ROYAL GOVERNMENT OF BHUTAN

NATIONAL REDD+ BENEFIT SHARING FRAMEWORK

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Report Edition

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Acronyms

3Es	Effectiveness, Efficiency and Equity
ABS	Access and benefit sharing
ABTO	Association of Bhutanese Tour Operators
BABS	Bhutan Access and Benefit Sharing
BFL	Bhutan for Life
BNDES	The Brazilian Development Bank
BNFSSP	Bhutan National Food Security Strategy Paper
BPC	Bhutan Power Corporation
BS	Benefit sharing
BSM	Benefit sharing mechanism
BTFEC	Bhutan Trust Fund
CA	Conservation area
CF	Community forestry
CFMG	Community forestry management group
CIFOR	Center for International Forestry Research
CONAFOR	National Forest Commission of Mexico
CONAREDD	National REDD+ Commission of Brazil
CSO	Civil society organization
DAMC	Department of Agriculture Marketing and Cooperatives
DGM	Department of Geology and Mines
DGPC	Druk Green Power Corporation
DoA	Department of Agriculture
DoFPS	Department of Forests and Park Services
DoHS	Department of Human Settlement
DoL	Department of Livestock
DoR	Department of Roads
DRC	Democratic Republic of Congo
EAA	Environmental Assessment Act of 2000
EIA	Environmental Impact Assessment
ER	Emission reductions
ES	Ecosystem/Environmental services
ESMF	Environmental and Social Management Framework
FCPF	Forest Carbon Partnership Facility
FES	Forest environmental services
FGRM	Feedback and Grievance Redress Mechanisms
FMU	Forest Management Unit
FNCA	Forest and Nature Conservation Act of Bhutan 1995
FNCRR	Forest and Nature Conservation Rules and Regulations of Bhutan, 2017
FONAFIFO	Costa Rica's National Forestry Financing Fund
FYP	Five Year Plan
FREL/FRL	Forest Reference Emission Level/ Forest Reference Level
GCF	Green Climate Fund
GHG	Greenhouse Gas

GL	Government Land
GNH	Gross National Happiness
GNHC	Gross National Happiness Commission
GRF	Government Reserved Forest
GRM	Grievance redress mechanism
ICDP	Integrated Conservation and Development Programme
IMAG	Independent Monitoring and Audit Group
IPAM	Amazon Environmental Research Institute
ISA	Socio-Environmental Institute
KfW	Kreditanstalt für Wiederaufbau
MGB	Multi-stakeholder Governing Body
MoAF	Ministry of Agriculture and Forestry
MoEA	Ministry of Economic Affairs
MoF	Ministry of Finance
NBC	National Biodiversity Center
NCB	Non-carbon benefits
NEPA	National Environmental Protection Act of Bhutan 2007
NFMS	National Forest Monitoring Systems
NFP	National Forest Policy of Bhutan 2011
NGO	Non-governmental organisation
NIE	National implementing entity
NRS	National REDD+ Strategy
NR+F	National REDD+ Fund
NWFMG	The non-wood forest management group
NWFP	Non-wood forest products
PA	Protected area
PAM	Policies and measures
PES	Payment for environmental/ecosystem services
PFM	Participatory Forest Management
PFPDF	Provincial forest protection and development fund, Vietnam
PIB	Project implementation body
PLR	Policies, Laws and Regulation
PNG	Papua New Guinea
PROFOR	The Program of Forests
PSA	Environmental Services Payment
QPL	Quantum Pharmaceuticals Limited
RBP	Results-Based Payments
REDD+	(Countries' efforts to) Reduce Emissions from Deforestation and Forest Degradation
RGoB	The Royal Government of Bhutan
RICBL	Royal Insurance Corporation of Bhutan Limited
RNR	Renewable natural resource
RNRRC	Renewable Natural Resources Research Center
R-PP	Readiness Preparation Proposal
RSPN	Royal Society for Protection of Nature

SESA	Strategic Environmental and Social Assessment
SFED	Social Forestry & Extension Division
SIPP	WWF's Environment and Social Safeguards Policies and Procedures
SIS	Safeguard Information System
SNV	Smart Development Works
SWOT	Strengths, Weaknesses, Opportunities and Threats
ToR	Terms of reference
UNDP	United Nations Development Programme
UNFCCC	United Nations Framework Convention on Climate Change
UN-REDD	The United Nations Collaborative Programme on Reducing Emissions from Deforestation and Forest Degradation in Developing Countries
VNFF	Vietnam Forest Protection & Development Fund
WMD	Watershed Management Division
WWF	World Wildlife Fund

1. BACKGROUND

1. The Royal Government of Bhutan (RGoB) is a signatory to the United Nations Framework Convention on Climate Change (UNFCCC) and is a REDD+ partner country. Bhutan formally initiated the REDD+ program in 2010. The objective of REDD+ is to reduce emissions from deforestation and forest degradation and increase carbon dioxide sequestration through the conservation of forest carbon stock, sustainable management of forests and enhancement of forest carbon stocks. REDD+ participant countries are eligible for results-based payments (RBP) for verifiable emission reductions and/or enhanced carbon stocks.

2. The development of Bhutan's required REDD+ framework falls into three phases, as displayed in Figure 1. Phase one is the readiness phase, during which the relevant institutional systems are established, and the national strategy is prepared. This stage is followed by a transition into phase two, which focuses on demonstration activities based on the strategy. The third Phase involves the implementation of fully measured, reported, and verified actions, for which RBPs could be received. The preparation of this national strategy document signals Bhutan´s transition towards phase three.

Figure 1 REDD+ Phases

3. Bhutan sought support through a Readiness Preparation Proposal (R-PP) submission to the Forest Carbon Partnership Facility and has received an initial grant of USD 3.8 million in 2013, followed by an additional grant of USD 4.8 million in 2017. Through this support, the REDD+ readiness process in Bhutan has achieved some important milestones, which are required prior to seeking REDD+ payments or financing. These include:

   - Establishing Institutional and implementation arrangements.
   - Institutionalization of the National Forest Monitoring System, which will help to monitor and report forest cover changes regularly and account for GHG emissions and removals from forestry.
   - Analysis of the drivers of deforestation and forest degradation.
   - Development of a Forest Reference Emission Level (FREL), which provides the necessary tool for justifying Bhutan's position on carbon neutrality and implementing measures to protect and enhance forest cover. Preparation of a fund mobilization strategy, a safeguards framework, and drafting of a benefit sharing framework.

4. The RGoB recognizes that addressing climate change, environmental and social sustainability, and economic growth requires a multifaceted approach from all sections of society. The importance of preserving forests through sustainable management is critical throughout this approach. REDD+ provides cross-cutting and complementary measures, which will provide opportunities to support and strengthen Bhutan's existing national and international commitments. By both remaining a signatory to the UNFCCC and ratifying the 2015 Paris Agreement, Bhutan has demonstrated its commitment to being part of the global effort to combat climate change. The holistic measures identified through REDD+ will help reduce deforestation and forest degradation and enhance carbon sequestration while considering national economic development interests. In turn, REDD+ will contribute towards the country's existing constitutional mandate to maintain 60% forest cover, as well as helping to ensure that Bhutan remains carbon neutral. REDD+ will help strengthen Bhutan's resilience to climate change, with forest conservation being essential for both mitigation and adaptation.

5. Part of the readiness preparation includes a National REDD+ Strategy, which is a roadmap for implementing Bhutan's REDD+ programme and will guide decisions on the policies and

programmes for addressing the drivers of deforestation and forest degradation and improving the carbon sink/sequestration capacity of the forest.

6. Aside from contributing to generating emissions reductions, REDD+ activities also bring about monetary and non-monetary benefits that need to be distributed across a wide range of stakeholders. Benefit sharing in the context of REDD+ entails agreements between stakeholders about the distribution of the benefits arising from the implementation of the REDD+ strategy. Benefit sharing creates effective incentives by rewarding individuals, communities, organizations and businesses for actions that change unsustainable land-use practices and reduce emissions. Benefit sharing builds a wider legitimacy and support for the REDD+ mechanism.

7. Benefit Sharing Mechanisms (BSMs) are developed in phases, with the best practice guidance suggesting two simple phases:

    - Phase 1: Countries design, in a participatory way, rules for benefit sharing at different scales
    - Phase 2: Test the system through pilot programs by establishing specific benefit sharing plans that outline the distribution mechanism, funds flow and rules of allocation of proceeds to agreed beneficiaries.

2. BHUTAN NATIONAL REDD+ STRATEGY

8. A National REDD+ Strategy has been prepared with a vision to maintain ***'A perpetually carbon neutral, climate change resilient and prosperous society'.*** The objective of REDD+ is to reduce emissions from deforestation and forest degradation, and enhance carbon stocks+ through the conservation, sustainable management of forests and enhancement of forest carbon stocks. The strategy seeks to achieve these measures within a far broader vision that provides co-benefits, including enhancing livelihoods, protecting ecosystem services, and conserving biodiversity. Therefore, the focus is on continuing to strengthen the preservation of existing forests and increase the adaptive capacity to climate change impacts, without compromising opportunities for future economic development and prosperity. To achieve this vision, there are four Strategy Options, which are multi-sectoral and take into consideration the unique status of Bhutan being a net carbon sink.

2.1 National REDD+ Strategy Options

9. **Strategy Option 1: Strengthened Forest Management Practices**. With the rapid economic development and demographic changes taking place in various parts of the country, the demand for construction timber is high and appears to be increasing. The overall forest resource base for commercial timber production is limited. These limitations are due to the fact that large areas of the forest are protected, the low commercial quality of timber in some forest areas, and the difficulties in harvesting trees due to inaccessible terrain (WMD 2015). There are logistical and costs challenges of matching supply and demand in timber, and inefficiencies in downstream processing of timber, which are exacerbated by the narrow market preference for softwood tree species. The combination of inefficiencies in the timber value chain, distribution and narrow focus on softwoods and few broadleaved species, means that in the future there is the potential for an artificial wood deficit. This strategy option focuses on the underlying drivers of deforestation and forest degradation. As such, this strategic option aims to support existing frameworks, policies, and regulations for forest management as well as strengthening resource management monitoring and enforcement.

