and practices is warranted to inculcate the collaboration and partnership.

The REDD+ benefit-sharing institutional arrangement requires support from formal legislations and/or informal rules, customs andnorms to be able to function effectively and efficiently. Such legislation and rules may facilitate/regulatebenefit-sharing activity in relation to socio-economic and cultural contexts. The institutional mechanism formulated for the TAL area at the project level may also need to be supported by appropriate provisions in appropriate legislation, policy, strategy, strategic/periodic plan or decisions. Such support helps sustain institutional practice of emission reduction and benefit-sharing in the long-run.

5.3 Major Recommendations

This study recommends the following points to devise/revise and implement institutional mechanisms that guide, regulate and monitor benefit-sharing practices of the ER Programme in the TAL area. The recommendations are grouped into eight different categories including (i) amendment of laws and policies, (ii) establishment of a REDD+ unit at the TAL level, (iii)

nature of institutional mechanism, (iv) guiding principles for institutional mechanism, (v) function of institutional mechanism, (vi) identification of beneficiaries, (vii) payment methods, and (viii) monitoring mechanism.

5.3.1 Formulation and/or Amendment of Laws and Policy

1. As a precursor to successful implementation of the ER Programme in the TAL area, the government should amend legislative provisions to clarify carbon rights in relation to land tenure and forest rights in different forest management regimes. Clarity in carbon ownership is a pre-requisite for fair, equitable, effective and efficient sharing of benefits to be accrued from carbon trading as the contextual inequity in TAL area is an issue that affects forest management decisions. Such amendment should provide space to all stakeholders particularly the different communities (e.g., local inhabitants, women, Dalit, indigenous peoples, and distant users) that manage forest and therefore contribute in the ER Programme and seek genuine benefits. The provisions in the international conventions in which Nepal is the party (e.g., UNDRIP, ILO 169) should be duly considered to protect the rights of local communities and indigenous peoples while making necessary legal provisions.
2. The government should make legal provisions for the establishment and extension of institutional mechanisms to facilitate the ER Programme in the TAL area. Such legislative provisions need to pave the way to define the composition, powers and functions in a transparent, participatory and inclusive way.
3. There should be legal provisions to punish those who misappropriate resources, institutional power and authority, by any means. Such provisions are crucial in preventing unfair and unjust implementation of laws, policies and institutional mandates.
4. As Nepal already has several policies, laws and institutional arrangements that serve as a basis for defining and sharing costs and benefits of forest management under different management regimes, these can be used as foundation for deriving incentives distribution under a future ER Programme. The amendment in existing policy should be prioritised over theformulation ofnew ones.
5. The REDD IC should take initiatives to spell out the required provisions in the amendments considering other factors beyond institutional and benefit dimensions. Perhaps a detailed study about the current legal provisions and the provisions that need to be incorporated in different forest management regimes would be helpful in this regard.
6. The government should follow participatory, collaborative and partnership approaches to develop legislative provisions and institutional arrangements so as to achieve a higher level of acceptance and credibility.Some of the strategies for this is to make the process transparent well in advance to all stakeholders, which can be promoted through public debate/input into formulating legislative provisions, devising/revising institutional arrangements for various function (e.g., benefit-sharing and conflict resolution), planning benefit-sharing, and contract negotiations.

5.3.2 Establishment of REDD+ Units inthe TAL Area

7. To serve local forest-managing communities adequately in terms of benefit-sharing and related activities, the MoFSC (or REDD IC) should establish a REDD+ Programme Management Units at the TAL area level, which may have state, district and PA-wise

different sub-units so that it will have direct reach to the forest managing communities. Such REDD+ units should be an autonomous unit under the MOFSC (or, REDD IC) so that it will be able to decide considering the compliance of international standards, national laws/policies and local circumstances. To have a wider reach for such a unit and to make it cost effective, flexibility needs to be given to mobilize current human resources of the MoFSC at different levels by arrangement of focal points. However, additional capacity building, financial resources and other technical support must be provided from the ministry. The dedicated roles and responsibilities of such units need to be spelt out clearly. Attention should be paid to control governance risks (e.g., weak capacity, less transparency, corruption, bribe, lack of accountability, low level of communities' participation in decision making, inadequate collaboration, etc.) in such units.

8. Considering the fact that TAL area falls in different provinces, the provincial level clustering of institutional arrangements, ER activities and benefit-sharing mechanisms and packages should be allowed. This will help to bind the ER Programme with intra-provincial coordination.However, care should be taken to keep the cost low and institutional efficiency to implement ER Programme.
9. The field level REDD+ units should be built for (i) regular monitoring, (ii) rewards for best performers, and (iii) punishment for mal-practitioners so as to help facilitate equitable, effective and efficient benefit-sharing at the community level, and thereby change the behaviour of resource managers/users in the long-run.

5.3.3 Nature of Institutional Mechanism

10. The REDD IC should take a lead role to make the benefit-sharing institutional framework trust worthy, accountable and flexible that allows local forest-managing communities will be able to adapt locally suitable institutional practices respecting usufruct rights of indigenous peoples, women, Dalits and poor. For this, the government should provide basic guideline for equitable, efficient and effective benefit-sharing to facilalitate communities' benefit-sharing practiceand avoid elite domination.Alternatively, a number of frameworks for effective, equitable and efficient arrangements of REDD+ benefit-sharing can also be proposed for the local level, from which local communities may choose to adapt the most suitable one for them. However, such frameworks need to provide adequate space for community participation and voices hearing.
11. The MoFSC (or REDD IC) should ensure that institutional mechanisms adequately facilitate transparent, prompt, effective and fair implementation of ER activities including benefit-sharing. For this, institutions need to be formed in a participatory way by consulting with all relevant stakeholders.
12. The MoFSC (or REDD IC) should setupa grievance handling and conflict resolution mechanism at various levels of institutions. While intra-community conflict can be handled and resolved at a community level, inter-community conflict and/or conflicts between different stakeholders may need to be handled or resolved by independent mediator or negotiator or arbitrator. As part of institutional transparency and grievance handling mechanisms, an improved institutional mechanism needs to be practiced so as to address public queries in a timelyand accountable manner. The institutional process should facilitate public participation in planning and contract negotiation, and respect the

right to information.

5.3.4 Guiding Principles for Institutional Mechanism

13. ER Programme stakeholders should consider carbon payment as an equalizer to address existing contextual inequity (e.g., inequality of forest endowments between communities, inequitable political power and discriminatory social relations) in the TAL area. To address this inequity, the REDD+ unit may need to prepare principles to guide institutional mechanisms,and share benefits equitably, efficiently, effectively and consistently throughout the TAL area. It is recommended to develop such principles in consultation with stakeholders whichare brought from widely established principles and practices. Some of such principles include 'pro-poor' approaches to benefit-sharing, participation of local communities in decision-making, inclusion of existing forest-managing communities in the programme, recognition of statutory and customary rights of the communities, and fairness in benefit-sharing. The guiding principles should clearly spell out (i) the types of benefits, (ii) beneficiaries (primary, secondary and/or tertiary) and criteria to select them, (iii) basis of benefit-sharing and who gets what level of benefits, (iv) rights, responsibilities and accountabilities of each stakeholder, (v) institutional mechanisms to manage ER activities and benefits sharing, (vi) required cost and institutional capacity, and their management, and (vii) use of benefits. Also, a range of issues need to be considered while devising the institutional structure such as (i) preferences of participant communities, (ii) vulnerability to elite capture and corruption, (iii) transaction costs and logistical challenges, and (iv) potential direct or indirect impacts on livelihoods of poor households, including women and children. Effective and viable governance structures at local level needs to be built to ensure equitable benefit-sharing arrangements, while communities can be empowered through rights awareness and resource management skills, improving their leverage in ER Programme negotiations.

14. The MoFSC (or REDD IC) and other facilitating agencies should encourage communities to redistribute carbon benefits to promote intra- and inter- generational equity. Inter-generational equity needs to be promoted by investing adequately in the sustainable management of forests. Similarly, cash funds can be mobilized to promote balance of regional and inter-community equity through community development. Even the non-forested areas should be supported by government forestry institutions and non-government organizations to promote and support tree plantation in private and public lands.

15. Based on the Nepal REDD+ Strategic Environmental and Social Assessment (SESA), the MoFSC (or REDD IC) should prepare clear guidelines for planning and implementation of the ER Programmeandbenefit-sharing. Arrangements should be made that certain portion of ER Programme benefits goes to the management of forest while assuring access to benefits of the forest dependent and indigenous people should not be compromised.

5.3.5Function of Institutional Mechanisms

16. The MoFSC (or REDD IC) should clarify the function of institutions at different levels so that there is no gap and/or overlap of function between institutions. Such institutions should complement each other.

17. The MoFSC (or REDD IC) should maintain a Management Information System (MIS) that integrates all required information related to forest management and ER Programme transactions. The MIS should be accessible to the public, and simple and easy to understand so that all stakeholders benefit by using it.
18. The institutions responsible for ER-Pprogramme at different levels (e.g., REDD IC to the community level) need to have clear result-based annual and long-term plans for their respective levels.
19. The MoFSC (REDD IC) should design a capacity enhancement plan for state, district and field level stakeholders on the basis of competency standards.

5.3.6Identification of Beneficiaries

20. By following a participatory and consultative process, REDD+ units at the district and local levels need to facilitate forest-managing communities to identify ER Programme beneficiaries. Care should be providedto include forest dependent people that are residing far away from the forests (e.g., distance users from the southern Terai), customarily using certain forest products atcertain time of the year, landless people that are not part of the forest user groups currently, and new migrants that may affect the future management of the forest. Special use rights of the Tharu people, one of the numerically largest indigenous ethnic groups of the TAL area, also needs to be protected.

5.3.7Eligibility Criteria for Benefit-Sharing

21. Eligibility criteria for benefit-sharing are yet to be determined clearly despite some arrangements set by various forest management regimes. Several criteria will likely determine eligibility for benefit-sharing of REDD+. Many co-benefits will also go beyond eligibility criteria, e.g., a boost to the economy from an infusion of REDD+ money or improved environmental services.Since inputs are easier to define and measure than additionalities of emission reductions, in the case of the TAL, the input-based mechanism might fit for two reasons (1) the outcomes from forest regimes are encouraging and can continue to generate good results, and (2) the country has low levels of monitoring capacity, using the input-based approachcould facilitate the monitoring process for the begining.

5.3.8 Payment Method

22. The payment of ER Programme benefits should be in the form of support for community development, livelihood generation, capacity and skill development, employment and the like rather than cash distribution at the household level.
23. The MoFSC (or REDD IC) should make sure that detailed operational guidelines for cost sharing mechanisms for the management of forest arein place. However, the level of cost sharing may vary depending on the level of net benefits received by the communities.
24. The MoFSC (or REDD IC) should ensure that result based planning and performance based funding is in place. For this, the REDD+ unit may be mobilized to prepare clear targets and indicators that is linked with the sub-national reference level (RL) of the TAL area. The District Climate and Energy Plan (DCEP) prepared by the DDCs and District Periodic Plan (DPP) can be taken as a reference in this regard.

25. The MoFSC (or REDD IC) should make a short and efficient fund flow mechanism so that forest-managing communities receive benefits without administrative hassle. The existing mechanisms of channelling funds through the District Treasury Office (DTO) and ultimately to the local communities and their accountsis the prime option. However, a direct payment by the Carbon Payment Authority through Bank transfer as practiced by AEPC could be adopted to reduce transaction costs and ensure that beneficiaries receive the incentives.
26. The planning, monitoring and payment methods need to be clearly specified in the Emission Reduction Project Document (ER-PD).
27. Forest management communities and other local carbon owners can aggregate their carbon to reduce transaction costs. Institutional and governance arrangements for such aggregation, including federatinginter VDCusersor partnering with external service providers (NGOs or the private sector) would be one of the options to cover wider and fragmented forest management groups. However, the accountability, representativeness and perceived legitimacy of aggregation bodies should be ensured.

5.3.9Monitoring Mechanism

28. The MoFSC (or REDD IC) should make a joint monitoring committeeconsisting of representatives from organizations at different levels. Joint-committee monitoring would best help identify better ways to deal with the stakeholders at different levels and pave the way for an effective ER Programme. In addition to these committees, the MoFSC (REDD IC) should make the provision of an independent third party monitoring for progress monitoring and validating results.Experts on REDD+ could also be mobilized for periodic review to draw lessons that can be shared at awider scale.
29. The development and use of fully functional, credible and cost-effective National Forest Monitoring System (NFMS) to monitor forest reference levels and reflect the plans and progress in order to assess ER Programme performance should be the prerequisite before implementation of the programme. The programme should decide how best to distribute, both up-front and over the long-term. Based on the NFMS, the payment should be made after fulfilment of the required results.
30. The financial monitoring and oversight role should be performed by the Office of Auditor General (OAG).