10. **Strategy Option 2: Climate-Smart Primary Production**. Primary production sectors include crop production, livestock, fisheries and forestry. Climate-smart initiatives crosscut economic, social and environmental spheres. A key aspect in this strategic option is in improving forestry and agricultural productivity (detailed under strategic option 4), in order to improve incomes and reduce the need for primary production to further encroach into forest land. Climate-smart plantations of native, multi-purpose and fast-growing species will support the development and provision of sustainable firewood and timber supply, the protection of livelihoods, enhance areas of degraded forest and the management of forest growth to foster increased carbon sequestration. This will involve the development of a diversified and technologically innovative sector, which will be achieved through capacity building and partnerships between government and private sector. Combined efforts for the development of plantations in degraded areas will ensure forest restoration at the landscape level.

11. **Strategy Option 3: Integrated Land Use Planning**. This Strategy Option is largely about creating the necessary enabling environment for successful and effective implementation of REDD+. Development, including hydropower expansion, is important for the economy but must be undertaken in a way that limits impacts on forests. The existing legislation has provisions to address the environmental impacts of various infrastructure projects. However, the current planning processes tend to operate in silos and do not effectively address holistic impacts from significant development. There is a lack of spatial planning guidance and inadequate inter-agency and organizational cooperation. This Strategy Option will strengthen land use planning systems and processes, by achieving greater levels of harmonization across policies, increased collaborative processes, greater levels of capacity and a stricter monitoring and enforcement regime.

12. **Strategy Option 4: Improved Rural Livelihoods**. Rural communities depend on agriculture activities, livestock management and forest resources for their livelihoods. This Strategy Option is multi-sectoral and targets the improvement of community livelihoods including the broadening of opportunities for income generation through sustainable management of non-wood forest products (NWFPs), payment for ecosystem services, nature-based enterprises, and climate-smart

agricultural and livestock practices. These approaches will help create alternative incomes for communities, as well as reducing pressures on forest areas. This strategic option aims to improve agricultural efficiency and increase diversification through climate-smart agriculture. Selected interventions will contribute to the transformation of agricultural systems in order to address food security, sustain livelihoods and encourage prosperity, adapt and build resilience to climate change risks while reducing pressure on forests and other ecosystems, incentivizing conservation and to reduce greenhouse gas emissions. Actions will involve the promotion of high yielding livestock, crop diversification, agroforestry, intercropping, greenhouse farming, advanced irrigation systems, soil conservation and organic farming.

2.2 National REDD+ Strategy Policies and Measures

13. The Strategy Options will be delivered via a number of cross-cutting policies and measures (PAMs). Under each PAM is a set of proposed actions, which will be the responsibility of different organizations for implementations. A number of PAMs are devised to develop the enabling environment, in order to ensure that policies, laws, regulation, approaches are strengthened and all work in harmony. These PAMs also address capacity and resource needs. This enabling environment is essential in addressing many of the underlying drivers of deforestation and forest degradation, and in providing the platform for direct interventions. Other PAMs provide direct interventions, which will reduce the impacts of deforestation and forest degradation while improving livelihoods and other co-benefits. Some of these interventions are entirely new, while others seek to build on existing initiatives.

Table 1 Policies and Measures and Target Actions

PAM	Target Actions
PAM 1: Strengthen institutional and sectoral capacity to achieve sustainable forest management	1.1 Undertake a capacity needs assessment for REDD+ implementation and develop a Capacity Development Strategy and Plan. 1.2 Institutional capacity building and support in developing and implementation of management plans for Forest Management Unit (FMUs), Protected Areas, Community Forests, areas outside FMUs, watershed areas and private forests. 1.3 Capacity building and strengthening National Forest Monitoring Systems (NFMS) (National Forest Inventory, Land Use and Land Cover Monitoring, and Measurement, Reporting and Verification (MRV) for REDD+). 1.4 Capacity building in silvicultural practices, pest and disease management to improve forest productivity through technical training.
PAM 2: Strengthen the effectiveness of existing policies and approaches across all forestry jurisdictions and areas	2.1 Develop and implement effective forest management plans in all State Reserved Forest Land. 2.2 Develop and provide tools for efficient management plan writing (guidelines, templates, software and applications). 2.3 Carry out functional zonation within the forest areas, demarcating forest production areas, watershed areas, wildlife habitats, and recreational areas. 2.4 Implementation of the already established Protected Areas Zonation Guidelines. 2.5 Strengthening the national forest monitoring system and MRV to keep track of forest cover changes and carbon stock. 2.6 Pest and disease management and monitoring incorporated into all forest management planning. 2.7 Establish reliable information and monitoring systems on demand and supply for rural and commercial timber requests.

PAM 3: Strengthen cross-sectoral land use planning and coordination	3.1 Review of policies relating to land use, such as Land Act 2007, FNCA, EDP 2016, Road Act 2012, PSMP 2040, Road Master Plan 2027, and National Transmission Grid Master Plan 2016. 3.2 Establishing a monitoring and evaluation system on land use zoning and regulatory implementation. 3.3 Development of a harmonized national land use strategy through broad stakeholder consultation. 3.4 Development and enforcement of Zoning Ordinances and the Land Use Strategy through awareness raising, capacity building, and stakeholder engagement. 3.5 Strengthened National Spatial Information System for land use zoning and improved data collection, processing, and validation.
PAM 4: Strengthen Environmental Impact Assessment (EIA) processes for infrastructure proposals	4.1 Reviewing and revision of budget allocation practices, including procurement processes, in order to mitigate environmental damages from infrastructure development. 4.2 Evaluation of EIA guidelines and services from stakeholders' perspective to effectively implement the environmental rules and regulation by the third party. 4.3 Strengthening institutional capacity for EIA and compliance monitoring system. 4.4 Packaging of EIA for hydropower projects, including hydropower facilities, transmission lines, towers, and roads.
PAM 5: Achieve a highly diversified and technology-based timber supply chain	5.1 Establish a Forestry and Wood Innovation Hub of integrated wood-based industries. 5.2 Develop and increase the capacity of Department of Forest and Park Service (DoFPS), Natural Resources Development Corporation limited, and wood-based enterprises to operationalize improved approaches to timber harvesting, processing and value addition. 5.3 Promoting the utilization of alternative lesser known tree species to reduce pressure on current high-value timber supplies through knowledge products and concepts. 5.4 Promote and diversify timber products and value addition through the provision of low-interest finance for small to medium enterprises. 5.5 Improvement and dissemination of efficient wood technologies (harvesting, processing, and recovery). 5.6 Set up pilot projects to improve value at different levels of the timber supply chain. 5.7 Piloting of new technologies and tools in wood-based industries, wood seasoning and treatment. 5.8 Updating government procurement policies and schedule of rates to show leadership in the use of lesser-known tree species and alternative timber products.
PAM 6: Adopt fire management approaches that limit impacts on the environment and communities	6.1 Establish fire early warning systems, including communication tools and approaches to ensure that threats to communities are reduced and responses to fires are prompt. 6.2 Development of forest fire management planning guidelines, including post forest fire management and replanting. 6.3 Survey and mapping of forest fire prone areas (fire hazard map). 6.4 Instituting, upscaling and operationalizing forest fire management groups at all levels (village/ gewog/ dzongkhag/ national). 6.5 Investment in improved firefighting equipment and a high-tech forest fire early warning system. 6.6 Enhanced knowledge and capacity building on forest fire prevention techniques at the institutional and community level.

PAM 7: Establish plantations to provide sustainable wood products supply, increase carbon-stock, and enhance biodiversity	7.1. Establish a Government-Private Sector Joint Plantation and Nursery Development Program. 7.2 Undertake wood flow and market analysis to understand timber demand and the type and location of plantations that are required to establish 5 000 hectares of new plantations. 7.3 Implement plantation development norms and standards to promote multi-purpose plantations and species in different ecological and climatic zones. 7.4 Capacity building, guidelines, tools, and support for the private sector for plantation development and management. 7.5 Implementation monitoring and evaluation guidelines and tools, capacity building, and conducting ongoing monitoring and evaluation management and control of invasive species.
PAM 8: Promote the development of enterprises that sustainably manage non-wood forest products	8.1 Development of small and medium scale rural NWFP enterprises for domestic and international markets. 8.2 Community capacity building and development of product guidelines to create a broader understanding of sustainable management, harvesting, and the supply chain of NWFP. 8.3 Incorporation of objectives and actions for the sustainable management of NWFPs in management plans (Community Forest, watershed, protected areas, and FMU management plans).
PAM 9: Broaden opportunities for income generation from ecosystem services	9.1 Encourage and promote eco-tourism/ community-based ecotourism (eco-trails, bird watching, fishing, hot springs, rafting). 9.2 Training of communities on craft manufacturing and product diversification. 9.3 Scoping and operationalizing of further potential Payment for Ecosystem Services (PES) schemes.
PAM 10: Develop climate-smart approaches in agriculture	10.1 Encourage agroforestry practices for promoting fodder trees and pasture development. 10.2 Promoting high yielding cattle and a shift to commercial dairy farming. 10.3 Integrating fishponds and piggery development. 10.4 Encourage integrated farm systems that include organic agriculture, low-impact irrigation, pest management, and soil conservation. 10.5 Promoting the cultivation of high value and drought-resistant crops. 10.6 Supporting farmers through supply chain development and the formation of cooperatives.

3. NATIONAL REDD+ STRATEGY REDD+ BENEFIT SHARING

3.1 Purpose of the Benefit Sharing Mechanism

14. REDD+ incentives are designed to influence forest and land use behaviour to reduce deforestation and forest degradation by changing the relative values of economic costs and benefits from forest use (Börner and Vosti 2013). BSMs play a key role in REDD+ implementation, as the distribution of conditional rewards creates incentives and measures for REDD+ action, which provide a motivation to change behaviour away from deforestation or forest degrading activities towards forest restoration (Luttrell et al. 2013; Vatn 2015). In turn, the way that benefits are shared among stakeholders will determine how stakeholders perceive, engage with, and contribute to REDD+ incentives (FCPF 2013).