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Annex 1

Strength, Weakness, Opportunities and Threats/Constraints(SWOT) Analysis of Institutions in TALin Relation to ER Programme Implementation

1. SWOT Analysis Results

The Analysis of Strengths, Weaknesses, Opportunities and Threats/Constraints (SWOT) was conducted with respondents in three contexts: (1) Government Offices, (2) Non-Government Organizations (NGOs), and (3) Community Based Organizations (CBOs). The results are summarized on Table A1.1.

Table A1.1 SWOT Analysis Findings

Areas	Government Organizations	Non-Government Organizations	Community-Based Organizations
STRENGTHS			
1) Organization and Institutional Setup	The GoN has a good setup of management committees with vertical and horizontal network of organization at all levels that can coordinate ER Programme implementation.	NGOs and CFUGs have been federated under an umbrella organization with district chapter of FECOFUN in all TAL districts.	They are formed under the aegis of LSGA, sectoral Acts, bye laws, policies and decision and have been registered in DAOs and Local Government bodies. CBOs have been complying to the existing policy provisions related to the ER Programme.
2) Policy Environment	Existence of legal and policy framework, but there is no specific law to spell out forest carbon rights and beneficiary sharing system	NGOs have poor legal enforcement in practice and have growing fiduciary risk at authority, organizations and groups	Planning starts from household level and CBOs level that is approved by DFO. UCs implements all the projects. They develop their plans and programme in line with their long-term plan and operational guideline.
3) Planning, Implementation and Monitoring	All TAL districts have formulated their annual as well as sectoral plans in line with LSGA. The planning process begins from community level, service centre and approved by VDC council in grassroots level. Likewise, District Council approves the annual plans and programmes.	NGOs have their own planning process and calendar. However, they have aligned their planning process with the GoN calendar and seek approval of plans and projects through district and village councils. They also comply with local level planning process.	They have their own Saving and Credit Programme and they mobilize local based natural resources. They follow the principles of equal benefit-sharing among the members and are managing accounting discipline.

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Table A1.1 SWOT, *continued* -

4) Financial Resources and Management	They have regular grant supported by GON and donors. The district level offices are moderately equipped with necessary equipment necessary for the day to day service. They are governed by controlled accounting system by the District Treasure Office and regular auditing system is in place.	They have human capital and donor support. Donor supported programmes are major sources of income. They have to undergo regular auditing system. Many NGOs are moderately equipped with equipment necessary to run the day-to-day services. These assets could be an advantage for the ER Programme.	Many CBOs have their permanent assets like buildings, income sources, savings, human resources, etc. that could be a value addition for the ER Programme
5) Human Resources and Information Management	Well-structured and well-trained human resources are working in district level line agencies mainly forest, environment and soil conservation sector. The regional training centers situated in each region will be an advantage for the ERProgramme.	Local NGOs at the TAL area have trained human resources and are engaged in addressing environmental concerns that have achieved number of outcomes and results that can have a leverage effect for the ER Programme.	CBOs have mostly volunteers and some staff managed from their own resources. They link with GoN and NGOs for capacity building. The CBOs have some exposure to REDD+ and the ER Programme.
6) Accountability Measures	The government organizations are accountable with their upper tires as well as local government bodies and communities. They are bounded by rules and regulations for public accountability.	NGOs promote regular social auditing among the forest user groups to promote transparency and accountability. They comply with GON rules and regulation related to registration and renewal.	They function according to formal and informal rules made by group members. Their constitution provides them legal basis for operation and being a people based organization, they carry out social audits and general assemblies for public accountability.
7) Coordination	Good horizontal relation with district level organizations and vertical relation with upper tires. Partnership with donor supported projects. Existence of partnership programme with DDCs, Las, VDCs, NGOs and CBOS.	Horizontal relation with district level organizations. Partnership with donor supported projects. Existence of partnership programme with CBOs and communities.	Vertical relation with district level organizations. Partnership with GOs, LGOs, Donor agencies and NGOs.
WEAKNESSES			
1) Organization and Institutional Setup	Non-transparent decision making system and weak implementation of decisions. Tussles managers and forest authorities (more prominent in collaborative forest) Poorly structured service centers. High responsibilities of field level staff.	Scattered with no dedicated constituency and focus areas. Mostly driven by their donor commitments and compliance to local level institutional set up is weak.	Unclear about the long-term programme and are still unable to organize all CBOs in federations. Domination of elites in executive posts mars CBOs.

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Table 1. SWOT, *continued* -

2) Policy Environment	No legal and policy framework to implement the ER programme including responsibility, rights and benefit-sharing and contradiction of sectoral act, by-laws, policies and directives with LSGA and local government.	Poor legal enforcement of polices in practice and high level of unaccountability coupled with growing fiduciary risk at authority, organizations and groups	Poor legal enforcement
3) Planning, Implementation and Monitoring	Parallel Sectoral planning and implementation contradicts with LSGA planning and implementation. Low orientation to field staff about planning and implementation creates confusion.	Planning is based on donor support and NGOs follow their own planning cycle and calendar. They have weak monitoring and database system.	Plan is dependent on budget and as such plan is largely affected by budget availability. The plan is also funding based rather than needs based mostly.
4) Financial Resources and management	Lack of proper financial management system and addressing audit comments leading to lack of public trust.	Lack of own source of revenue and there is less trust of people and community organization on NGOs as they lack transparency.	Resources are mostly controlled by elites and political leaders and there is no regular audit and general assemblies.
5) Human Resources and Information Management	Inadequate, insufficient and poorly equipped extension workers to implement the ERprogramme. No system of providing need-based training in a regular basis to extension workers. No consistent staffing arrangement in the DFOs and other GON offices.	Inadequate capability for the ERprogramme implementation among the NGOs. Dominated by culture of favoritism towards elites and politically influenced.	No training facilities and exposures on emerging issues to the group members. More voluntary works to the members and local cadres.
6) Accountability Measures	Low acceptance of DFSCC,weak steering and poor implementation of decisions are some of the weaknesses of existing institutions.	No system of reward and punishment with high degree of political influence and politicization of local system; less trusted by the community in financial matters and no formal accountability to people and community.	No clear system and lines of accountability and weak practice of democratic culture due to political influence and elite control.
7) Coordination	Lack of proper coordination with local government, NGOs and CBOs.	No coordination with other programmes and activities; distance between GOs staff and NGO staff; duplication of programme and resources and lack of proper plan, policies and programme in advance.	Spend more time on organizational activities and due to voluntarism of members, coordination with larger stakeholders is limited.

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Table 1. SWOT, *continued* -

OPPORTUNITIES			
1) Organization and Institutional Set Up	Existence of citizen charter, participatory approach of planning,existence of sector and Ilaka offices at sub-district levels are some of the opportunities for ER programme implementation.	Localized organization with advantage of knowing local context and resource generation for conservation and management of forest will be asset.	Building relationship with government and non-government institutions; networking and building federations and raising user voices are the opportunities for ensuring equity and inclusion.
2) Policy Environment	Conducive policy environment and high national priority to ER Programme.	Conducive policy environment and opportunities for collaboration and synergy.	Conducive policy environment and opportunities for community engagement and empowerment.
3) Planning, Implementation and Monitoring	Well informed and operational participatory planning and monitoring system in place; enhanced partnership with local people and donors for project implementation supported by inter-sectorial ministries.	Opportunity to raise fund and collaborate to support government plan and programme on ER.	Public monitoring system through public hearings, and ensuring increased and meaningful participation of all.
4) Financial Resources and Management	Regular government budget and donor support for P1 programme; existing system of budget approval from district council assures public accountability and political commitment and Single Treasury System, Existence of citizen charter; participatory approach of planning;existence of sector and Range post office at sub-district levels are some of the opportunities for ER Programme implementation.	Regular and continued donor support for the ER Pogramme implementation	Increasing people's contribution to NRM programme as well as mobilization of CBO and people.
5) Human Resources and Information Management	Existence of capable and adequately trained human resources; increased exposure and training of extension workers	Trained NGO human resources with some NGOs; adequate exposure and training provided to the extension workers; upgrading training and education to the extension workers.	Trainings received from LGs, GOs, Donors and NGOs. Enhanced capacity of executive members.
6) Accountability Measures	Fast top down communication system. Local government at steering. Already established public auditing at group level.	Fast track time bound service delivery; donor trusted with capacity to mobilize local human resources and relatively easy procedures to provide service contract and TA support.	Existence of public hearing, public audit, general assembly.

Table 1. SWOT, *continued* -

7) Coordination	Can establish partnership with LGs, Donors, NGOs and CBOs. There are a lot of capable stakeholders who can involve for the success of the ERProgramme. Possibility of political consensus to implement the ERProgramme.	Can establish partnership with LGs, Donors, NGOs and CBOs; promote political consensus to implement the ERProgramme.	Partnership building with GOs and NGOs
THREATS (CONSTRAINTS)			
1) Organization and Institutional Set Up	Sub-national level structure has not yet been finalized; politicization in finalization of the management committee and political control over bureaucracy with centralized system (Top-down) of management possess threat.	Absence of Sub-national level structure; overlapping and conflicting priorities with government and right based advocacy rather than tangible result based intervention.	Elite and male domination in group meetings and decision making processes; issues of sustainability due to volunteerism and financial constraints.
2) Policy Environment	Conflict between local government and local forest authority; culture of manipulating policy instruments and contradictory definition of act and bye laws.	More independent and weak policy compliance; formulation of parallel working modalities leading to overlapping and duplication.	Governed by self-formulated policies with limited scope for scaling up.
3) Planning, Implementation and Monitoring	Poor planning process; Implementation by contractors; influenced by DDC council; change in policy at central level with limited local consultation.	No planning process and plans based on the donor finding and approval of proposal; Donor's supremacy in programme design and no proper role of NGOs clearly identified for the ERProgramme.	High level of CBO expectation from new plans and programmes
4) Financial Resources and Management	Controversy while utilizing and providing permission of forest resources; Deviation of central budget grant; Dependency on donors budget; Delay budget delivery from central level.	Rigid and non-flexible grant and dependency on donors budget challenging project completion and ensuring sustainability.	No availability of financial support from GOs, NGOs and Donors.

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Table 1. SWOT, *continued* -

5) Human Resources and Information Management	Frequent transfer of staff; Traditional system of human resource management; Manipulative information management system; Poor system of information sharing.	Management committee's control over the human resources; Exaggerated reporting system. High turnover of staffs	Mostly voluntary human resources which is not possible always; No well-trained human available;
6) Accountability Measures	No very good relation with DDC and VDC; Top down approach; No system of ensuring transparency; No public audit and accountability at authority level.	Growing trend of non-compliance and linkages with local government plans and highly influenced by local elites and political forces.	Increasing ambition of group members. Deviation of Institutional support; Misleading to the CBOs by elites.
7) Coordination	No proper coordination with Sectoral LAs, NGOs, local government and CBOs programme.	Donor's dominancy in the programme; No proper role of NGOs clearly identified for the ERProgramme.	No coordination with district and national level agencies and their programme.

Annex 2
Type of Forest Regimes andExisting Benefit-Sharing Mechanism

1. National Forest

National forest is defined as all forests other than private forests, regardless of the demarcation of their boundaries and including cultivated or uncultivated land, roads, ponds, lakes, rivers, streams and the shingly land that is surrounded by or in the vicinity of a forest. There are 10 of national forest, as follows.

Protected Areas. In Nepal, there are a total of 16 protected areas (PAs), including 10 national parks, three wildlife reserves, one hunting reserve, which are managed according to the National Parks and Wildlife Conservation Act 1973. There are provisions in the act for strict and government-led protection of wildlife and their habitats. They cover landscapes and ecosystem from Himalayas and high mountain watershed to flood plains of Terai. Still there is a requirement of including mid mountain area in protected areas. It is assumed that 80 out of 118 ecosystems of Nepal are covered by the Protected Areas. Nepal has been utilizing its own resources, local community participation and NGO's (partner organization helping in conservation) for management and conservation of Protected Areas. Tourism has also been an integral part of Protected Areas. Encroachment of forest and dependency of local community on the protected areas for grass, wood, grazing and other forest products have been a great challenge for biodiversity conservation.

A series of amendments in the act provided slightly participatory schemes of conservation such as buffer zone (BZ).[7] According to Buffer Zone Management Regulation 2052, 30-50% of the income of a protected area must be allocated and utilized for development of bio-diversity through the community people and to enhance their livelihoods.[8] Moreover, buffer zone users are given an opportunity to harvest thatch grass in PAs upon the payment of nominal royalties annually. BZ user should spend income into nature conservation (30%), community development (30%), income generation and skill development (20%); conservation education (20%), and administration (10%).

BZ forests, buffer zone community forest (BZCF) and buffer zone religious forest (BZRF) are common types of forests within buffer zone. While all the benefits generated from BZCFs and BZRFs go to the respective user groups, income of BZ forests goes to the government treasury. Buffer zone community forest users groups are allowed only to use those forest products received from the forest, which they have planted and grown and also by paying certain fees. For this they need to prepare the plan and get approved from the park warden.