15. A BSM can also target lower-level administrations in decentralized governments by providing incentives through intergovernmental fiscal transfers. Ideally, the intergovernmental fiscal transfers contribute to changing the behavior of local government policymaking by compensating for the costs of, or rewarding, forest conservation and sustainable forest management policies and activities. concept

16. BSMs involve a variety of intuitional means, governance structures and instruments for distributing finance and other benefits. There is a range of multifarious challenges in benefit sharing, which BSMs seek to address. These challenges include corruption, contradictory policy objectives and perverse economic interests (Brockhaus and Angelsen 2012; Corbera et al. 2011; Pham et al. 2013).

3.2 Objectives

17. The main objectives of the Benefit Sharing Framework are linked to the overall goals and objectives of the REDD+ Program and are as follows:

- To improve the effectiveness of the implementation of REDD+ in achieving emission reduction objectives, by encouraging the participation and collaboration of stakeholders and improving livelihoods for forest-dependent communities.
- To increase the efficiency of REDD+ by minimizing transaction and implementation costs and integrating resources.
- To maximize the equity in the distribution of benefits among the actors responsible for the reduction of deforestation and forest degradation.

3.3 Benefit Sharing Principles

18. The National Redd+ Strategy has adopted some key principles of benefit sharing: namely effectiveness, efficiency, and equitable sharing. These principles, known collectively as the 3Es, should be used as an incentive to bring about change in behaviour that can result in emission reductions and should go to the actors providing these reductions (Pham et al. 2013). Well-functioning BSMs can be defined as those that fulfil the 3E criteria (Dunlop & Corbera 2016).

19. Effectiveness, efficiency and equity of benefit sharing rely on the accountability, transparency and financial management capacity of the state. The three principles can often conflict, particularly when institutional aspects and power relations are part of the equation (Pascual et al. 2010). For example, equity can have significant positive feedback on program outcomes and legitimacy over the longer term (Gross-Camp et al. 2012; Pascual et al. 2014). At the same time, proper consideration, and prioritization of the different aspects, of equity in the design, planning and implementation of a REDD+ scheme will likely incur higher costs and increase complexity.

20. Effectiveness refers to the impacts and performance of the REDD+ Program, including the degree of behavioural and transformational change in achieving emission reductions.

- Ensure that institutional and policies are in place for the ongoing support of the implementation of REDD+.
- Secure commitment from communities and households through their ownership of the implementation of REDD+.

- Ensure that benefits are only allocated to activities that contribute to REDD+ Strategy Options.
- Ensure that benefits are delivered to the targeted beneficiaries within a reasonable time period.
- The Benefit Sharing Plan and associated mechanisms must be clearly communicated to all stakeholders.

21. Efficiency refers to the implementation, management and administrative costs associated with emissions reductions and the extent to which they enable the cost-effective achievement of policy objectives within the REDD+ Program.

- Ensure that all operational aspects of the REDD+ are cost-effective.
- Ensure the integration of available resources across all government programs, projects and initiatives, which contribute towards the objectives of REDD+.
- Ensure that there is collaboration and coordination across all relevant government, with clear mandates, roles and responsibilities.
- Use existing institutional capacity, such as financial institutions and administration systems, wherever appropriate and possible.
- Encourage the reinvestment of non-monetary benefits in interventions that contribute directly or indirectly to REDD+, through forest protection and development, as well as increase long-term income and benefit of beneficiaries.

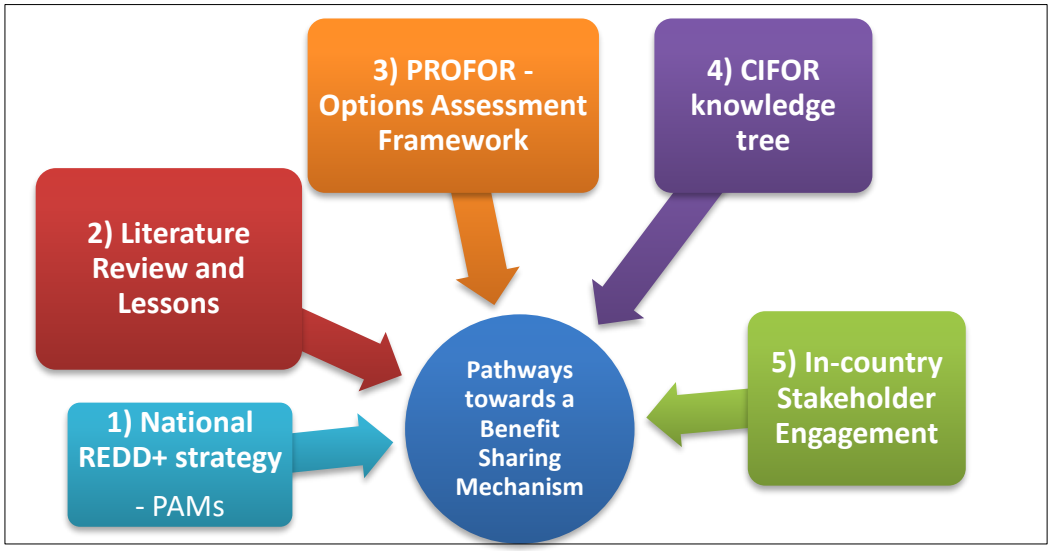
22. Equity refers to the distributional aspects of the associated costs, risks and benefits, procedural aspects of participatory decision-making and the specific contexts that shape stakeholders' perceptions of equity.

- Ensure equity of access, where all potential stakeholders have the capacity and opportunity to engage.
- Ensure that the beneficiaries are people/organizations who contribute directly or indirectly to REDD+ Strategic Options.
- Provide transparency in all associated policies and procedures, which includes publicly disclosing the allocation of all benefits.
- Ensure fairness, with the allocation of benefits based on measured, verified and reported objectives of REDD+.
- Ensure equality among participating parties, avoid elite capture, and provide incentives for vulnerable groups (women, ethnic minorities, poor communities depending on the forest).
- Provide stakeholders with the right to opt-out through consistently applying free, prior and informed consultation.
- Ensure that grievance redress mechanisms are available and clearly communicated to stakeholders.

3.4 Approach

23. The development of this BSM framework uses the Program of Forests (PROFOR) Options Assessment Framework for Benefit Sharing (PwC and Diji 2012). This framework enables the assessment of existing BSM components and identifies any gaps that need to be filled during the development of the BSM. The development of this framework used the following steps to identify pathways towards Benefit Sharing, reflected in Figure 2. The assessment framework is fully described in the accompanying annex document.

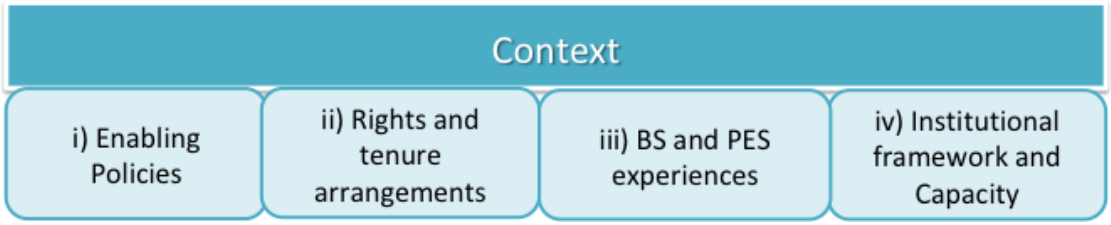
Figure 2 Approach for the development of benefit sharing options



Source: Indufor

24. Before a BSM can be designed, it is important to analyse information concerning the context under which the scheme will be built, as reflected in Figure 3. The context assessment that was used for Bhutan was adapted from CIFOR's knowledge and included the main aspects that would influence benefit sharing.

Figure 3 Contextualisation to Inform BSM



Source: readapted from CIFOR 2014

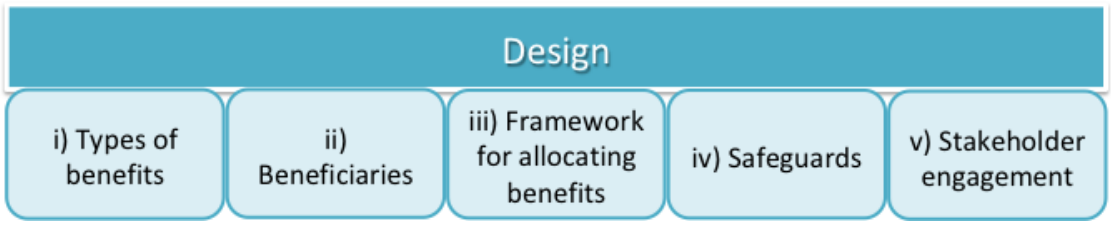
25. In assessing the context in Bhutan, there are important questions that are relevant and necessary to understand the overall picture. In preparing this document, the main aspects relating to the contextual components are presented in Table 2. The RGoB may choose to follow specific guidance such as the Carbon Fund Methodological Framework which provides a clear framework for developing benefit sharing plans for emission reductions programs.

Table 2 Assessment of context

Context	Key Questions
Enabling policies	• Are there existing policies to allow the design? • Are there existing provisions for payment for Ecosystem Services? • How well are these policies being implemented currently?
Rights and tenure arrangements	• Is land and other rights' ownership clear? • Who holds the rights to carbon?
Benefit Sharing and PES experiences	• What are the current mechanisms and experiences in the country, and what lessons can they generate for REDD+?
Institutional framework and Capacity	• What are the relevant actors that should be engaged in REDD+ benefit sharing? This includes different levels of governments, non-governmental organisations (NGOs), the private sector, communities, and international agencies. • What is the current capacity of these actors to develop and implement a REDD+ benefit sharing scheme? - Government officials designing and implementing REDD+ as well as other relevant stakeholders (e.g. NGOs, the private sector, communities) • Are expectation clear regarding when costs and benefits are likely to accrue?