The act does not make specific case for indigenous communities or for poor and marginal households, although all the people from the community are entitled to get benefits in the form of community development or other development activities. Furthermore, it is claimed that the authorities used these provisions ignoring customary rights of indigenous peoples, which have direct bearing on the livelihood of indigenous communities and poor people (Acharya, Adhikari, and Khanal, 2008). Moreover, there are unaddressed serious problems caused by wild animals

7 A Buffer Zone is an area designated surrounding national parks and reserves in order to provide for the use of forest products to local people.

8 http://www.dnpwc.gov.np/pages/details/about/introduction

for the livelihood of people, especially the cases of wild animals' depredation on crops, livestock and people's life are very serious. The Suklaphanta Wildlife Reserve, Bardia National Park, Banke National Park, Chitwan National Park, Parsa Wildlife reserve are located in TAL area.

Conservation Areas. There are six conservation areas (CAs) in Nepal namely - Annapurna Conservation Area (Manang, Mustang, Kaski, Myagdi, and Lamjung), Api Nampa Conservation Area (Darchula), Krishnasaar Conservation area (Bardia), Gaurishankar Conservation Area (Dolakha, Sindhupalchowk and Ramechap), Kanchenjunga Conservation Area (Taplejung) and Manaslu Conservation Area. Out of these, the Krisnasar conservation area, Bardia is located in TAL area. These are managed either by government (e.g., Api-Nappa), or by non-governmental organisation (e.g., Annapurna, Gauri Shankar) or by local management council (e.g., Kanchanjunga). The CA manager gets all the income of the CA, which is primarily used for the conservation and community development activities in the area through the conservation area management committee (CAMC) after deducting certain% as administrative cost such as 15% in Api-Nappa and 25% in Kanchanjunga.

Government-Managed Forest. This is the national forests managed by the government. Government-managed forests occupy the largest area under the national forest (4,631,085 ha. or about 79.5% of the national forest). The government-managed forests are regulated by the Forest Act 1993 and Forest Regulations 1995. People are allowed to collect grasses, dead branches and certain fruits. The level of concessions to collect these items is mainly dependent upon the decisions of forest guards and to a certain extent of forest officers. From time to time, the government has devised different modalities to manage this type of forests. One of this is the Operational Forest Management Plan (OFMP), which was to be implemented in 19 Terai and Inner Terai districts. But this could not be successful. In 2000, the government formulated a forest policy to include collaborative management system of forest in the Terai. Under collaborative management, benefits have to be shared between the central government, local government and local communities, both immediate and distant users.

Collaborative Forest. Nepal embarked a new decentralized forest management modality called Collaborative Forest Management (CFM). There are currently about 15 Collaborative Forests in the ER Programme area totalling 45,154 ha. CFM in general is loosely defined as a working partnership between the key stakeholders in the management of a given forest- key stakeholders being local forest users and state forest departments, as well as parties such as local governments, civil society groups and non-governmental organizations, and the private sector. The main objective of CFM is to develop sustainable forest management in order to (i) fulfil the need for forest products, (ii) help reduce poverty by creating employment, (iii) maintain and enhance biodiversity, (iv) increase national and local income through active management of the Terai and Inner Terai forests. In CFM, 50% of revenue goes to local forest management group and the remaining goes to DFO. Out of the total income of the local group 40% should be spent on forest management, 50% for poverty reduction, community development and capacity enhancement of local bodies and 10% for administrative cost.

Protected Forest. The GoN has established protected forests (PFs) to protect the special environmental, scientific, or cultural significance of forest, where land tenure remains under government and management ownership goes to protected forest management council (PFMC). The PFMC is responsible to manage the forest based on the approved forest management plan. PFs are managed as core and/or fringe areas. Some PFs' fringe areas are CFs (e.g., Barandabhar - Chitwan and Basanta - Kailali); some have core area forest (e.g., Dhanusha Dham and Kakre

Bihar) and some have all CFs without delineated core and fringe areas (e.g., Khata). Lal Jhadi, Basanta, Khata and Barandabhar protected forest area falls under the TAL.

The main income sources of these forests are harvesting and eco-tourism. A total of 50% income goes to DFO and 50% goes to PFMC. The PFMC must allocate at least 50% of their income for forest and biodiversity conservation. Similarly, out of the total DFO's income, 10% goes to DDC, half of which needs to be spent on the forest development activities. Remaining income (90% of DFO income) goes to national treasury.

Community Forest. In their 'Theory of Himalayan Environmental Degradation' published in early 1970s, Ives and Messerli (1989) contributed to formulate the Master Plan for Forestry Sector (MPFS) in 1988. Such discourse has explored the approach of community forest and decentralized the forest authorities from central government to districts and gradually shifted to local communities. Community forestry has evolved as one of the major components of Nepal's forest development strategy during the past 25 years, with local Community Forest User Groups (CFUGs) conserving the forests with support from the government and donor agencies. Community forestry is most accurately and usefully understood as an umbrella term denoting a wide range of activities which link rural people with forests, trees, and the products and benefits to be derived from them. Gilmour and Fisher (1991) define community forestry in terms of control and management of forest resources by the rural people who use them especially for domestic purposes and as an integral part of their farming systems. There are almost 1,700 community forests managing more than 241,418 ha in the TAL area (DoF, 2013, ERI, 2015).

The CFUGs own all the income and benefits generated by the community forest. However, the community forestry guidelines direct CFUGs to spend 25% and 35% of their income in forest management and poverty reduction activities, respectively. The CFUGs can spend rest of their income on any other community development activities. While CFUGs use or distribute or sale the forest products within the group, they do not require to pay any types of taxes. However, they are required to pay tax when they sell Sal (*Shorea robusta*) and Khayar (*Acacia catechu*) outside of their groups. They are also required to pay tax to local bodies and local forest authority on sale of some non-timber forest products outside their group.

Leasehold Forest. National forests that have been leased for the specified purpose(s) to a legally defined institution, forest-based industry or community are defined as leasehold forest. A pro-poor Leasehold Forest (LF) in Nepal was first piloted in 1993 in three districts and then scaled up gradually. This is in essence a programme complementary to the CF but targeted at poor people. As CF was considered to have strengthened or at least continued the existing structural biases in society, LF is considered to bring positive discrimination in favour of the poor and deprived people. Under this programme, about 586 ha of degraded forests have been handed over to 200 leasehold forestry groups comprising 1,519 households especially in Chitwan and Nawalparasi. Two industrial leasehold forests are found in the entire TAL area. Leasehold groups have the authority to extract forest products, distribute them among themselves, and sell the surplus to the people outside the group in accordance with the provisions of the operational plan. Leaseholders are responsible for protecting old trees, i.e., trees existing before the lease. They are government trees. Leasehold forests can be obtained for an initial period of up to 40 years and renewed for another 40 years. Only degraded forests (with less than 20% crown cover) are allowable for handover as 'leasehold forest'. The scale-up of leasehold is limited. There are several problems in this such as priority to CF over LF, the DFO has no authority to hand over or take back the forest as LF, the LF groups used to be registered with the Small Farmers

Development Office and the authority to hand over the forest rests with the Ministry (recently this authority has been given to the Regional Directorate). Until now, there are about 2,871 such groups in 26 districts, benefiting about 23,343 poor families or about 90,000 people who are now managing about 14,735 ha. Only about 0.2% of the total area of the country is now under this management regime.

The new policy formulated by the Cabinet in 2002 proposes that the DFO should hand over leasehold forests. The one-window policy on providing integrated services to leasehold groups has been approved and the DFO has been given this responsibility. The application procedure has also been simplified. A part of the income from the already existing trees conserved in the land to be handed over will also go to the group. But the policy has still to be enacted in the form of a law.

Leasehold forest user groups are required to pay royalty when they sell sal (*Shorea robusta*) and khayar (*Acacia catechu*) outside of the groups. They are also required to pay some royalty for selling non-timber forest products particularly to local bodies and local forest authority.

Religious Forest. National forests that have been entrusted to any religious entity, group or community is categorized as religious forest. A patch of national forest is allocated to and managed by institution or a religious group for the purpose of religion and culture with use limited for religious purposes only. There are around five religious forests found in the TAL area. For religious forest, a plan has to be prepared with the help of forest technician and approved by District Forest Officer to legalize it so that religious forest can use the facilities allocated by Department of Forests.

Customarily Managed Forest. Several customary resource management systems are still in place in various parts of Nepal. Such systems are working in areas where the government's presence is negligible. These traditional management systems have been effective in many cases in preserving the forest and maintaining a system whereby access of all is guaranteed. But it is also a fact that management decisions are often feudalistic, taken by a few village leaders. For example, one can take the *riti-thiti* (customs) in Gurung villages. *'tohsyoro'* was an indigenous village assembly held once a year and this was responsible for formulating and revising *Riti-Thiti*. In the Thakali village of in Marpha, a local committee composed of 12 members (from four family clans) continues to control the firewood collection. Among these 12 members, four are responsible for forest protection, four for agriculture, and four for canal improvement and maintenance. These members rotate every year, and members of the four Chan family clans (Hirachan, Jwarchan, Pannachan and Lalchan) administer the system by appointing a *mukhia* (Thakali: Thuiming) headman from among themselves. These traditional systems have been functioning, but are practiced as extra-legal system. They have been helping in the conservation of resources. But it is also seen nowadays that these traditional customs are used by the wealthy in getting more benefits at the cost of poor households.

Forest Management through Public Land Management Groups. Beside above mentioned forest management modalities, there are more than 500 public land management groups who are engaged in managing forest through their own effort in districts such as – Nawalparasi, Rupandehi, Kapilvastu, Bara, Parsa and Rautahat. This public land/forest management modality doesn’t have any legal ground, however, they are planting and conserving the forest in coordination with CFO, CDO and local government authorities mostly with the support of the

different projects including MSFP. The benefit-sharing mechanism is based on the group's decision and informally approved by DFO.

Soil Conservation and Watershed Management Groups. The Soil and Watershed Conservation Act of 1982 was promulgated to conserve the watersheds of the country. The act was based more on conventional forestry since it did not give any role of local communities in the management of the watersheds. The Department of Soil Conservation and Watershed Management (DSCWM) has been implementing watershed management programme in various parts of the country to mitigate land degradation problem. DSCWM works with local people on a user group basis concentrating its efforts on micro watershed management, based on an integrated plan. The user groups are formed for particular soil conservation and watershed management activities. However, unlike the community forestry programme, there is no legislation to recognize watershed user groups. Some of the watershed user groups have been registered under the Non-Government Organization (NGO) Act.

2. Private Forest

All the planted, nurtured or conserved forest in any private land that belongs to an individual as per the prevailing law is denoted as a private forest. The Forest Act 1993 defines private forest as 'a forest developed or conserved in the land which is under the ownership rights of an individual according to the prevailing laws'. This definition also includes all the trees planted in the private land. The act has a provision for registering a private forest in the District Forest Office (DFO) to access government support and incentives. While GON extends support to private forest owners, it also imposes restrictions. For example, through the Gazette notification of December 31, 2001, the GON banned the collection, sale, transportation and export of two non-forest timber produces (NTFPs); namely, panchaule (*Dactylorhiza hatagiera*) and okhar (*Juglans regia*) even from the private land. Similarly, eight other species are prohibited for export in unprocessed form without permission of the Department of Forest (DoF). It can be argued that the act is not fully favourable for private forestry because it still retains some of the legacy of the Private Forest Nationalization Act 1957. According to the record of DoF there are almost 500 private forests that exist in the TAL area.

Private forests in Nepal can be classified into three types. The first type is the forest registered as private forest with the DFO across the country. The second type is what can be called as 'agro-forests'. In every piece of land, people plant trees for fodder, timber and/or fruits. The tenurial system of the trees planted on private land (as agro-forest, not registered as private forest) is similar to land tenancy. The third type of arrangement is the 'tree tenure' system. This comes in various forms: planting trees in other's lands on a fixed rent or share basis (usually half), managing other's trees and getting a small share in fodder, fuelwood and timber, or getting benefits from private trees, but some of their benefits (e.g., sheds or flower leaves for religious purpose) are considered public.

Annex 3

Stakeholders Views and Their Expected Role on Cost-Benefit-Sharing and Institutional Arrangementfor the ER Programme in TAL

The local level stakeholders including government, non-government and local communities as well as other potential REDD+ actors at sub national and local level expressed their views on the ER Programme, institutional arrangement and cost sharing arrangement at different governance tiers in TAL area. These perspectives of local stakeholders are crucial to be considered while designing the REDD+ institutional and benefit-sharing mechanism. The following table provides the summary of views and their expected role as they expressed during the consultation.