26. With this context information, the relevant project benefit sharing scheme can be designed following the steps presented in Figure 4 below.

Figure 4 Design aspects of BSM



Source: readapted from CIFOR 2014

27. Lessons from other countries that have already implemented BSM (such as Vietnam, Ghana, Peru, Brazil, and Mexico) can help in designing the overall approach. The first point to consider is how to identify the bundle of benefits that will effectively, efficiently and fairly incentivize stakeholders to participate in reducing deforestation and contribute to emissions reduction.

3.5 Types of Benefit

28. The implementation of the Strategy Options and associated PAMs will lead to a range of benefits. The identification of these benefits is required in order to determine which approaches can be used for the BSM in Bhutan. Benefits will include monetary benefits (direct cash) and non-monetary benefits for goods and services. The implementation of the REDD+ strategy will also lead to several non-carbon benefits.

29. Non-carbon benefits (NCB) encompass a wide range of positive outcomes, resulting from REDD+ activities beyond those associated with avoided emissions and/or carbon sequestration. There are three types of NCBs: social, environmental and governance benefits. Social NCBs of REDD+ activities may include providing opportunities for livelihood improvement and facilitating the empowerment of individuals and communities. Environmental benefits may range from biodiversity conservation to increased resiliency of ecosystems and improved ecosystem services, such as water regulation and erosion control. Governance benefits may include secure land

tenure, improved law enforcement, increased levels of transparency and broader stakeholder participation in policies and systems that affect the management of forest resources. In most cases, these NCBs are also national priority policy issues., In the case of Bhutan, governance, issues are identified as underlying drivers in the analysis of deforestation and forest degradation drivers.

30. As of necessity, priority non-carbon benefits need to be looked at from a national level to enable broader integration into socio-economic priorities, as well as national level monitoring and reporting. With regards to investment, the cost of achieving NCBs may range. Higher levels of investment are justified for those NCBs that clearly align with a country's top priorities. As such, national contexts and priorities of NCBs must be understood for these types of funding allocation decisions to be made. For instance, the process of undergoing land tenure reform, zoning and planning will involve significant investments of time, effort, and funds. It is noted that the REDD+ readiness process has already started supporting the National Land Commission with land zoning.

31. In many countries, there can be too much focus on monetary benefits. It is important to emphasise that cash benefits are not always holistically effective, and expectations around these benefits will need to be managed. In 2014, The Forest Dialogue Review highlighted that multiplicity of benefits is important. Although carbon sequestration and carbon emission avoidance are the core goals of REDD+, additional incentives are needed if REDD+ is to achieve broader relevance and interest. Multiple benefits allow for the alignment of incentives within and across scales, sectors, landscapes and legal rights regimes. Consequently, the approach should leverage multiple benefits and particularly emphasize non-cash benefits at sub-national levels. There will be a combination of short-term and long-term REDD+ benefits, and these should be integrated into national sustainable development goals. Furthermore, there needs to be distributional equity, access, representation or participation, roles and responsibility to increase the opportunities for success.

3.6 Disbursement Mechanisms

32. There are three main basic modalities for delivering international REDD+ finance, which are loosely linked to the phases of REDD+ implementation articulated in the Cancun Agreements of 2010. They involve a transition from preparation and planning, to the implementation of PAMs to reduce deforestation and forest degradation, and finally to RBPs payments for verified emission reductions.

33. **Up-front investments**: Finance delivered upfront to build capacity or to support the implementation of PAMs that have been agreed upon in advance by the donor and recipient (for instance, this includes the FCPF Readiness Grant).

34. **Performance-based payments for actions**: Finance is delivered in return for demonstrating successful implementation of "REDD+ actions" that are necessary for the success of REDD+, such as demonstrated improvements in forest governance or establishment of a national reference emission level through the Carbon Fund, Green Climate Fund and other funding mechanisms. These benefits can be monetary and non-monetary.

35. **Results-based payments**: Finance is delivered upon demonstration of verified emissions reductions generated by REDD+ activities, which may or may not result in the issuance of carbon credits that can be sold in a voluntary or compliance carbon market.

36. These three modalities can operate at any scale – country level, sub-national level and the community or household level. However, there are challenges that arise in striking a balance in equity.

3.7 Benefit Sharing Framework Development Process

37. A desk review of existing literature on benefit sharing and different countries' experience (e.g. Brazil, Ecuador, Mexico, Cameroon, Uganda) reveals that one of the main lessons learned is that the development of a benefit sharing system should be done progressively, over time, as policies, regulations and institutional arrangements may require review and possible amendments or reforms.

38. Four lessons on designing benefit sharing have emerged:

i. **Build on existing in-country BSMs.** Different countries have different approaches to REDD+ benefit sharing, and there is a tendency to rely on models already familiar within those countries. The advantage of building upon existing clear legal frameworks and mandates, as well as aligning BSMs with national strategies and various development plans, is that they can reduce the costs of establishing and operating new institutions for sharing benefits from REDD+ and should receive more political support from the state. The downside is that it might not be innovative enough to deal with the new climate change challenge. In cases where there are no legal frameworks for BSMs, they should be designed in a consultative process with key stakeholders.

ii. **BSMs will only prevail in the long term if they are designed to deliver the 3Es-Effectiveness, Efficiency and Equity**. Unfortunately, despite efforts so far, countries have shown little capacity to deliver the 3Es due to limited accountability, transparency and financial management capacity of the state. Additionally, these goals can often conflict, requiring trade-offs between the goals. Thus, new efforts to develop BSM should consider these challenges. The development of a system requires careful consideration and continuous consultation with stakeholders, and well-designed mechanisms to reduce the risk of funds being inappropriately managed. During the design and implementation stage, it should be considered whether independent audits and monitoring could enhance the achievement of the 3Es, together with continuous partnering with civil society organizations (CSOs), NGOs and local experts. Benefits from REDD+ should not just be distributed to communities but should also target the actors involved in research, monitoring and enforcement efforts. The system should ensure that those receiving benefits get sufficient support from entities distributing benefits, which in turn are also well-supported in developing the capacity for planning, forest management and community building.

iii. **Countries in the early phases of REDD+.** (transition from Phase 1 readiness and capacity building to Phase 2 implementation of policies and measures) are recommended to adopt **input-based benefit-sharing mechanisms**. Performance-based benefit-sharing mechanisms are likely to be more practical in Phase 3.

iv. **Challenges are more complex and take longer than countries anticipate**. Conflicting legal provisions, overlapping mandates and inconsistent implementation among government agencies, weak law enforcement, limited funding and staffing, lack of transparency, corruption and elite capture are some of the examples of the issues that countries face when developing a BSM. Thus, despite the presence of a National REDD+ Strategy in some countries and the diversity of discourses on benefit sharing, there are still many challenges that need overcoming. Nevertheless, there are a number of available solutions. For example, challenges related to land rights and misappropriation might be overcome by the introduction of agreements that would bring clarity to rights for receiving benefits; challenges related to poor governance might be tackled by starting with benefit allocation to capacity-building and land tenure efforts. This leads to the conclusion that a BSM must take a pathway approach, by establishing the relevant structure, capacity and any policy or regulatory reforms that may be necessary (Table 3).

Table 3 Pathway approach to Bhutan's BSM

Activity	Description
1. Benefit sharing Working Group	There are various cases globally where REDD+ failed because it did not pay sufficient attention to BS. Thus, from the outset, it is recommended that Bhutan establishes a permanent working group on this topic (under the existing REDD+ Working Group) to see it through the entire REDD+ implementation. It should meet regularly and consider implementing the activities proposed in this framework.

2. Clarify carbon tenure where various stakeholders are involved	Multi-party projects will require clarity on the identity of various beneficiaries and what their roles and responsibilities. This knowledge will be essential to equitable determine benefit distribution. Thus, it is paramount that appropriate legal understanding is established through transparent information sharing with national and local stakeholders.
3. Carbon Registry, Safeguard Information System (SIS), and Feedback and Grievance Redress Mechanisms (FGRM)	In the event that Bhutan participates in results-based payments, adequate carbon registry and monitoring system are critical. Likewise, linked SIS, FGRM will need to be operational. These would need to be discussed with national stakeholders and agreed upon. Once that decision is made, specific arrangements would need to take place to ensure that the host entity can legally host the credits and has a carbon registry in place. If the host is the Bhutan Trust Fund (BTFEC), then further arrangements will be needed in terms of defining how and to whom the grants will be channelled, as well as cross-checking their current safeguards policy with the findings coming out of the SESA exercise.
4. Identify potential benefits and beneficiaries	The implementation of the PAMs will generate monetary and non-monetary benefits. It is paramount that the involved stakeholders come together and agree on the share that will be allocated to each. Certain benefits are straightforward (increased sales of a product will go to the income of the people making the transaction) but others will require capacity building to set up a system and dialogue to establish the benefit distribution without misunderstandings and conflicts. This meeting will serve both as for a capacity building but also as an instrument to increase ownership of parties involved leading to increasing legitimacy. It is recommended that all discussions on benefits are consistently framed against national priorities.
5. Delineate scheme	As REDD+ is in the relatively early stages in Bhutan, it is recommended that a mix of input and performance-based benefits are promoted. Some activities will just require direct investments to already identified stakeholders. These are straightforward and should be relatively easy to set up. Other activities may require further analysis to determine how benefits are distributed through a specific benefit sharing plan.
6. Continuously consult and inform stakeholders	To ensure that REDD+ itself and the benefits it will generate are well communicated to national stakeholders, it will be important to continuously present them against the country's economic development policy and reflect them against the Gross National Happiness (GNH) index. This will increase national buy-in and will help ensure that REDD+ will not be treated as a stand-alone initiative, but more of an important pillar that supports the advancement of the country's existing priorities.
7. Pilot new PES schemes	To implement some of the PAMs through a PES scheme, effective coordination is essential and established working groups should be maintained as long as necessary.