Stakeholders	Views and Expected Rolesin the ER Programme
Provincial/Regional Directorate	• The structure is temporary, as it will merge with Provincial structure. • It can play a role of monitoring rather than implementation • Existing capacity will not be enough. It needs a dedicated Unit with human resource and technical capacity. • Provincial government level institutional mechanism should be there to govern, steering and coordinate the ER Programme. • The existing cost sharing and institutional mechanism should be used as possible.
District Forest Office	• District Forest Sector Coordination Committee (DFSCC) should be the lead steering and coordinating body at the district level • DFOs should be established as principal REDD+ execution institution at the district level • A dedicated unit with adequate human and technical resources should be established within DFOs for the ER Programme implementation. • Clear and defined roles, responsibilities and accountabilities should be in place. • Ensure a Result Based planning system for performance effectiveness • Update/formulate Forest Sector plan incorporating REDD+ in all TAL districts. • Devise clear defined arrangement for Carbon Credit Transfer to forest regimes and forest dependent communities • Third party monitoring to ensure compliance to benefit-sharing and commitments by parties. • The existing cost sharing and institutional mechanism should be used as possible.
District Soil Conservation Office	• Ensure role and space of District Soil Conservation Office in the REDD+ processes (decision making and ER implementation) at the district and community (watershed) level • Soil conservation groups formed under (DSCO) should be included within the domain of REDD+ benefit-sharing. • The line of command for the ER Programme budget and activities should be through the Department of Soil conservation. • Consultation with District Soil Office is essential while designing the ER Programme. • The existing cost sharing and institutional mechanism should be used as possible.
District Treasury Office	• REDD+ programme and budget delivery should be made on the basis of priority as P1, P2, and P3. • REDD+ programme should be reflected in the Red Book Plan and Budget of TAL districts and the budget should be mobilized through Treasury Single Account (TSA) of District Treasury Office. • The existing cost sharing and institutional mechanism and practices should be used as possible.
Sector Forest Office	• Revise the role of Sector Forest Office to include monitoring of REDD+ benefit-sharing. • Adopt a result based monitoring system for performance effectiveness.

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Ilaka Forest Office	• A broad stakeholder based ER Programme monitoring system at the Ilaka Forest Office level would be effective to monitor REDD+ benefits and compliance. • Develop Operational guideline for ER Programme implementation for clear understanding of all. • The existing cost sharing and institutional mechanism should be used as possible.
Federation of Community Forestry Users, Nepal (FECOFUN)	• Limited knowledge about REDD+ benefit-sharing modality and mechanisms • Presumption that the volume of money that comes as monetary benefit is huge • A direct carbon payment mechanism to CFUGs would be appropriate to reduce transaction costs and procedural hassles. • FECOFUN should play the role of coordination, capacity building as well as advocacy and knowledge dissemination related to REDD+. • Governance of forestry sector should be improved towards transparent, accountable and participatory.
Association of Collaborative Forest Users of Nepal (ACOFUN)	• Can play the role of coordination, capacity building as well as advocacy and knowledge dissemination among Collaborative Forest Users groups. • Governance of forestry sector should be improved towards transparent, accountable and participatory.
I/NGOs and CSOs in TAL Area	• Adequate knowledge on REDD+ but still not clear about the benefit-sharing arrangement. • Space for I/NGOs in ER Programme implementation, capacity building, knowledge management, etc. • Both forest-dependent and non-forest dependent communities should be profited from the REDD+ benefit. • Both monetary and non-monetary benefit for both forest-dependent communities and non-forest dependent communities should be channelled from Red Book, as per the annual plan and programme of DFO approved by district council. • Concerns around equity and equitable distribution of benefits due to elite capture and bureaucratic hassles • Facilitate as bridge between policy makers and communities particularly in plan formulation, implementation and monitoring • Third party monitoring to maximize the effectiveness of REDD+ at all levels • Need for clear government policies, Acts, byelaws, guidelines, working methods and working policies for REDD+. • Governance of forestry sector should be improved towards transparent, accountable and participatory.
Community Forest User Groups (CFUG)	• Adequate knowledge on REDD+ but still not clear about benefit-sharing arrangement. • This is not a new phenomenon. Both institutional and benefit-sharing practices are there within CFUGs and other forest management groups. • Existing knowledge and capacity will not be enough to implement the ER Programme. • Both forest-dependent and non-forest dependent communities should be profited from the REDD+ benefit. • Forest Carbon Benefit should directly provided to forest managing communities. • Forest managing communities should hold the forest carbon rights. • Governance of forestry sector should be improved. • Third party monitoring to maximize the effectiveness of REDD+ at all levels • Need for clear government policies, Acts, byelaws, guidelines, working methods and working policies for REDD+.
Nepal Federation of Indigenous Nationalities (NEFIN)	• The rights of indigenous and forest dependent people should secured by the ER Programme. • Adequate knowledge on REDD+ but still not clear about benefit-sharing arrangement. • Governance of forestry sector should be improved. • Third party monitoring to maximize the effectiveness of REDD+ at all levels • Need for clear government policies, Acts, byelaws, guidelines, working methods and working policies for REDD+.

Annex 4
Proposed Institutional Structure and Functions

Table 1. National Level Institutional Structure and Functions

Unit	Composition and Structure	Functions
Forest Carbon Trust Fund*	• Chaired by the Prime Minister with representatives from concerned ministries, development partners, civil society organizations and Private Sector. • Inter-ministerial and high-level policy steering entity	• Manage forest carbon fund and financing, • Ensure fund flow from bilateral, multilateral public and private financing and • Sharing funds from central to the sub-national, district and community levels.
REDD+ Apex Body	• Chaired by Minister of MoFSC with representatives from different concerned ministries, concerned civil society organization chaired by the Minister of the MoFSC; • Inter-ministerial and high-level policy steering and coordination entity.	• Cross-sectoral coordination. However, a clear Terms of Reference (ToR) and operational guideline is required to make its role functional and effective.
REDD+ Working Group (RWG)	• Selected multi-stakeholders within forestry sectors including government, donors and civil society chaired by the Secretary of MoFSC	• Strategic leadership to REDD IC by providing technical and institutional support; • Progress review and monitoring of the programme activities; • Integrating programme priorities; • Create operational environment for smooth implementation of REDD+ strategy; • Serve as the secretariat to the Forest Carbon Fund; • A clear ToR and operational guideline is needed to make its role functional and effective
REDD IC	• Unit under MoFSC headed by Joint-Secretary. • Consists of different sections and units based on the need.	• Serve as a Secretariat of the REDD+ programme in Nepal; • Provide leadership on REDD+ at national level with responsibility for policy and programme development, monitoring, reporting and verification, coordination among different stakeholders and agencies, disseminating information, capacity-building, and ensuring benefit-sharing to carbon right holders.
National Multi-Stakeholder Forum (NMSF)	• Multi-stakeholders forum related to forestry and climate sector actors including private sector, civil society, media, government, community based organizations, indigenous peoples, local and international NGOs, donors, academia and research institutions.	• Outreach and communicate with all concerned stakeholders; • Raise concerns of local communities from different perspectives.
REDD CSO and IPO Alliance	• CSOs and IPOs working in forestry and REDD+ sector	• Discuss and develop a common understanding on REDD+ on behalf of wide spectrum of Indigenous Peoples, Women, Dalit and Civil Society; • Advocate for developing justifiable REDD+ framework and mechanism; • A clear ToR and operational guideline is needed to make its role functional and effective.
* New entities proposed at the national levels		

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Table 1, *continued* –

Unit	Composition and Structure	Functions
Central Carbon Registry (Clearing house)*	• National Forestry Information Management System under DoFSC proposed	• Serve as a repository of REDD+ related information; • Allow for enforcement of standards and engage in carbon transaction by maintaining broad-based participation of stakeholders in the management of the registry; • More responsibility to be spelt out as per the need.
MRV Unit	• MRV division under MoFSC	• Ensure effective, efficient and transparent governance and management of measurement, monitoring and management of data under the MRV system
Carbon Payment Authority*	• A multi-stakeholders body is proposed	• Make decisions for the payment of incentives to right holders; • A ToR and the operational guideline should be developed to guide the committee for its functioning, and tracking carbon benefit transactions according to the amount, location and type of emission reductions
* New entities proposed at the national levels		

Table 2. Provincial/regional Level Institutional Structure and Functions

Unit	Composition and Structure	Function
Provincial/Regional Programme Management Unit (RPMU)*	• Chaired by Regional Director and represented by Regional Directorate Office (RDO) and NRM-related regional directorates • Chiefs of NPs and CAs • Regional Forestry Directorate, Training Center	• Coordinate and monitor REDD+ intervention and its progress at the regional level. • Report to REDD IC
Protected Area Programme Management Unit (PAPMU)*	• Section under national park or protected area authority	• Lead, implement and coordinate REDD+ programme in the PA area.
Provincial/Regional REDD+ Working Group (RRWG)*	• Selected multi-stakeholders within forestry sectors including government, donors and civil society chaired by the RD.	• Strategic leadership to Provincial/Regional level by providing technical and institutional support; • Progress review and monitoring of the programme activities; • Integrating programme priorities; and • Create operational environment for smooth implementation of REDD+ strategy. • A clear ToR and operational guideline is needed to make its role functional and effective
Provincial/Regional Multi-Stakeholder Forum (RMSF)*	• Multi-stakeholders forum related to forestry and climate sector actors including private sector, civil society, media, government, community based organizations, indigenous peoples, local and international NGOs, donors, academia, and research institutions.	• Outreach and communicate with concerned stakeholders • Raise concerns of local communities from different perspectives.
Provincial/Regional REDD CSO and IPO Alliance*	• CSOs and IPOs working in forestry and REDD+ sector	• Discuss and develop a common understanding on REDD+ on behalf of wide spectrum of indigenous peoples, forest dependent poor, women, Dalit and civil society; • Advocate for developing justifiable REDD+ framework and mechanism; • A clear ToR and operational guideline is needed. to make its role functional and effective.
* New entitles proposed at province/region levels		

Table 3. District and Local Level Institutional Structure and Their Functions

UNIT	PARTICIPANTS AND STRUCTURE	FUNCTION
DISTRICT LEVEL		
District Forestry Sector Coordination Committee (DFSCC)	• Multi-stakeholders with representation from government agencies; DDC, municipality and VDC associations; civil society; NGOs; Community Based Organizations; forest user groups; nationally recognized political parties at the district level; and the private sector chaired by DDC chair	• Provide strategic guidance to forestry actors at district level for the implementation of REDD+ programme; • Provide policy feedback to the local government and higher level coordinating bodies through DFO.
District REDD Working Group (DRWG)*	• Multi-stakeholders with representation from government agencies, community based organizations, IP, women, and Dalit (chaired by coordinator of agriculture, forestry and environment committee at DDC) is proposed	• Involve in monitoring programme activities; • Harmonize REDD+ programme and other activities.
District Multi-Stakeholder Forum (DMSF) and REDD+ CSO and IPO Alliance*	• Multi-Stakeholder Forum and REDD+ CSO and IPO Alliance	• Outreach and communicate with concerned stakeholders; • Advocate for REDD+ programme and SESA implementation to secure rights of forest managing communities, forest dependent poor, women, IPs, Dalits; • Support empowerment and build capacity of CSOs, and IPOs, women, Dalits, IPs, poor and marginalized groups.
LOCAL LEVEL		
REDD+ social and Environment Network (SEN)*	• Representative from VDC, forest user groups, farmer groups, IPs, Dalits, forest dependent poor, women and local community leaders	• The SEN should be responsible for monitoring, implementation and coordination of REDD+ programme at the local level.
* New entities proposed at district and local levels		

Annex 5

Carbon Ownership and REDD+ Benefit-Sharing Modality in Nepal as Proposed by Study of Forest Carbon Ownership in Nepal (FCO, 2015)

Management Tenure	Existing Benefit-Sharing Arrangement	Carbon Ownership	REDD+ Income/Benefit-Sharing Modality
Government Forest	• Of the total revenue generated from government-managed forests, 10 percent goes to DDC. • Regarding the 90 percent revenue generated from government-managed forests, there is no guideline or system to know exactly how much revenue generated is used for which purpose by the GoN. • Of the total income generated from the sale of unclaimed or stray (*dariyaburdi*) timber, 50 percent goes to DDC. The DDC must use at least 50 percent of that money in forest development.	• Forest – GoN • Land/soil GoN • Other –GoN	GoN - 70% LGB – 10% Local Catchment Area - 20%
Protected Forest	• Of the total income from PF, 50 percent goes to DFO and 50 percent goes to PFMC. • Of the total DFO's income, 10 percent goes to DDC. The DDC must at least use 50 percent of the money to forest development. • Regarding the remaining 90 percent of the DFO's income, there is no guideline or system to know exactly how much revenue generated is used for which purpose by the GoN. • PFMC must allocate 50 percent income for forest and biodiversity conservation.	• Forest – GoN • Land/soil—GoN • Other –GoN	GoN - 50% LGB - 10% PFMC - 40%
Community Forest	• According to the Forest Act 1993, at least 25 percent income from the CF must be spent for forest protection and management of community forest. • Similarly, according to the Community Forest Development Guidelines 2009, of the total income from CF, each CFUG has to spend 35 percent for poor, women, *Dalits*, and indigenous nationalities (ethnic groups)	• Forest –CFUG • Land/soil – GoN • Other –GoN	GoN - 20% CFUG - 80%
Collaborative Forest	• 50 percent of income goes to CoFMG (the total revenue generated is shared on the basis of 50 – 50). • Of the total income gained, the CoFMG follows the following norm for expenditure: o Management of Collaborative Forest - 40 percent o Poverty reduction, community development and capacity enhancement - 50 percent o Administrative cost- max 10 percent • 50 percent income goes to GoN through DFO. There is no guideline or system to know exactly how much revenue generated is used for which purpose by the GoN.	• Forest –CoFMG • Land/soil – GoN • Other –GoN	GoN - 40% LGB - 10% CoFMG - 50%

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Leasehold Forest	• There is no provision for the use of income generated from leasehold forests (in both pro-poor and industrial leasehold forestry).		
	• Pro-poor	• Forest –LFMG • Land/soil – GoN • Other –GoN	GoN - 10% LFUG – 90%
	• Industrial (including tourism)	• Forest –Lessee • Land/soil – GoN • Other –GoN	GoN - 50% Lessee – 50%
Private Forest	• There is no provision for the use of income from private forests. It is considered as private property.	• Forest –Owner • Land/soil – Owner • Other –Owner	GoN - 10% Private forest Owner – 90%
Religious Forest	• Religious groups must spend the income generated from the religious forest to religious purposes only.	• Forest –RFUG • Soil – GoN • Other –GoN	GoN - 10% RFUG – 90%
Buffer Zone (BZ)			
Buffer Zone Community Forest	• There is no provision but practice is that the expenditure is made according to BZCF management plan approved by chief conservation officer.	• Forest –BZCF • Land/soil – GoN • Other –GoN	GoN - 50% BZCF – 50%
Buffer Zone Religious Forest (BZRF)	• Religious groups must spend the income generated from the religious forest to religious purposes only.	• Forest –BFRF • Land/soil – GoN • Other –GoN	GoN - 10% BZRF – 90%
Buffer Zone Private Forest (BZPF)	• There is no any guideline for the use of income from private forests	• Forest –Owner • Soil – Owner • Other –Owner	GoN - 10% BZPF – 90%
BZ Govern-ment Forest	• Ten percent of the total revenue is allocated to DDC. The DDC must use at least 50 percent of such revenue for forest development. • Regarding the 90 percent, it goes to the government revenue. There are no guidelines or system to know exactly how much revenue generated from forests and where it is invested.	• Forest –GoN • Land/soil – GoN • Other –GoN	GoN - 50% LGB – 10% BZMC -40%
National Park, Wildlife Reserve and Hunting Reserve	• Out of the total revenue generated from National Parks, Wild Life and Hunting Reserves, 30-50 percent income is allocated to the Buffer Zone Management Council (BZMC). It is required to invest this revenue in the following areas: o Conservation activities: 30% o Community development: 30% o Income generating activities: 20% o Conservation education: 10% o Administrative cost: 10% o The remaining amount goes to the government revenue.	• Forest –GoN • Land/soil – GoN • Other –GoN	GoN - 50% BZMC -50%

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Conservation Area			
CA1 – ACAP (agency managed; e.g., NTNC)	• 100% income generated from the use of natural resources is utilized as per the approved plan. • Of the total income generated from fine, 50 percent goes to committee treasury and 50 percent is utilized for protection and development works. • Government does not provide any budget.	• Forest –GoN • Land/soil – GoN • Other –GoN	GoN - 30% CAMCmt - 70%
CA2 – KCA	• Government provides budget for the management of conservation area. • 100% income generated from the use of natural resources is utilized as per the approved plan. • Of the total expenditure of the user committee, administrative cost must not be more than 25 percent.	• Forest – CAMCunl * • Land/soil – GoN • Other –GoN	GoN - 50% CAMCunl - 50%
CA3 – Government Managed	• Government provides budget for the management of conservation area. • Of the total budget for the community development, Council can expend unto 15 percent for administrative works. • Income generated from the conservation area goes to government revenue.	• Forest – CAMC † • Land/soil – GoN • Other –GoN	GoN - 70% CAMC - 30%

*Conservation Area Management Council.

†Conservation Area Management Committee.

Annex 6
Option Paper: DESIGN ELEMENTS FOR COST-BENEFIT SHARING ARRANGEMENTS IN NEPAL

1. INTRODUCTION

Benefit sharing is generally understood as allocating, administering, and providing benefits to actors for certain activities or results through some form of positive incentive, opportunity, payment, rent/profit, or other compensation, whether financial or non-monetary (Hite 2015). The implementation of REDD+ activities will generate costs and benefits that stakeholders might share. There will be benefits from the transfer of cash, as well as non-cash benefits through enhanced governance, secure land tenure right, improved environmental services, and income from REDD+ activities. REDD+ activities also come with costs such as restricting access to land and resources, and the costs of improving policy and governance frameworks within the country. The compensation of REDD+ would be estimated in relation to national performance, but the major concern consists on how these incentives will be channelled within countries, as well as how the benefits will be shared among different stakeholders. The design of equitable cost and benefit sharing mechanism for REDD+ Emission Reduction Program is therefore imperative in order to realize substantial benefits for forest communities, improve vulnerable people's livelihoods, and sustain forest policy and governance reforms (Campese et al. 2012, Torres and Skutsch 2012, Torres and Skutsch 2014).

Establishing effective, efficient and equitable benefit sharing mechanism is likely to be challenging in practice. There are concerns regarding lack of clarity to estimate what the benefits and costs would be, weak institutional capacity and governance, poor land tenure rights, and the needs of consistent resources for effective implementation and monitoring. Despite those multiple challenges, many countries including Nepal have decided to move forward with REDD+ through the implementation of some pilot projects.

This paper summarizes design considerations and options related to the design of equitable, efficient and effective benefit sharing mechanism in Nepal, and is based on the report "Institutional and Cost-Benefit-Sharing Arrangement for Implementation of Emission Reductions Programme in 12 TAL Districts of Nepal". Through the review of existing literature, stakeholders consultations and field visits, the report identify a set of considerations to help stakeholders determine how to best structure benefit-sharing arrangements for REDD+ initiatives as part of REDD+ strategy, and provide recommendations for a benefit sharing plan for the future REDD+ program at different scales, taking into account risks that could impact the successful REDD+ implementation.

2. BENEFIT SHARING MODELS

Nepal has to choose among three emerging models identified based on a review of benefit sharing systems associated with conservation, extractive industries, and ecosystem services. These models are Payment for Ecosystem Services (PES), Managed Funds and Collaborative Resource Management. Each of these models has proved to be effective depending on context but could also be scaled up at national level.

Payments for services (PS) - PS are typically private contracts between an investor/donor and a landowner or resource manager. Generally, the contract offers a defined benefit—often cash—in exchange for a defined activity or outcome. Conservation easements and payments for ecosystem services follow this model. Benefits are proportional to the level of effort/input or demonstration of results/output based on criteria such as new trees planted or standing area of forest. They typically require a beneficiary to demonstrate their right to manage a resource or land consistent with expected outcomes. Illegal logging, disputed tenure, and unclear carbon rights can complicate results. Successful arrangements have prioritized equity, transparency, and meeting up-front costs as well as long-term needs. ***Pago por Servicios Ambientales (PSA) in Costa Rica*** is one of best examples under this model. Costa Rica's Forest Law 7575 established PSA, the nation-wide payments for environmental services program in 1996. PSA is ultimately administered by the Government of Costa Rica, which sets FONAFIFO's priorities annually by executive decree and determines payment levels, and by the Ministry of Finance, which approves FONAFIFO's budget annually. FONAFIFO is a fully decentralized institution within the State Forestry Administration that exists with relative autonomy to administer its core operations—namely, running PSA. This autonomy enables it to establish trust funds for efficient administration. FONAFIFO presently manages the four trust funds related to the PSA program through the Banco Nacional de Costa Rica (FONAFIFO 2011). Funds accrue to and are disbursed from four trust funds independent from the national budget and managed by FONAFIFO[9]

Collaborative resource management - It is an integrated development model where benefits flow from an external actor—including companies, investors, and subnational governments—to community or other more local partners, often with shared decision-making authority. Arrangements are based on management plans and agreements that specify how forests will be used and how resources will be allocated, often from the sale of forest products. This participatory management model has significant potential for REDD+, especially when it targets poor communities and avoids exacerbating inequalities or rewarding undesired outcomes. While arrangements may require time, enhanced capacity, and new or strengthened governance structures, a collaborative management system has potential to secure lasting REDD+ outcomes. Measures to minimize risks include enhancing transparency, integrating benefits with broader development priorities, offering a blend of household- and community-level benefits, and, where applicable, formally recognizing community tenure rights. The ***Nile Basin Reforestation project in Uganda*** **where** Uganda's National Forestry Authority (NFA) has a collaborative agreement with local community organizations that allows the World Bank's Biocarbon Fund to purchase carbon credits. Both the NFA and communities received benefits in the form of cash payments. One community group receives about 15% of the total carbon income for managing land owned by the State as a Central Forest Reserve. Within the community, members can receive cash payments or instead have a right to future revenues, though additional capacity building is needed to understand potential benefits associated with future credits. While the initiative is promising, investment costs have prohibited at least some members from participating (Peskett et al., 2010).

Managed funds - Managed funds channel cash benefits through a central public budget or a trust fund. They can be used to purchase goods and services, invested, or distributed as cash to

[9] See Myers Madeira et al 2013 from the Nature Conservancy.

beneficiaries based on specific policies or criteria. Generally, trust funds allow for more targeted benefit distribution though specific allocation policies and a multi-stakeholder board that makes fund-programming decisions. ***The Forest Carbon Trust Fund (FCTF) in Nepal***, a four-year initiative funded by the Norwegian government that provides support to a group of national and regional NGOs to pilot an institutional mechanism for benefit sharing of REDD+ funds from community forest and watershed management initiatives, falls into this category. The project builds upon Nepal's well-established community forestry model and engages with 105 community forest user groups (CFUGs) in the watersheds of Chanarwati (Dolakha district), Ludhikhola (Gorkha district) and Kayerkhola (Chitwan district). The Forest Act of 1993 decentralized rights and management of national forests to empowered district forest offices that transferred those rights and responsibilities to registered CFUGs. Experience shows that in a weak governance country, national fund under this category have not always achieved their intended outcomes, while private sector actors can distribute benefits when laws and policies can facilitate more equitable distribution to subsidiary recipients[10].

3. DESIGN OF COST AND BENEFIT ARRANGEMENTS

This chapter discusses considerations to benefit sharing schemes in Nepal, including defining and identifying costs and benefits from REDD+, specific elements related to activities being rewarded, the origin of payments, institutional capacity to monitor and control performance-based funding and other design elements. The discussions derived from Hite 2015—these steps may occur sequentially or concurrently.

3.1 OBJECTIVES AND SCOPE OF BENEFITS

Nepal's overarching goal for embarking into REDD+ mechanism is to improve forest governance while providing environmental services to the planet and alleviate poverty. Specific objectives include: Increasing supply of forest products, conserving forests and enhancing carbon stocks through sustainable management of forests (SMF), improvement in forest law enforcement and governance (FLEG), and maintenance of conservation in protected areas; Reducing demand of fuelwood with expansion of alternative energy e.g. biogas plants and cooking stoves; Integrated land use planning to reduce forest conversion while advancing needed infrastructure; Increasing supply by engaging the private sector in sustainable production and value chain of forest products to bring new forest production to degraded lands; and Enhancing alternative livelihood opportunities to address underlying drivers

Nepal's national strategy plans to implement REDD+ at national level. In order to do so, some pilot projects are being implemented at jurisdictional and local levels to test the effectiveness of REDD+ activities—which will allow a strong coordination across different scales of government, and is an important factor in integrating development and planning considerations to increase effectiveness. Nepalese has longstanding experience using forest regimes that is likely to be captured in the design of REDD+ and benefit sharing mechanisms. Experiences with forest regimes joint forest management approaches tend to focus at the community level, while

[10] See Davies et al. 2011

the payment for ecosystem services through Forest Carbon Trust Fund has targeted benefits at the household level, and extractive initiatives such as Bio-Gas has taken a larger-scale approach that disburses funds to both governments and communities. While REDD+ can accommodate these three scales, to achieve success, REDD+ may require some benefit distribution at each of these levels.

3.2 TARGETING BENEFICIARIES AND ACTIVITIES

Prioritizing key actors and activities to change land-use behavior in a way that will maximize program goals of reducing emissions. Targeting is the process of directing incentives to specific actors to motivate them to undertake activities that contribute to program goals. Targeting helps to maximize desired results when resources are limited and can be used to enhance a mechanism's effectiveness at achieving its goals and purpose, whether those are defined by emissions reductions, area conserved,poverty reduction or number of people benefiting from the mechanism (Myers Madeira et al. 2013).