4. POLICY PROVISIONS AND ASSESSMENT OF EXISTING BENEFIT SHARING MECHANISMS IN BHUTAN

4.1 Relevant BSM Policy Provisions

39. Analysis of Bhutan's drivers of deforestation and forest degradation and the National strategy development process has already explored all of Bhutan's policies relevant to REDD+. Therefore, this section only focuses on examining the key policies and associated provisions relevant to benefit sharing.

National Forest Policy of Bhutan 2011 (NFP)

40. The NFP defines the overarching goal of sustainable management of forest resources and biodiversity to produce a wide range of social, economic and environmental goods and services for the equitable benefit of all citizens and the natural environment, while still maintaining a constitutional minimum of 60% forest cover.

41. Maintaining this level of forest cover has several direct and indirect benefits for Bhutan, but it requires a framework that incentivizes the key players. Such a framework will include both cash and non-cash benefits:

- Empowering rural communities to manage forests sustainably for socio-economic benefits, poverty reduction and to contribute to overall sustainable forest management at the national level.
- Facilitating raising forestry crops on registered land of individuals or institutions and accrue ecological, social and economic benefits.
- Enabling an economically viable and efficient forest-based industry aimed at adding value to forest products and building the capacity of the private sector and rural communities to utilize, process and market forest products.
- Maintaining species persistence and ensuring long term sustainability of Bhutan's biodiversity, ecosystem services, natural habitats and cultural heritage through a network of protected areas, biological corridors and the management of other parts of the forest landscape for positive environmental outcomes.
- Providing for effective and integrated watershed management, maintaining and improving water and watershed conditions and contributing to sustainable livelihoods through the provision of watershed services.

42. The NFP provides the policy aspects of forest production, use and management. In this policy, there are provisions for Benefit Sharing (BS) for the equitable benefits of all the citizens. While BS is one of the objectives of the Policy, elaboration of BS is limited to aspects of social forestry - community forest and private forest (see Clause 2.5.4). However, this policy leaves the door open for any proposals or initiatives that may be introduced into the BS system.

Forest and Nature Conservation Act of Bhutan 1995 (FNCA)

43. The FNCA was enacted for the protection and sustainable use of forests, wildlife and related natural resources of Bhutan for the benefit of present and future generations. As one of the means for effective protection of forest by the local communities, a few provisions of BS are enshrined in the Act. One such provision is in relation to the provision of a forestry lease to any person in accordance with the applicable management plan (see Section 15). The management plan is prepared by the Department of Forest and Park Services and approved by the Minister for the Ministry of Agriculture and Forest. Pursuant to this Act, the Forest and Nature Conservation Rules and Regulation 2017 have been framed, providing administrative and operational details for the implementation of the Act.

National Environmental Protection Act of Bhutan 2007 (NEPA)

44. NEPA was enacted to respect the international environmental laws acceded to by Bhutan and in reverence to the ecological values. There are provisions for BS in the form of financial incentives from the government. The Act states that to promote environmentally friendly technologies, code

of best practices and eco-labelling, the government may provide fiscal incentives, including tax incentives and reductions in customs and other duties on import. (see Section 78).

Land Act of Bhutan 2007

45. This Land Act was a legislative reform on land. The Act was enacted to manage, regulate, and administer the ownership and use of land for socio-economic development and environmental well-being of the country through effective use of land resources and conservation of the ecosystem. Provisions of this Act that are relevant to BS are of those in relation to the lease of Government Reserved Forest. The Act states that the Government land or Government Reserved Forests may be leased to a juristic person for the purpose of economic activity, which includes the lease of GRF for the community forest. For a lease, there is no land ceiling. However, the duration of the lease period is to be not more than 30 years (see Sections 306 & 308). Under the Act, the Rules and Regulations for Lease of Government Reserved Forest and Government Land 2009 had been framed to provide the administrative and operational details for the implementation of the Act.

Environmental Assessment Act 2000 (EAA)

46. This EAA was enacted to ensure sustainable development, in line with the national objective of "development that must not be at the expense of our natural resources". This Act requires Environmental Clearance as a prerequisite to the issuance of development consent for a project (see Section 8). Pursuant to this provision, the Regulation for Environmental Clearance of Projects 2016 framed under EAA requires public consultation and community clearance for the project before issuance of the Environmental Clearance by the authority (see Chapter VI). Though BS is not specified in this law and bylaws, the practice is that the community negotiates for BS with the project proponent before their "Community Clearance" is consented.

The Biodiversity Act of Bhutan 2003

47. This Act was enacted pursuant to the Convention on Biological Diversity. This Act has specific provisions on fair and equitable sharing of benefits arising from genetic resources utilization. The Act provides that upon fulfilment of all the conditions laid down in the Act, the following minimum conditions for benefit sharing will be included in the Material Transfer Agreement or Contract Agreement to be signed between the Competent Authority and the Applicant (see Section 10):

- A flat fee and upfront payments
- The sharing of the research results and relevant information
- Royalties
- Milestones payments
- Recognition as a partner in intellectual property ownership of products derived from the supplied material
- Joint research activities
- Concessionary rates or free supply of commercial products derived from the resources provided
- Transfer of technologies
- Training and capacity building
- The acknowledgement of the origin of the genetic resources in any publication resulting from the research activities
- Donation of equipment to national institutions
- Other benefits, monetary or non-monetary

The Industrial Property Act of Kingdom of Bhutan 2001

48. This Act was enacted to recognize industrial property rights and extend legal protection for these rights. This Act is mentioned as it has relevance to the provisions on BS in the Biodiversity Act 2003. The Act's provisions on Patent Rights allow the protection of rights related to genetic research and inventions (see Part II), and the Biodiversity Act provides for BS arising from genetic resources utilization. It may be noted that the above policies, laws and regulations (PLRs) provide for BS (at least impliedly). There are no PLRs that prohibit BS initiatives if introduced.

49. Overall, Bhutan seems to have a good basis of regulation to deal with Benefit Sharing. These are complemented with the several guidelines existing in the country to guide implementation. The Social Forestry Division, for instance, has a manual that delineates benefit sharing provisions for Community Forestry, which is currently being revised for improvements.

4.2 Rights and Tenure Arrangements

4.2.1 Land and Tree Tenure

50. The term land tenure implies the various laws, rules and obligations governing the holding, and/or ownership rights and interests in land (Kassanga 1988). Tree tenure refers to the bundle of rights over tree and tree products, each of which may be held by different people at different times (Fortmann 1985). These rights include the right to own, inherit, dispose of, use, and exclude others from using trees and tree products. For effective implementation of REDD+, land and tree ownership should be aligned, while harmonization or legal integration of the two land tenure regimes (customary and statutory) is pursued.

51. According to the Land Act of Bhutan (2007), the ownership of land may be classified into following categories: a) Individual person's land; b) Juristic person's land; and c) Government land (see Section 19).

a) Individual Person's Land

52. A person of Bhutanese citizenship can own land anywhere in Bhutan. The land's ownership can be in a person's name or a family or a group of people/joint. The land of such ownership can be sold, mortgaged, gifted, leased, etc. by the owner/owners. The tenure (ownership of this land) is indefinite until the land is transferred/transacted to another owner (see Section 61). There is also land given to this category of ownership as *Kidu* (land granted free because they had no land or insufficient land) by His Majesty the King. One cannot transact this land within 10 years of allotment (see Section 137).

b) Juristic Person's Land

53. In Bhutan, there are lands owned by a community, religious organization, monk body, NGO, government institution, and corporation (see Section 59). The tenure of this land ownership is also indefinite/perpetual. However, they are not allowed to transact this land except surrender the land to the government (see Sections 134, 136, and 138). Nonetheless, corporations can transact their land like an individual.

c) Government Land and State Reserved Forest Land

54. This land belongs to the government/state, which may be leased to a juristic person in accordance with the existing rules and regulations. There is no ceiling of this land to be leased (see Section 306). The tenure of State Reserved Forest Land **(**SFRL) is not allowed beyond 30 years, irrespective of the tenure term in the lease agreement (see Section 308), and leasers are not allowed to transact the land. However, the tenure of a lease may be terminated if the Government needs the land for a public purpose.

55. The Land Act (2007) and associated regulations related to forest land tenures (besides tsamdro and tseri use), such as customary land rights and land tenure in general, were not identified as a key underlying driver of deforestation (Bhutan's Drivers is Deforestation study). This indicates that customary rights holders in Bhutan can access forests for their needs to the extent that forests continue to support livelihoods and local uses. Common property resources are the key for the subsistence of smallholders and are considered as quite well organized. Addressing changes to tenure arrangements to support REDD+ objectives and goals is, therefore, not a priority.

4.2.2 Carbon Tenure

56. The emergence of forests in climate change discussions has brought about a new form of property right called carbon rights. It is critical to delineate the ownership of carbon to allow for carbon trading, as a commodity cannot be exchanged if its property rights are not clear. The rights and ownership of carbon are also important when it comes to sharing REDD+ benefits. In defining carbon rights, there are two concepts worth considering, namely:

- Sequestered carbon: this is the commodity carbon itself, meaning it (sequestered carbon) is treated as a property separable from the tree or biomass in which it is stored. The owner of the tree, forest, soil or land will not necessarily own the sequestered carbon. In other words, carbon is considered as an ecosystem service.
- Carbon sinks: these are the reservoirs in which the carbon is stored. They may be regulated by property rights that control trees or below ground resources.

57. There is no definition of carbon rights in Bhutan. Carbon rights would require explicit legislation on definition, allocation and title transfer clarification for both entities and individuals.