3.2.1. Scale

Benefit sharing will have to operate across multiple levels in Nepal from international to national and local levels, national to local levels, across communities/ villages, and within communities/ villages. It is likely that everyone involved in emission reduction activities could be a potential beneficiary. This is not a typical problem for Nepal because since carbon performance is to be quantified within forested areas in relation to a baseline, the overall argument is that owners of the related benefits should be those individuals, groups or organizations holding rights over forestland. Different forest regimes are automatically identified as beneficiaries because of their effort to increase carbon sequestration in forest. However, an integral intervention would include actions outside forest area and some activities and costs to be covered by stakeholders other than forest owners. While less discussed in the literature, it is also important to address distributions between non-government actors (service providers) and local communities. REDD+ often involves NGOs, private sector, or other non-state organizations acting as facilitators and service providers for forest communities. There are important open questions about what their roles should be, what values they add, what benefits (and costs) should accrue to them, and how they can be held accountable (Peskett 2011, Campese et al. 2012).

3.2.2. Eligibility Criteria

Adding to theoretical standard, participants' expression illustrate that the REDD+ benefit distribution mechanism should be based on a governance and economic classification that embraces equity, efficiency and effectiveness. One of the criteria for equitable benefit sharing could be *canopy cover* and *carbon sequestration capacity of forest* rather than the size of the forest so that even the small forest managed sustainably and scientifically in such a way that can sequester more carbon benefits (FCO 2015). Similarly, including all co-benefits that include both goods and services, or monetary and non-monetary benefits should be recognized as important part of incentive to forest-managing communities so as to increase both effectiveness (e.g.,

fulfilmultiple purposes for livelihoods, economy and environment) and efficiency (e.g., increase forest outcomes per unit area in given time) of forest management. It is also equally important to consider social capital of forest-managing communities as part of bundle of forest services as it has bearing on sustainable management of forest.

In section 2.3.1 we identify activities that can be rewarded in REDD emission reductions program. However, the key question remains: "what should be rewarded?" i.e. input or performance, and how the benefits will be shared with the poor, and often local people, and at implementing measures to prevent the wealthiest, best positioned, or most influential members of society from hijacking the benefits ("elite capture"). To this end there is a need to define eligibility criteria or conditionality when developing benefit-sharing schemes. Whichever conditionality is chosen will determine which approach should be adopted for sharing of benefits, what organizational or institutional structure should be set up for administration and distribution of benefits and what percentage shares are assigned to beneficiaries (IUCN 2012, TFD 2013).

3.3.3 Tailoring Incentives

Creating customized incentive arrangements for key actors that will motivate a change in behavior. REDD+ programs need to tailor incentive arrangements to deliver meaningful benefits to different stakeholder groups. To effectively catalyze a shift to lower-carbon land-use practices, a REDD+ program must create customized incentive arrangements for key stakeholders that motivate different groups to change their behavior. These arrangements do not always have to be financially focused but do require understanding of stakeholders' divergent priorities and constraints. For example, an incentive package to stop deforestation by small, agricultural landholders could include technical assistance to increase productivity per hectare, allowing these landholders to sustain and improve livelihoods on less cultivated land. Non-monetary incentives have been used successfully in rewards-for-performance schemes such as that in Los Negros, Bolivia, where beehives and apiculture training are delivered in exchange for sustained forest conservation (Asquith et al.2008), and the PROFAFOR carbon sequestration scheme in Ecuador, where participants are partially rewarded with seedlings, training, and all harvested products (Wunder and Alban 2008).

Eligible Activities - The international community has widely agreed upon a "landscape approach" as better strategy to reduce carbon removals from human activities (CIFOR 2013). With this approach, REDD+ activities will be able to tackle direct drivers of deforestation (inside the forest) and the underlying causes of deforestation (activities outside the forest). In line with benefit sharing mechanism, which is viewed as incentives to attract forest dependent people and forest users to restrict their access to land, it is important to consider activities that are likely to produce positive outcomes in increasing carbon removals from the atmosphere to specific activities and geographic area. Potential eligible activities include:

(1) Activities developed within the forests: Activities taking place in forestland by different forest users with positive outcomes to forest management. Fire control, improved harvesting techniques (rotation system), silvicultural procedures (reforestation, selective logging), buffer

zone management, conservation measures, community forestry, agroforestry system. All of these activities are applicable to all forest regimes in Nepal.

(2) Activities developed outside the forests: Essentially developed outside forests but has direct or indirect impacts on specific forest areas and their biomass density. Biogas project and improved stoves and charcoal kilns reduce extraction of fuelwood; Kanachupya water rights project, managed grazing area outside forest improves regeneration, etc.

(3) General policies and arrangements (transversal, cross-sectorial): Activities implemented to address specific drivers of deforestation or forest degradation. Monitoring of community forestry by DFO, The thirteenth five-year plan, different land and forest policies and measures; research activities to improve agriculture production, use of cook stove etc.

3.3.4 Rewards Criteria:

Input versus Results-Based- The conditionality of benefit disbursement relates to the question 'what should be rewarded', i.e., input or performance? Defining conditionality is essential in developing benefit-sharing schemes. Ideally, REDD+ should be a purely performance-based arrangement as it is designed to have a clear performance to measure against (emission reduction). But in reality, inputs are easier to define and measure than additionalities of emissions reduction. Characteristics of Input and Performance-based benefit sharing schemes (Torres Skutsch 2014, IUCN 2012, Costenbader 2011, and PROFOR 2012, Peskett 2011a; Mohammed 2011).

Input-Based reward criteria: Basis of allocation - beneficiaries agree to carry out specified actions, or refrain from certain actions, in return for up-front monetary or non-monetary benefits. Rewards reflect effort made: the activities undertaken in forest management and time invested. Assessment of level of rewards required - no link is provided between the distribution of benefits and future measurable performance in forest management - proof that activities have been undertaken. Additionality - all approved activities intended to improve forest management may be rewarded. Hence, owners who have always protected the forests may receive rewards as well as who start such activities as a result of the programme.

Performance-based reward criteria: Basis of allocation - benefits on the condition that the stakeholders receiving the benefits have achieved a predefined, measurable and verifiable standard of performance against a baseline (e.g., have restored or protected X hectares of forest).Assessment of level of rewards required - quantitative baseline against which improvements can be compared, and quantitative measure of the outputs. Additionality - only performance that would not otherwise have occurred is subject to rewards. In this scheme, owners who have never deforested would not be able to claim rewards.

The two conditionalities are not mutually exclusive; rather several criteria will likely determine eligibility. Many co-benefits will also go beyond eligibility criteria, e.g., a boost to the economy from an infusion of REDD+ money or improved environmental services (Campese 2012, Peskett 2011). While REDD+ is performance-based mechanism against emission reduction, the reality is

that inputs are easier to define and measure than additionalities of emissions reduction (TFD 2013). In case of Nepal, the ***Input-based*** might fit for two reasons—(1) the outcomes from forest regimes are encouraging and can continue to generate good results, and (2) the country has low level of monitoring capacity, which may find it useful using the input-based approach. However, Nepal might explore an appropriate blend of input- and output-based benefits for REDD+ perhaps similar to payments for environmental services, which typically reward outcomes (standing hectares, etc.) but also may pay for inputs through regular payment intervals based on agreement to undertake certain activities linked to desired ecosystem outcomes (Hite 2015).

3.4 BENEFITS

Monetary - These benefits include direct financial incentives through sale of carbon credits or carbon payments, which are the primary mechanism for achieving emissions reductions, income from employment in REDD+ schemes, reinforcing community forest management and generating related revenues, etc.; Enhanced local livelihood, health benefits arising from local environmental services; Improved/ enhanced availability of natural resource based materials, e.g. food, building materials, fodder, fuel wood, medicinal products, and sustainable timber supply; More secure land/ forest tenure; Enhanced local governance – e.g. accountability, transparency, law enforcement, conflict resolution, and participation (including of communities and marginalize groups) – where such governance enhancements are built into REDD+ projects; Enhanced capacity (institutional capacity, human resources) and knowledge; Enhanced resilience to climate change.

Non-monetary benefits - While the REDD+ originally focused on carbon emissions reduction, it has evolved to incorporate measures to enhance non-carbon benefits (UNFCCC, 2013). To this end, there are also a number of (monetary and non-monetary) 'co-benefits' that can arise from REDD+ through enhanced governance, secure land tenure right, improved environmental services, and income related from REDD+ activities, which are important to be considered in benefit sharing mechanisms. Maintained and enhanced local forests, improved natural resource base, maintained and improved local forest ecosystems and associated systems (water, soil, etc.), maintained and improved local biodiversity, increase value of biodiversity etc. are among those co-benefits.

3.5 COSTS

REDD+ also introduces costs and risks that are typically categorized in terms of opportunity, implementation, and transaction costs. Some governments fail to estimate costs and related timing that the implementation of new policies, restricting access to land and resources, and the costs of improving policy and governance frameworks within the country may affect national, sub-national and local budgets.

Opportunity costs: Value of benefits forgone in refraining from activities that will deplete carbon stocks *can accrue to people within or outside of project boundaries - Restriction.* Value of forgone - physicalor economic access to natural resources for livelihoods, subsistence use; physical or economic access to natural resources for value-added activities (e.g. agriculture, timber harvesting); cultural, spiritual ties to forests; tax revenues.

Implementation costs: Direct costs of implementing measures to address deforestation and degradation drivers (policy implementation - (1) Land use planning, (2) land tenure reform, (3)

governance reform, (4) forest protection, improved forest and agriculture management, (5) capacity building, e.g., agriculture and alternative livelihood training, job training.

Transaction costs: Costs incurred in conducting REDD+ related operations (1) REDD+ program development (policy changes), (2) project design development, (3) negotiating agreements, (4) emission reduction certification (MRV), (5) safeguards system development and monitoring.

Failing to identify and include costs related to the implementation of REDD+ can lead to a lack of strong management of people's expectations - it should be clear beforehand that costs must be included into the revenue allocation system.

3.6FINANCIAL STRUCTURE

A REDD+ program's financial structure will depend on the country context, including existing institutions and tenure regime, financing source, and the program's focus. Regardless of the differences, any financial structure for a REDD+ program should help align incentives across levels and must be able to accomplish the following core functions: (1) Receive and manage upfront financing; (2) Allocate funds for program implementation across horizontal and vertical scales; (3) Design incentive agreements and negotiate contracts; (3) Design payment form and timing; (4) Monitor performance of individual stakeholders and of the benefit-sharing mechanism overall; (5) Spread and manage risk; (6) Help align incentives across levels of government; and (7) Accommodate stakeholders with different types of rights and legal standing (Myers Madeira et al. 2013). Identifying the right combination of dedicated funds, budgetary measures, and decentralized approaches to facilitate the flow of financial resources to key activities at different levels. However, an additional approach has been identified as hybrid that combines national and sub-national levels (TFD, 2013).

(a) ***Dedicated fund***: Funds are held, managed, and disbursed through a structure that is separate from the national budget (e.g. Amazon Fund) - this mechanism is effective for channelling benefits to local stakeholders and accomplishing varied social and environmental goals (provide direct fund regional and local levels where national government devote less attention). However, it can lose that effectiveness if the focus is too broad (Hite 2015).

(b) ***Budgetary approach***: Funds are disbursed via existing budgetary structures and pathways (e.g. Indonesia)—the effectiveness of this mechanism depends upon national commitment and capacity, clear strategy, transparency in budget and agreement between donors and recipient country. However, national ownership is both a precondition to, and a goal of, successful general budget support. In many cases, budgetary approaches are used to direct resources and distribute benefits from federally generated revenues, such as Botswana's approach to managing revenues from diamond extraction and Brazil's Ecological Tax (Myers Madeira et al. 2013)

(c) ***Decentralized approach***: Sub-national and project-level actors can directly access funds. The central government plays a regulatory role and has a limited financial role. However, the central government may collect a levy on revenue generated to cover its regulating costs and/or to fund social priorities; e.g., participatory forest management approaches for REDD+ including community forestry in Tanzania. Alignment with broader environmental policy objectives is key to the success of decentralized approaches. If part of a broader suite of policies and programs, decentralized approaches can play a key role in affecting meaningful change on the ground. However, in the absence of alignment with broader policies, decentralized approaches are unable

to bring about fundamental changes on their own (Hite 2015).

(d) ***Nested approach*****:** Hybrid approach including elements of national and project (/sub-national) approaches. Allows for site-level project development and scaling up. Requires consistent emission accounting between project-based, sub-national, and national levels. In a nested approach, a national carbon accounting framework, monitoring system, and certain policy approaches would complement the implementation of REDD+ activities at the sub-national and local level. Under this approach, a benefit-sharing framework would need to create incentives for national and local actions, and might use different financial structures to incentivize action at the different levels. For example, budgetary approaches may be used to address policy-related drivers while a conservation trust fund could be formed to target specific activities at the local level.