4.3 Assessment of Existing Benefit Sharing Systems

58. Existing payment for ecosystem services (PES) and associated benefit sharing schemes provide insight for the development of equitable BSM for REDD+ implementation. Bhutan already has a number of existing systems, and the main ones are[1]:

a) Biodiversity conservation: access and benefit sharing (ABS) of genetic resources and traditional knowledge
b) PES for watershed protection and drinking water
c) Community forestry for environmental conservation and forest resources including timber and non-wood forest products
d) Cordyceps by the highlanders (special case established by Royal Decree)
e) Eco tourism
f) Farmer groups and cooperatives

59. Table 4 provides analyses the different PES schemes and their BS provisions to see if they meet the 3Es (effectiveness, efficiency and equity), and their relevance for REDD+.

4.3.1 Biodiversity Conservation

60. The Access Benefit Sharing Policy 2015 is the first guiding document for access benefit sharing of genetic resources and associated Traditional Knowledge for biodiversity conservation with equitable and fair sharing of benefits. The ABS Policy specifies the guiding principles of access benefiting sharing and three different models have been trialled with support from the Nagoya Protocol. As of February 2018, the six signed ABS agreements are:

- Three agreements with French-Swiss and Japanese Companies
- Two is a tripartite agreement between local communities of Jom Dagam Ngomen Tshogpa, Namther Menrig Tshogpa, Menjong Sorij Pharmaceuticals, Bio-Bhutan and National Biodiversity Center (NBC).
- One agreement between NBC and the local community of Loggchinagewog (Dzedokha Phacheng Destshen).

61. The Parties/Beneficiaries are communities, companies, and the RGoB are economic beneficiaries accruing from access and use of the genetic resources and Traditional Knowledge.

62. These existing projects have shown significant progress on several fronts: climate adaptation, traditional knowledge, women empowerment, income generation, public-private partnership model, and conservation. The key is that companies pay a price premium to the communities (value higher than normally paid for that raw material); the cash benefit is channeled back into the community and shared as per their existing community protocol and group by-laws. A 2% amount of total is ploughed back into Bhutan Access and Benefit Sharing (BABS) Fund and is utilized only for initiatives requiring intervention for conservation, sustainable utilization of biodiversity and enhancement of rural livelihood.

[1] In the agriculture sector the two forms of benefit sharing mechanisms are: farmer's groups/cooperatives in livestock and in the agriculture sector. Other forms of benefit sharing arrangements exist in the agricultural sector referred to as Traditional share contract (sharecropping/land sharing) benefit sharing namely, Abunu and Abusa.

4.3.2 Payment for Environmental Services: Watershed Protection

63. In 2009, Watershed Management Division (WMD) piloted the PES concept for sustainable watershed management. From this initial trial scheme, only Yukpugang Community forestry management group (CFMG) PES developed into a PES scheme for water source protection in which the users paid a lump sum amount. The beneficiaries are the CFMG (provider), the user (Mongar town and Regional Hospital) and the RGoB (conservation of the natural resource, here it is watershed protection). The price between the user and provider is negotiated between parties based and paid annually by the user. The PES scheme offers ownership rights and benefit sharing the revenue to the CFMG for the protection of the water source.

4.3.3 Community Forestry

64. Bhutan established Community Forestry (CF) to sustainably utilize and manage the forest with access and use of forest resources (timber, fuelwood, food, NWFPs and sale of surplus forest products) by the communities. The CF is based on the principle of good governance, ensuring transparency, accountability, participation, predictability, empowerment, inclusiveness, equity and benefit sharing. The Social Forestry & Extension Division (SFED), DoFPS, manages this programme. The community forestry management group (CFMG) and non-wood forest product management group (NWFMG) conserves natural resources based on a participatory approach, in order to achieve equitable sharing of cost and benefits. The benefit sharing in CFMG and NWFMG is based on promoting equality between members having access to resources, sharing costs and labour among the members. The beneficiaries are communities who enhance their incomes and the RGoB who gain from environmental conservation.

65. The benefits to the community are in goods and services that are shared within the members, as per the bylaws of the group. Under the bylaws, all group members are liable for an equal share of any forest produces for their own use, based on their need irrespective of their social status in the village. SFED recognises that the benefit sharing aspect needs improvement and is currently working on a manual to address required changes.

66. CF is a shift from the central forest to community-based forest management. The forest management and conservation costs are borne by the community, which reduces the transaction costs of the programme and lessens the burden to RGoB.

4.3.4 Cordycep (Ophiocordyceps Sinensis)

67. The harvesting of cordycep (*Ophiocordyceps Sinensis*) was legalized in 2006, exclusively to highlanders. The economic beneficiaries are the individual highlanders who use their time (opportunity cost) for collection. In this mechanism, the benefits are not shared within the communities. The RGoB receives a fee and royalties.

4.3.5 Ecotourism

68. The 11th Five Year Plan (FYP) considers tourism as an important growth sector to support youth employment and poverty reduction in rural Bhutan.

69. The ecotourism PES was proposed in Phobjikha valley, Wangduephodrang. The rationale for the scheme was based on protecting the aesthetic and biodiversity hotspot for eco-tourism. The pilot study aimed to introduce a fee system for the conservation and development of the valley. This revenue was aimed to support activities for income generation while managing and protecting natural resources and landscape features. The economic beneficiaries would be communities and the RGoB.

70. A willingness survey indicated a positive response with 86 per cent of tourists willing to pay for improved environmental services (52 per cent up to US$ 5 and 11 per cent US$ 10 or more). However, the system did not launch. The arguments were that Bhutan already sets a fee for tourism and that these should all be managed at the national level, not at a local one.

4.3.6 Farmer Groups and Cooperatives

71. The RGoB policy promotes cooperatives as a sustainable pillar for economic development. The cooperatives are voluntary private enterprises and partners of RGoB for economic development.

72. In 2009, the RGoB legalized the Cooperatives (Amendment) Act of Bhutan 2009. The task to exercise the mandate is given to the Department of Agriculture Marketing and Cooperatives (DAMC), MoAF. Since this legalization, many types of cooperatives have been formed, especially in the agriculture and livestock sectors. These cooperatives are linked to institutions (schools, colleges), private company (Koufuku International Private Limited, Japan and Druk Holding Investment, Bhutan) and markets (domestic, India).

73. The formal groups have well-defined management structures, by-laws, conflict resolution and BSMs. However, governance and monitoring of activities are still weak and need improvement.

4.4 Implications of existing systems on the NRS Benefit Sharing Framework

74. The assessment of implications of existing benefits for REDD+ is presented in Table 4.

Table 4 Assessment of implications of existing benefit for REDD+

Benefit Sharing Mechanism	Perception	Implication to REDD+
a) Biodiversity conservation	Effectiveness: Conserving, sustainable utilization of biodiversity and enhancement of rural livelihoods. But, since the project is still ongoing, the benefits are yet to be completely materialized. Efficiency: The benefits are yet to be completely materialized to evaluate the cost (both financial and human resources), but there has been over-reliance on government agencies. Equity: Includes all relevant stakeholders, but it is not clear as to how the benefits are shared within the community members and on the inclusion of the marginalized groups — lack of grievance redress mechanism (GRM).	This is a market-based approach (empowering communities and increasing their income), conserving the environment/traditional knowledge and adapting to climate change. Moreover, it involves communities and farmers with access to forest resource and benefit from it. For this model to be applied in REDD+, the activities should be common with clear terms between the user and the provider, but with a systematic GRM for the model and social safeguards (Cancun safeguards). This is an input-based model, which could fit well in the first stages of REDD+ implementation in Bhutan.
b) PES for watershed protection and drinking water	Effectiveness: This has been effective for biodiversity conservation, watershed protection, carbon sequestration services, landscape beauty, and sustainable utilization of forest products and enhancement of rural livelihood. Efficiency: The implementing agency provided awareness, capacity building, brought the environment service providers and users together, formed an agreement between them and monitored the scheme. The costs are likely to be quite high but will tend to diminish if lessons are well used when upscaling Equity: There is no clarity on the inclusion of poor and vulnerable members (women) and how the benefits are distributed within the group members. There is a lack of GRM.	This is a relevant experience for REDD+, especially to help implement the current NRS Strategy Option 4 This experience of the PES is helpful in considering benefit-sharing approaches, capacity and monitoring issues. Importantly, because the knowledge and experience are with WMD, this can be translated into REDD+ relevant knowledge building. Moreover, the set-up and commitments of the existing PES are similar to a REDD+ set-up. But it is important to be clear on what can be delivered. For example, in the watershed, the water quantity did not increase. In this model, GRM is lacking, but GRM will be included in REDD+. Additionally, the costs of setting up the PES scheme were quite high, so it is paramount that lessons are well visited to ensure the efficiency of the process.

c) Community forestry	Effectiveness: It has delivered sustainable forest management, income generation, community development and social cohesion. Within the established boundaries of the CF, it is functional. But it is short in some other respects. Efficiency: CF programme has been expanding. The forestry officials under the SFD have the capacity to implement and monitor this programme but acknowledge that improvements are needed. The management burdens have been shifted to the communities. Efficiency can be improved, but the system still works well. Equity: Provisions on equity in benefit sharing among the members exist to a certain extent but need to be strengthened. It is highlighted in many documents and in the CF manual weakness in transparency, equity in decision making and benefit sharing, financial management (record maintenance, fund management and monitoring). Special attention should be devoted to marginalized groups and women, including persons with disabilities.	This is a somehow successful platform that should be utilised by REDD+, but has still a lot of room for improvements, e.g.: • Maximise economic benefits from CFs, by, e.g. improving marketing from NWFP. • Improve attention to gender and marginalised communities in terms of equity (note that this is actually included in the CF revised manual 2018) • Increase awareness and capacity building to the CFMG in several governance aspects • Enhance transparency, establish a better mechanism to lodge a complaint and appoint an internal auditor Overall, the CF model is useful for REDD+ where decisions are taken locally on benefit sharing and with inclusion and provision for the marginal and poor groups for a fair and transparent benefit sharing.
d) Harvesting and marketing of Cordyceps	Effectiveness: the main goal is to safeguard the livelihoods of highlanders. In that sense, it has been effective, but there is a question on the sustainability of the resource. Although, to safeguard sustainable harvesting (for only a month) is framed. Efficiency: The scheme is considered efficient, as it is quite straightforward. Equity: Only household members involved in this business generates income. There are no sharing provisions with the community.	Not very relevant to REDD+ BS, but some of the social safeguards can be considered in REDD+ BS. The forest communities do not receive any benefits. Too dependent on one product, need to consider alternative income generation, especially with the question on sustainability. Understanding the mechanism for this model can be useful whereby direct buyers and sellers, including officials from Gewog and DoFPS, are involved.
e) Ecotourism	Effective: A good mechanism aimed to promote the conservation and improvement of livelihoods. In theory, effective, but in practice, it has not worked so far. Efficiency: not able to assess. Equitable: There is relatively less information on how the benefits are shared within the group members and how it is connected to opportunities, empowerment and vulnerability. Equity: Not implemented. Pro-poor is considered.	Need to be clear on ownership rights in REDD+. PES: This type of PES aligns with the vision of tourism policy to develop the tourism sector in environmental conservation and includes pro-poor fund utilization in the scheme. It also involves NGO and the private sector as partners. The pro-poor mechanism is included in this model. However, the legality of the scheme needs to be ensured. Without, legal basis there is no potential of such a scheme. Strong social safeguards with GRM should be included.

f) Farmer groups and cooperatives	Effectiveness: It is effective for collective action and local economic development because it helps to strengthen the cooperative movement. Efficiency: A lot of costs is incurred by the RGoB through both technical and non-monetary benefits. This has led to some successful groups and cooperatives. It has witnessed certain groups forming a group to access this support. Equity: There is equality in the benefits derived by the members, as it is usually on the basis of the quantity. However, the equity lacks as no consideration is included for poor and marginalized households. This may also limit the participation of these groups.	Yes, with some changes. This is a business model. REDD+ can be viewed as a business model in natural resource management with the inclusion of equity for everyone, especially poor and vulnerable households in the communities. In this model, the benefits are output/activity based on individuals. However, there needs to be a consideration for poor and vulnerable members to reduce the inequitable burden of high transaction costs.

75. Overall, it can be concluded that Bhutan already has excellent knowledge of PES and benefit sharing that can be used to implement REDD+. It is also quite clear that a lot is dependent on the government, who bears most of the costs and provides technical assistance to set up and monitor the schemes.

5. MAPPING REDD+ BENEFITS AND BENEFICIARIES AGAINST REDD+ STRATEGY PAMS

5.1 REDD+ Costs and Benefits

76. The NRS outlines a suite of benefits to be obtained from the implementation of the selected PAMs. There are two broad types of benefits - monetary and non-monetary.

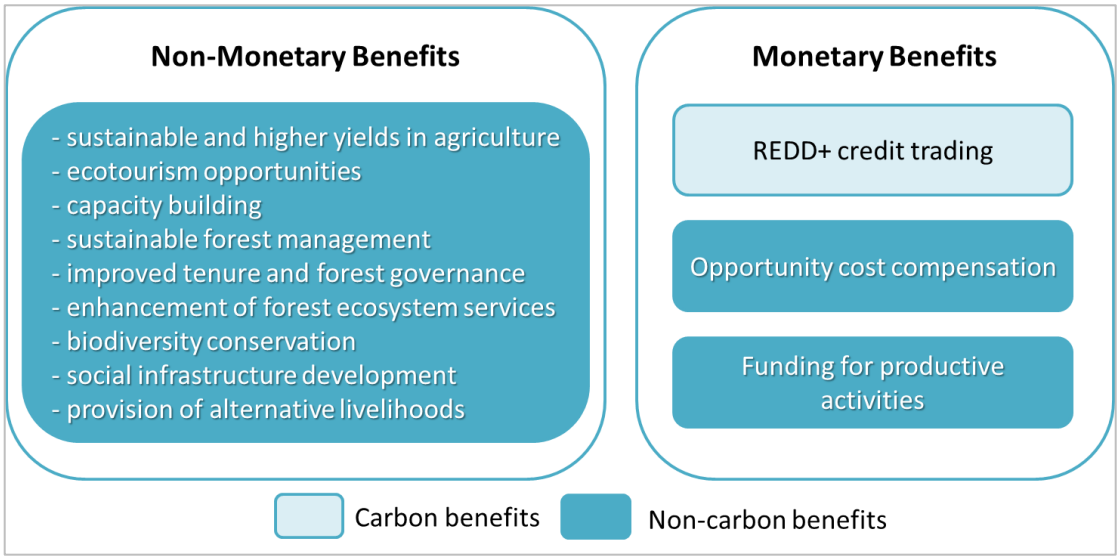
77. **Non-monetary benefits:** These include goods, services, or other benefits funded through REDD+, or directly related to the implementation and operation of the REDD+ program, that provide a direct incentive to beneficiaries to help implement the program and can be monitored in an objective manner. These benefits include sustainable and higher yields in agriculture, ecotourism opportunities, capacity building, sustainable forest management, improved tenure and forest governance, enhancement of forest ecosystem services, biodiversity conservation, social infrastructure development and provision of alternative livelihoods.

78. **Monetary benefits:** These refer to direct cash payments. These financial payments in REDD+ can have three forms:

- REDD+ credit trading or REDD+ 'rent': stakeholders often refer to the monetary income from the sales of the carbon credits resulting from REDD+ (carbon trading). But it must be taken into account that there are costs related to implementing REDD+, so the 'rent' aspect takes into account the difference between the cost of implementing REDD+ (opportunity cost and implementation cost) and the average global carbon price, at which emissions reductions credits from REDD+ could be sold.
- Opportunity costs compensation: which is a compensation for the value of the next most profitable land use forgone. It is expected that individuals, communities and groups who change their land use in order to conserve the forest, reduce carbon emissions and store carbon should be paid direct financial benefits.
- Funding for productive activities: funds provided to support the implementation of productive activities that store carbon such as tree planting, aimed at relieving pressure on natural forests.

79. Figure 5 provides examples of these benefits:

Figure 5 Examples of monetary and non-monetary benefits from REDD+



Source: CIFOR 2014

5.2 Feasibility and Cost Benefit Analysis

80. In the process of developing the national REDD+ framework, it is important to understand cost-related information of REDD+ as a basis for developing strategies, allocating budgets, and

assessing the effectiveness of REDD+ investments and expenditures and preparing for RBPs where it makes business sense. As defined by the World Bank, REDD+ implementation costs[2] are defined as the costs and investments required to implement REDD+ and avoid or minimize displacement of emissions to other regions or sectors (leakage). For instance, these costs can include:

- the cost of forest protection to prevent illegal logging;
- sustainable forest management activities;
- agriculture or pasture intensification;
- improving energy efficiency in household cooking methods.

81. Depending on the scale of the cost assessment, the implementation costs may also include national level costs such as program implementation, extension support services, investment in interventions and inputs directly related to reducing emissions from deforestation and forest degradation.

82. At the project level, implementation costs of REDD+ are closely related to the respective project design, which should explicitly address the drivers of deforestation and forest degradation as identified in the opportunity cost analysis, leakage prevention and overall project management as well as technical training and capacity building. A major characteristic of implementation costs is their recurrent nature after initial investments have taken place, in relation to addressing the ongoing drivers of deforestation and forest degradation.

83. There are costs and investments required to implement the NRS and avoid or minimize displacement of emissions to other regions or sectors (leakage) (World Bank 2016). Therefore, it is necessary to determine the cost and benefits that are likely to accrue from implementing the NRS. Such an analysis enables an understanding of the level of fund mobilization and benefit sharing. For this strategy, a cost benefit analysis (CBA) was undertaken in which each of the PAMs were evaluated for costs and benefits generated over a period of 20 years.

84. The four Strategy Options and proposed PAMs are highly relevant and respond to the identified drivers and underlying causes of deforestation and forest degradation. Quantitative and qualitative analysis shows that a combination of regulatory and institutional strengthening would have a greater impact on reducing deforestation and forest degradation. As noted, Bhutan has a wide range of suitable policies and opportunities, but enforcement and financial capacity have been significant barriers to effectiveness.

85. The combined results of the CBA, economic valuation, and climate change mitigation potential show that the four Strategy Options will enable Bhutan to address the direct and indirect drivers of deforestation and forest degradation, while still contributing to national economic development agenda. With regards to the ten PAMs, the range of net present values and climate change mitigation potential show that there is need to take a balanced investment approach to draw maximum returns and social, environmental, and economic benefits. Implementing the NRS is estimated to require approximately USD 54.5 million during the first five years (Table 5).

Table 5 Strategy option budget estimate

Enabling PAMs	Estimate Cost (USD)	Direct Intervention PAMs	Estimate Cost (USD)
PAM 1 Developing institutional and sectoral capacity building to achieve sustainable forest management	3 000 000	PAM 5 Achieving a highly diversified and technology-based timber supply chain	5 800 000
PAM 2 Strengthening the effectiveness of existing policies and methods across	1 670 000	PAM 6 Adopting fire management approaches that limit impacts on the	5 000 000

[2] World Bank – Estimation of REDD+ Cost Elements 2016

all forestry jurisdictions and areas		environment and communities	
PAM 3 Strengthened cross-sectoral planning and coordination	4 600 000	PAM 7 Establish plantations to provide sustainable wood products supply, increase carbon-stock, and enhance biodiversity	21 600 000
PAM 4 Harmonized EIA process to ensure infrastructure proposals are assessed and monitored as a package	1 600 000	PAM 8 Promoting the development of enterprises that sustainably manage Non-Wood Forest Products	1 075 000
		PAM 9 Broadening opportunities for income generation from ecosystem services	2 250 000
		PAM 10 Develop climate smart approaches in agriculture	8 000 000
Total Estimate	10 870 000		43 725 000
Grand Total (USD)	**54 595 000**		

86. The implementation of the actions proposed in Bhutan's NRS will generate both carbon and non-carbon benefits. Typically, REDD+ would have a relatively broader focus on emission reductions and, therefore, would include potential sales of emission reductions (ER) (carbon), and a range of other benefits, such as watershed protection, and sales from forest products. The national circumstances (i.e. low deforestation but a significant future threat to existing forest and ecosystem services) means that the focus of REDD+ in Bhutan will be on non-carbon benefits. Both monetary and non-monetary benefits need to be shared between relevant stakeholders, also known as beneficiaries.