In Nepal, a primary risk identified throughout remained that the budget delivery process from the central government to district and local level is complex and time taking, so that direct grant system would be more effective so that REDD+ beneficiaries can formulate the plans timely. To distribute REDD benefits, many stakeholders suggest for the establishment of a Carbon Fund Board under the chairmanship of DDC with DFO and stakeholders in related to REDD+ activities. At the community level, a direct budget of monetary benefit should release to forest regime groups according to their contribution while indirect budget of nonmonetary benefit should go through VDC level carbon Fund Board. Amending forest related legislative frameworks to accommodate benefit-sharing mechanism so as to ensure that the forest-managing communities including poor, women, Dalit and indigenous peoples can get fair and equitable carbon and non-carbon benefits is critical (FCO 2015). This arrangement might be consistent with the ***"Nested approach or Hybrid approach",*** which can include elements of national and sub-national (project) approaches as the country moves towards Phase II of REDD+ where projects are scaling up to national level. Of course this will be in line with performance-based mechanism as the country becomes much stronger with robust monitoring and consistent emission accounting between project-based, sub-national, and national levels.

3.7BUILDING LEGITIMACY

Stakeholders have the ability and power to participate meaningfully in REDD+ programs, and shape their design and outcomes, including how benefits are generated and shared. A REDD+ program is unlikely to succeed without broad constituent support. In structuring incentive arrangements and delivering benefits, a REDD+ program must balance the need to efficiently and effectively reduce emissions with the need to develop a legitimate program that has buy-in from a breadth of stakeholders. Here are some crosscutting criteria to build legitimacy and avoid risks related to elites capture, management of expectations, carbon rights and social accountability.

Transparency - Transparency in benefit flows increases confidence in more equitable outcomes. Establishing and publicizing the basis for calculating payments can help manage expectations for who is receiving what benefits. Experiences with extractive industry arrangements support formal management structures such as boards and trust funds, and also funding policies for transparency and reporting measures with clear oversight. In this sense, a managed fund may more easily provide the formal structures and processes that help increase the likelihood of a successful arrangement. Regardless of the model, funds should be disbursed through a

mechanism that both contributors and beneficiaries trust, with appropriate accountability provisions to maintain that trust over the long term.

Participation and capacity building - Strong stakeholder engagement practices of dialogue, capacity building, and participatory decision-making enable benefit-sharing arrangements founded upon trust and legitimacy. Legitimacy means that stakeholders have the ability and power to participate meaningfully in REDD+ programs and shape their design and outcomes, including how benefits are generated and shared. Participation is important to both government and individual stakeholders, and there must be pathways that allow different stakeholder groups to participate in the design and implementation of REDD+ programs and to provide key inputs that may affect decisions about resource allocation. Further, there must be solid channels for information sharing and dissemination of information on the development of REDD+ programs. UN-REDD Social and Environmental Principles and Criteria for REDD+ describe full and effective participation as "Meaningful influence of all relevant stakeholder groups who want to be involved throughout the process, and include consultations and free, prior and informed consent".

Tenure and carbon rights - A threshold design question is how traditional users with customary rights can become eligible for benefits/rewards if their rights are not formally recognized by statute. Three considerations emerge in the design of benefit sharing: (*1) Formally recognized tenure rights*: are typically a primary basis for allocating benefits and may determine who has the decision-making authority over how forest resources are used, which is key to effectively targeting beneficiaries for a benefit-sharing scheme. Insecure tenure rights may be one of the biggest barriers to effective benefit-sharing schemes for REDD+; (2) *Rights to land and carbon tenure security*: are central to equitable benefit sharing. In many countries, lack of clear, recognized, or enforced tenure rights for local forest communities, including pastoralists, is a primary obstacle for equitable benefit sharing; (3) *Benefits are based on actions or performance irrespective of State recognition of legal rights*—where a government recognizes customary rights, this approach may be an effective means to reduce conflict and increase equity. In Nepal both legal recognition of customary and socially legitimate tenure systems through forest regime modalities is effective solutions to payment for ecosystem services, allowing communities to continue to function fluidly and informally, while making them visible so as to protect them from new or opposing claims.The Forest Act of 1993 decentralized rights and management of national forests to empower district forest offices that transferred those rights and responsibilities to registered CFUGs.

Sharing Benefits beyond project boundaries - Tofoster legitimacy, a REDD+ benefit-sharing mechanism likely needs to share benefits more widely than if only providing performance incentives. If only certain groups or actions are rewarded or targeted to receive benefits, others may view the mechanism as inequitable and illegitimate. For example, communities in TAL have been granted variety of benefits through forest regimes and this will likely continue with REDD+. However, villages and districts or other actors that are outside the project boundaries may bear some costs that impact the project effectiveness (e.g. be a source of leakage). Furthermore, there is natural inequality with TAL having healthy and productive forest. There should be provision to share benefit with villages or districts outside project boundaries to avoid emissions displacement or attraction of people in TAL considered as wealthy region. The scope of benefit sharing will need to balance inclusiveness and limitations, based on fair criteria.

Monitoring and conflicts resolution- As pointed out by Myers Madera, 2013, failing to include a system for monitoring, reporting, and evaluating outcomes could compromise an otherwise effective benefit-sharing scheme, which is what happened in the early stages of Colombia's revenue-sharing program for minerals where revenues have not always been spent for their intended purpose, and weak transparency, monitoring, and planning capacities allegedly have compromised effectiveness. For REDD+, the Colombia model for distributing mineral revenues suggests that it will be important for REDD+ programs to invest in building capacity at the local levels of government. Colombia's management of mineral revenues also highlights the risk of devolving implementation without first establishing strong participatory processes and monitoring and evaluation, reiterating the importance of building and testing safeguards before a program scales up.

Improving outcomes- Particularly for results-based benefit-sharing schemes, it is important to build in mechanisms at the outset to manage conflicts, monitor outcomes, and enable adaptive learning. This work involves: i) identifying the type of information needed to improve operations; ii) developing a reporting and monitoring system as well as a means to identify and incorporate lessons learned; and iii) maintaining a process to address disputes that arise during implementation. Knowing if, in practice, benefits are being fairly distributed will require effective and transparent monitoring and reporting. A costs and benefits monitoring system should be integrated with related REDD+ systems, including the national carbon accounting system and the safeguards information system. It will be imperative that costs and benefits monitoring be robust, but also practical to implement and oversee. Monitoring should involve the participation of impacted communities as well as independent verification. On the other hand, operationalizing benefit sharing is likely to involve disputes. The goal is not to avoid dispute; rather welcome constructive conflict helps effectively make and resolve claims, and the "cost of not taking action might be higher in long term" (Peskett 2011b).

3.8ALIGNMENT WITH NATIONAL PRIORITIES

REDD+ goals should be integrated into mainstream government priorities and should affect how the government functions in other sectors - REDD+ programme should not be stand-alone entity that can be side-lined and must be aligned with a country's overarching environmental and development policies. REDD+ is ultimately a bridge strategy, providing investment to catalyze longer-term transitions in how forest resources are used. To be successful, a REDD+ programme must be part of an overall package of measures, reinforcing and reinforced by a country's development strategy. Further, economic incentives must accompany policy reforms and regulatory measures, including enforcement. If enforcement is not strong, the benefit of non-compliance and illegal activities will likely remain higher than the benefit of adopting alternative practices.

Government of Nepal (GoN) has accomplished various CC initiatives including Sustainable Development Agenda, Millennium Development Goals, National Adaptation Program of Action (NAPA), Local Adaptation Plan of Action (LAPA), Pilot Programme for Climate Resilience (PPCR), District Climate and Energy Plan (DCEP), etc. Similarly, GoN has been implementing 13th Five Year Plan and drafting approach paper for the 14th Plan which includes the objectives of promoting green development, making development activities climate-friendly, mitigating the adverse impacts of CC, and promoting adaptation for the poor and vulnerable communities.

The GoNshould identify priority area that can be linked to REDD+ in which benefit sharing can help to build legitimacy. Likewise, local development initiatives carried out by the local government authorities and I/NGOs should also interlinked with REDD+ initiatives that can generate additional financing for local level community development.

A REDD+ programme must be able to adapt as lessons are generated from early implementation and as the international policy environment evolves. Longer-term success also depends on a country's ability to scale and adapt a REDD+ programme over time. A REDD+ programme may initially focus on discrete demonstration activities that must be scaled up to the national level. Similarly, the benefit-sharing structures must be able to scale up accordingly or nest into larger national mechanisms that are developed as the program matures.

4. SUMMARY AND RECOMMENDATIONS

Benefit Sharing Model: Nepal's is experience with ***managed fund model***, which earmarked revenue stream that funds projects and activities based on pre-defined processes could be scaled up at national level. That model is very suited for non-cash development priorities such as education, health, and infrastructure and allows integration with public budgets and potentially reaches a broad scope of beneficiaries. However, this model is particularly vulnerable to weak governance leading to misappropriated funds. To overcome the challenge, a ***nested approach*** is more efficient where budgetary approaches may be used to address policy-related drivers while a conservation trust fund could be formed to target specific activities at the local level because budget approach has a potential disconnect between desired REDD+ outcome and payments received.

Targeting beneficiaries and tailoring incentives: Criteria for sharing in these benefits may include performance as well as, e.g., tenure, costs incurred, and equality. Different REDD+ benefits (e.g., monetary, non-monetary) are relevant to different stakeholders and can be used to best align their interests with the long-term goal of changing land-use practices. There may need to be a balance between inclusiveness and performance based criteria. Benefit sharing mechanism is viewed as incentives to attract forest dependent people and forest users in order for them to restrict their access to land. To this end it is important to target potential beneficiaries and consider activities that are likely to produce positive outcomes on increased carbon stocks to specific activities and geographic area. These activities may occur inside or outside the forest.

Prioritize beneficiaries based on objectives and equity—uniform rules for benefit distribution may ignore important local context and be counterproductive to broad community participation, particularly where companies pay royalties from license or enter into contracts providing payments for leaseholds or resource harvests.With no set or predictable formula to establish payments—and recognizing that benefits are limited—a broad perception of a "fair" benefit-sharing arrangement helps build trust and keep diverse actors constructively engaged in building long-term solutions.

Carefully consider rights and obligations—to realize lasting land use changes, it is critical to consider a broad scope of actors claiming statutory and customary rights as well as management and regulatory authority, as all may control how forest resources are used. Experiences with

extractive industry arrangements suggest that clear oversight and formal management structures and funding priorities with strong transparency and reporting measures help ensure success.

REDD+ benefit sharing should be designed, implemented and monitored in accordance with the developing national safeguards system. To this end, national, sub-national and local institutions should be very strong in implementing policies and measures, clarifying rights and obligations of each actor, ensuring funding flow with transparency, equity and efficiency. Safeguards information system should be considered in order to ensure participation, representation, transparency, accountability, gender equality, land, forest and carbon tenure, conflict resolution and monitoring.

Integrate with development priorities—it is not uncommon for community priorities to focus initially on core development needs such as health, education, and infrastructure. A managed fund can enable investments that address these needs and also help build long-term capacity to support sustainable livelihoods. Social assessments can help improve equity and integrate benefit-sharing schemes with broader planning and development priorities.

Sharing Benefit beyond project boundaries—for an increased chance of success, it is generally advisable to give some benefits to a broad set of actors that influence how land is used, and not limit benefits to direct contributors to the desired outcomes. To avoid and manage natural inequality, benefits may also be shared among villages or other actors outside REDD+ projects boundaries, such as when other villages will bear some costs that will impact project effectiveness. Carbon payment may be used as an equalizer in the context of the existing regional inequality of forest endowments.

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Annex 7
Consultation and Meetings

DISTRICTS	EVENTS AND FREQUENCY
Chitwan	• Meeting/consultation with Chitwan National Park Authority, Chitwan-1 • Meeting/consultation with CFUG REDD Pilot area-Kayar Khola Watershed, Chitwan-1 • Meeting/consultation Buffer Zone Management Committee, Chitwan-1 • Meeting/consultation REDD Pilot area CFUG representatives (Kayar Khola Watershed)-Chitwan-2 • Meeting/consultation with Buffer Zone Management Council, Chitwan-1 • Meeting/consultation Ecotourism Site Representatives Chitwan Tourism and Hotel Association, Sauraha -1 • Meeting/consultation with CFUGs, Chitwan-1; • Meeting/consultation with DFO/Sector Office/Ilaka Office-3 • Meeting/consultation with DDC and VDC-2 • Meeting/consultation with FECOFUN representatives, Chitwan-1
Nawalparasi	• Meeting/consultation with Religious Forest User Group, Maulakali, Nawalparasi-1 • Meeting/consultation with Chautari CFUG, Nawalparasi-1 • Meeting with Collaborative Forest Management Committee, Nawalparasi-1 • Meeting with Religious Forest Maulakali, Gaidakot-1 • Himalayan Community Development Forum (HICODEF)-1
Rupandehi	• Meeting with District Development Committee-1 • Meeting with Siddahrtha Nagar Municipality-1 • Meeting with FECOFUN-1 • Meeting with District Forest Office-1 • Meeting with Sector Office / Ilaka Forest Office Butwol-2 • District Soil Conservation Office-1 • District Treasury Office-1 • Meeting with NGO Federation-1 • Meeting with Charpala Community Forestry User Groups-1 • Meeting with CFUG (Ecotourism Site)-1 • Meeting with Public Land Management Groups (LMGs)-1
Kapilvastu	• Meeting with Collaborative Forest Management Group, Tilaurakot-1 • Meeting with Collaborative Forest Management Group, Kapilbastu-1 • Meeting with Siddhartha Social Development Centre Kapilvastu (SSDC)-1 • Meeting with Public Land Management Groups (LMGs), Banganga -1 • Meeting with Local NGOs, Murgiya-1 • Meeting with Ilaka Forest Office, Chandrauta-1
Dang	• Meeting with FECOFUN -1 • Meeting with DFO-1 • Meeting with Forest Sector Office-1 • Meeting with Ilaka Office-1 • Meeting with Forest based NGO representatives of Dang-1
Banke	• Meeting with CFUG, Kohalpur-1 • Meeting with CFUG, Samsherganj-1

- *continued* -

Bardia	• Meeting with Khata Protected Forest authority and nearby community-1 • Meeting with Bardia National Park Authority-1 • Meeting with Buffer Zone Management Committee-1 • Community forest dependent community-1
Kanchanpur	• Meeting with Suklaphanta Wildlife Reserve Authority-1 • Meeting with Buffer Zone Management Committee-1 • Meeting with Payment for Ecosystem Services (PES) Scheme, Brahmhadev-1
Kailali	• Meeting with Regional Forest Directorate, Dhangadi-1 • Meeting with DFO-1 • Meeting with Patela Community Forest User Group, Dhangadi Minicipality-7, Patela, Kailali-1 • Meeting with NEFIN, Dhangadi-1 • Meeting with Pahalmanpur Ilaka Forest Office, Kailali-1 • Meeting with users of Basanta Protected Forest, Kailali-1 • Meeting with encroachment area (Mukta Kamiya, Flood victims, Badi communities-1 • Meeting with private plantation airport road, Dhangadi-1 • Meeting with Range Post, Attariya, Kailali-1 • Meeting with Baraban Collaborative Forest User Groups, Kailali-3
Expert Consultation	• Nepal Foresters' Association (NFA) • FECOFUN, Kathmandu • Bishwonath Oli, Joint Secretary, Foreign Aid Division, MoFSC • Mr Ananda Bhandari-Under Secretary, MoFSC • Ms Radha Wagle, Joint Secretary, Foreign Aid Division, MoFSC • Prof. Dr. Abhaya Kumar Das, Forestry Expert • Mr Dil Raj Khanal, REDD+ Expert • Dr Narendra Chand, REDD IC, MoFSC • Dr Mohan Poudel, REDD IC, MoFSC • Mr Bijaya Paudyal, Forestry Expert • Mr Ganesh Kerki, FECOFUN • Mr Nawaraj Baral, Forestry Expert • Mr Rajendra Kafle, REDD IC, MoFSC • Mr Lila Raj Dhakal, Under Secretary, OAGN • Dr Bijaya Kumar Sijapati, Environmental Lawyer • Dr Dharam Upreti, Climate Change Specialist, MSFP
Multi-Stakeholder National Consultation Workshop	• Tunga Rai-NEFIN • Bishnu Hari Paudyal-RECOFTC • Birkha Bahadur Shahi-FECOFON • Bhola Bhattarai-NAFAN • Bhola Khatiwada-COFSUN • Dr Narendra Chand-REDD IC • Dr Mohan Paudel-REDD IC • Man Bahadur Khadka-REDD IC • Sagendar Tiwari-Forestry Expert • Gyanu Maskey-SIAS • Dr Hari Dhungana-SIAS • Dr Keshav Acharya-Governance Expert • Pasang Sherpa-CIPRED • Nirmala Shrestha-HIMAWANTI • Anita Pariyar-DANAR • Meera Gurung-DANAR • Dr Naya Sharma-FA • Dr Yadav Prasad Kandel-WWF

Annex 8
Abbreviations

ACOFUN	Association of Collaborative Forest Users of Nepal
ANSAB	Asia Network for Sustainable Agriculture and Bio-resources
ASL	Above sea level
BER	Budget Execution Reports
BSP	Benefit-sharing Plan
BZ	Buffer Zone
BZCF	Buffer Zone Community Forest
BZMC	Buffer Zone Forest Management Committee
BZMR	Buffer Zone Management Regulations
BZRF	Buffer Zone Religious Forest
CA	Conservation Area
CAMC	Conservation Area Management Committee
CAPA	Community Adaptation Plan of Action
CBFM	Community-Based Forest Management
CBO	Community Based Organization
CF	Community Forest
CFBB	Carbon Fund Benefit Board
CFM	Collaborative Forest Management
CFMC	Collaborate Forest Management Committee
CFMF	Carbon Fund Methodological Framework
CFUG	Community Forest User Group
COP	Conference of the Parties
CSO	Civil Society Organization
D&D	Deforestation and Forest Degradation
DANAR	Dalit Alliance for Natural Resource
DFO	District Forest Office
DFRS	Department of Forest Research and Survey
DFSCC	District Forestry Sector Coordination Committee
DoF	Department of Forest
DRR	Disaster Risk Reduction
DTO	District Treasury Office
EFLGDCC	Environment Friendly Local Governance District Coordination Committee
EFLGMCC	Environment Friendly Local Governance Municipal Coordination Committee
EFLGVCC	Environment Friendly Local Governance Village Coordination Committee
EIA	Environmental Impact Assessment
ER PIN	Emission Reduction Programme Idea Note
ER-PD	Emission Reduction Programme Document
ERP	Emission Reductions Programme
ERPA	Emission Reduction Purchase Agreement

FCGO	Financial Comptroller General's Office
FCPF	Forest Carbon Partnership Facility
FECOFUN	Federation of Community Forest Users Nepal
FLEG	Forest Law Enforcement and Governance
FMIS	Forest Management Information System
FPIC	Free, Prior and Informed Consent
GoN	Government of Nepal
GRM	Grievance Redress Mechanism
HIMAWANTI	Himalayan Grassroots Women's Natural Resource Management Association
ICIMOD	International Centre for Integrated Mountain Development
IEE	Initial Environmental Examination
IFMIS	Integrated Financial Management Information System
IP	Indigenous People
IPCC	Intergovernmental Panel on Climate Change
LAPA	Local Adaptation Plan of Action
LBFAR	Local Bodies Financial Administrations Regulations 2007
LF	Leasehold Forest
LF	Leasehold Forest
LFMG	Leasehold Forest Management Group
LFUG	Leasehold Forest Users Group
LSGA	Local Self Governance Act
MEA	Multilateral Environmental Agreements
MoAD	Ministry of Agriculture Development
MoE	Ministry of Energy
MoFALD	Ministry of Federal Affairs and Local Development
MoFSC	Ministry of Forests and Soil Conservations
MoSTE	Ministry of Science Technology and Environment
MPFS	Master Plan for Forestry Sector
MRV	Measurement Reporting and Verification
MSFP	Multi-Stakeholder Forestry Programme
NAFAN	National Forum For Advocacy Nepal
NAPA	National Adaptation Plan of Action
NARMSAP	Natural Resource Management Sector Assistance Programme (NARMSAP)
NBCC	National Biodiversity Coordination Committee
NBSAP	National Biodiversity Strategy and Action Plan 2014
NEFIN	Nepal Federation of Indigenous Nationalities
NESS	Nepal Environmental and Scientific Services (P) Ltd.
NFA	Nepal Foresters' Associations
NFMS	National Forest Monitoring Systems
NGO	Non-Government Organization
NMSF	National Multi-Stakeholder Forum

NP	National Park
NPC),	National Planning Commission
NPWCA	National Parks and Wildlife Conservation Act
NRA	Nepal Remitters Association
NTNC	National Trust for Nature Conservation
OFMP	Operational Forest Management Plan
PA	Protected Area
PAMC	Protected Area Management Committee
PES	Payments for Ecosystem Services
PF	Protected Forest
PFM	Participatory Forest Management
PFMC	Protected Forest Management Council
R-PP	Readiness Preparation Proposal
RECOFTC	Regional Community Forestry Training Centre
REDD	Reducing Emissions from Deforestation and Forest Degradation
REDD-IC	REDD Implementation Center
RFMC	Religious Forest Management Committee
RWG	REDD Working Group
SEN	Social and Environment Network
SESA	Strategic Environmental and Social Assessment
SMF	Sustainable Management of Forests
TAL	Terai Arc Landscape
TSA	Treasury Single Account
UN-REDD	United Nations Collaborative Programme on Reducing Emissions from Deforestation and Forest Degradation in Developing Countries
UNFCCC	United Nations' Framework Convention on Climate Change
VDC	Village Development Committees
VFCC	Village Development Committee level Forestry Coordination Committee
WWF	World Wildlife Fund

Annex 9
Key Terminologies

Accounting Area	The area for which a reference level is established and over which emissions and removals from forests or select REDD+ Activities are being measured, reported and verified consistently.
Benefit-Sharing	Benefit-sharing is to transfer financial incentives from international funds or carbon markets to the national government and thereafter to the community.
Capacity Building	In the context of climate change, the process of developing the technical skills and institutional capability in developing countries and economies in transition to enable them to address effectively the causes and results of climate change.
Carbon Credit	It is an asset representing the commodity derives from the forest carbon.
Carbon Market	A trading system through which countries may buy or sell units of greenhouse-gas emissions in an effort to meet their national limits on emissions, either under the Kyoto Protocol or under other agreements.
Carbon Pools	As defined by the Kyoto Protocol, above-ground biomass, below-ground biomass, dead wood, litter and soil organic matter are considered as carbon pools.
Carbon Sequestration	The process of removing carbon from the atmosphere and depositing it in a reservoir.
Carbon Sinks	Natural or artificial reservoirs for carbon: forests, soils.
Clean Development Mechanism (CDM)	A mechanism under the Kyoto Protocol through which developed countries may finance greenhouse-gas emission reduction or removal projects in developing countries, and receive credits for doing so which they may apply towards meeting mandatory limits on their own emissions.
Clearing House	A service which facilitates and simplifies transactions among multiple parties.
Conference of the Parties (COP)	The supreme body of the Convention. It currently meets once a year to review the Convention's progress.
Conservation Area	It is an area set aside to be managed in accordance with an integrated plan for the protection of the natural environment and the sustainable use of natural resources.
Designated National Authority (DNA)	An office, ministry, or other official entity appointed by a Party to the Kyoto Protocol to review and give national approval to projects proposed under the Clean Development Mechanism.
Governance	Governance is the process of decision-making by formal and informal actors and the procedure by which decisions are implemented.

Kyoto Protocol	An international agreement standing on its own, and requiring separate ratification by governments, but linked to the UNFCCC. The Kyoto Protocol, among other things, sets binding targets for the reduction of greenhouse-gas emissions by industrialized countries.
Party	A state (or regional economic integration organization such as the European Union) that agrees to be bound by a treaty and for which the treaty has entered into force.
Project Level Approach	A project-level approach means that incentives flow directly to project developers based on performance against a project baseline. Such stand-alone projects typically are smaller in area than governmental jurisdictions.
REDD	Reducing Emissions from Deforestation and Forest Degradation.
REDD+	Reducing Emissions from Deforestation and Forest Degradation (REDD) is an effort to create a financial value for the carbon stored in forests, offering incentives for developing countries to reduce emissions from forested lands and invest in low-carbon paths to sustainable development.
REDD+ Benefits	REDD+ benefits include carbon benefit for the purposes of climate mitigation and adaptation, and non-carbon benefits such as preserving biodiversity and watersheds, and protecting the rights of indigenous communities (Baker and McKanzie, 2014; WWF, 2014).
Technology Transfer	A broad set of processes covering the flows of know-how, experience and equipment for mitigating and adapting to climate change among different stakeholders
The Conference of the Parties (COP)	It is the "supreme body" of the United Nations Framework Convention on Climate Change (UNFCCC) meets annually. Countries that have joined the UNFCCC are referred to as "Parties to the Convention".
Usufruct Rights	The right of enjoying a thing, the property of which is vested in another, and to draw from the same all the profit, utility and advantage which it may produce, without altering the substance of the thing.
Vulnerability	The degree to which a system is susceptible to, or unable to cope with, adverse effects of climate change, including climate variability and extremes.