87. The range of net present values and climate change mitigation potential show that there is a need to take a balanced investment approach to draw maximum returns and social, environmental, and economic benefits. Table 6 and Table 7 outline the social and economic net present value s, internal rate of return and emission reduction potential for each PAM. The negative net present values illustrate the complex nature of implementing policy projects that require long term monitoring and evaluation to determine actual impact and benefits.

Table 6 Estimated financial indicators and emission reductions potential

PAM	Net Present Value (Social: USD)	Net Present Value (Economic; USD)	Internal Rate of Return, %	Emission Reductions Potential (USD)
1	-2 682 679	-2 472 405	N/A	0
2	4 301 723	1 860 762	39	2 780 709
3	1 955 180	-23 936	15	2 730 423
4	106 176	-441 601	9	819 127
5	7 213 067	2 230 116	23	2 317 257
6	-1 299 026	-1 831 511	3	1 139 025
7	-13 149 537	-9 746 562	N/A	123 750
8	4 104 635	1 775 128	37	171 417
9	97 222	-487 780	9	65 930
10	291 425	-1 875 422	9	142 612

Table 7 Climate change mitigation potential of each PAM

PAM	Potential Total CO2e impact (tons)	Average CO2e impact per year (tons)	Potential Net Income from Carbon (USD 5.1/ton)
1	0	0	0
2	2 780 709	139 035	13 656 613
3	2 730 423	136 521	13 400 158
4	819 127	40 956	3 652 547
5	2 317 257	115 863	11 293 011
6	1 139 025	56 951	5 284 029
7	123 750	6 188	106 125
8	171 417	8 571	349 225
9	65 930	3 296	-188 760
10	142 612	7 131	202 322

5.3 REDD+ Beneficiaries and Rationale

5.3.1 Beneficiaries

88. There are different types of beneficiaries and rationales that have to be established for each group. Benefits under this framework will include both monetary and non-monetary benefits and include benefits that are achieved after some period of implementation (ex-post); as well as upfront benefits (ex-ante) to enable the REDD+ interventions. This framework is based on the tenet that the greater proportion of REDD+ financing in Bhutan will come from international sources, with some domestic finance and limited if any, the volume of RBP. In the event that REDD+ implementation involves results-based payments, the criteria to determine the eligibility of target groups could depend on factors, such as forest stewardship practices and the role in facilitating or enabling REDD+ implementation. Luttrell et al. (2013) propose six different ways to share benefits, as reflected inTable 9.

89. Potential beneficiaries include the three main beneficiary types: i) rural forest-dependent communities, ii) State bodies (at all levels), and iii) other stakeholders, such as private sector, civil society organizations, projects (by CSOs, private sector and development partners), and research institutions. Local communities and organizations are expected to benefit the most as they are the ones who need to adapt the most for the emission reductions to be achieved. Although benefits for these implementers are expected to be primarily non-monetary.

90. Each PAM in the NRS will benefit certain groups, but the same group will not necessarily carry the costs of implementation. Table 8 lists the estimated actors that will benefit from the PAM implementation, but also who will bear the costs. The last column provides some notes on the potential approaches and rationale to justify the beneficiaries.

Table 8 REDD+ beneficiaries

PAM	Beneficiaries	Costs	Adopted approaches/ rationale
1 & 2	Direct benefits to the government through increased capacity, leading to higher institutional effectiveness. These benefits will be further passed to communities to which departments serve.	The costs will be borne by the government for the most part.	Governance Stewardship
3 & 4	Benefits for the government through improved capacity, leading to higher operational efficiencies in planning processes. Benefits to projects and developers in having coherent planning application processes.	The cost will be borne by the government in the establishment of these approaches. Project partners will be expected to pay during actual applications.	Governance Stewardship

5	Benefits will be from improved efficiencies within the timber industry, thereby reducing costs and improving cost margins per harvested unit. This will reduce wastage and unnecessary loss of carbon from forests.	Some costs are borne by the government in the form of interest-free loans. Private sector investment will be required, which will be returned over time through increased profits.	Innovation Investment
6	Benefits to all communities through reduced risks to life and property. Reduced loss of carbon from forests.	Costs will be borne by the government.	Public services
7	Benefits to communities through increased access to forest resources and a reduction in human-wildlife conflict. Increased carbon storage.	Some costs are borne by the government in the form of interest-free loans. Private sector investment required, which will be returned over time through increased profits.	Stewardship Innovation Legal rights Investment Prosperity building
8	Benefits for the government will accrue from the improved opinion of its performance and decreased greenhouse gas emissions from decreased forest degradation. The communities will benefit from increased income and thus improved education and other living standards. Also, water quality will be improved as forest degradation is decreased.	Costs will be borne by the government for the most part. Some investments in the new nature-based enterprises will be partially paid by the beneficiaries. Costs of the PES project will be partly paid by the government and partly by the benefiting community in the form of PES payment.	Cost compensation Legal rights Stewardship Prosperity building
9	Benefits will be received by the communities targeted by the activities. These include rural communities that are most dependent on forest resources to maximise the impact. They will receive income from new activities that compensate for not using forest resources that cause forest degradation. The government will benefit from the improved perception of its performance. Benefits of PES will be received by the water users in the form of improved water quality. The improved biodiversity will benefit all stakeholders.	Costs will be borne by the government for the most part. Some investments in the new nature-based enterprises will be partially paid by the beneficiaries. Costs of the PES project will be partly paid by the government and partly by the benefiting community in the form of PES payment.	Prosperity building Stewardship Cost compensation Legal rights
10	Benefits are received by rural people growing crops and rearing livestock through increased income and higher resiliency against climatic shocks. The government will benefit from the perception of higher performance and reduced greenhouse gas emission.	Costs of the projects will be mostly borne by the government, while farmers will have to bear some of the cost of investment to improved practices to ensure ownership and sustainability.	Stewardship Cost compensation Legal rights

5.3.2 Benefit Sharing Rationales

91. In Bhutan, the key principles of benefit sharing, which are effectiveness, efficiency, and equitable sharing, already exist through the GNH principle. The benefit-sharing rationales to be employed in the NRS will include:

- The facilitation rationale: A proportion of benefits should be given to those actors that are essential for facilitating the implementation of REDD+, such as project developers and government agencies. The activities may include administering policies, laws and regulations, monitoring and evaluation. The facilitation agents may be at national, provincial, district and village levels
- The hotspot priority rationale: The analysis of drivers has identified areas that are considered to be hotspots of deforestation and degradation risk (e.g. priority watersheds), and/or priority areas for carbon enhancement activities. Actors located within such hotspot priority areas are important change agents and, therefore, potential beneficiaries.

- Legal rights rationale: In the absence of well-defined rights over carbon sequestration and storage, existing land and forest tenure regimes and existing policy instruments for sharing benefits from the forests can serve as the basis for allocating payments for carbon emission reductions. These may include both statutory and customary rights. However, ownership of land or trees does not necessarily give the owner an automatic legal right to benefit from carbon sequestration or reductions in carbon emissions (Peskett and Brodnig 2011). This rationale includes a recognition of the need to strengthen areas outside FMUs, watershed areas and private forests, and PES.
- The cost rationale: Actors who directly invest capital and/or labour into REDD+ activities. These may include any potential investors of sub-projects that may be nested into the REDD+ Program. For example, in response to the need to modernize the wood value chain and increase diversification will require investment and adoption of climate-smart primary production.
- Carbon stock enhancement and emission reductions rationale: Implementers (performers) including those who have reduced emissions through the use, protection and management of forests and forest resources.

92. With regards to benefits realization, non-monetary benefits will comprise gains from the implementation of the four enabling PAMs and will specifically include improved capacity for sustainable forest management, improved forest governance, and improved land use planning. Monetary Benefits come from several sources and include increased, and additional income from wood value chain product diversification; receipts from PES schemes; opportunity cost compensation for loss of profitable land uses foregone; funding for activities that store carbon or relieve pressure on forests such as NWFP; increased revenue for farmers due to higher yields in agriculture. Table 9 summarizes the beneficiary categories and rationale that will be applied during the implementation of all PAM activities.

Table 9 Benefit sharing rationale and target beneficiaries

Benefits	Description and key beneficiaries
a) Legal rights - Benefits should go to actors with legal rights	These are distributed to those with a legal claim or right, whether statutory or customary, to any benefits associated with carbon emission reductions. One of the downsides of this approach is that it might have the effect of further disadvantaging the poor, as they usually do not possess legally recognized rights to land and/or forest products and are operating illegally. • Communities, individual households • Investors / Businesses
b) Emission reductions - Benefits should go to those actors achieving emission reductions	In theory, the ones contributing to reducing emissions should be the ones compensated. However, one implication of this rationale, which has been raised in other countries, is that REDD+ finance might end up being used to reward large-scale actors, who may also be major emitters. Consequently, there is the potential to reward poor environmental performance. While this approach may allow large scale emissions to be addressed, it could also potentially marginalize communities from the opportunity of being involved in REDD+. This an important part of the global dialogue under the UNFCCC on how and what safeguard measures are necessary to ensure that negative and unintended outcomes of REDD+ are avoided. • Communities, (Geog, Throm) with priority for REDD+ • Investors / Businesses • Government
c) Stewardship - Benefits should go to low-emitting forest stewards	Another rationale proposed is that REDD+ benefits should recognise good forest stewardship. Therefore, benefits should go not only to the actors reducing emissions but also to groups or other forest users that have a record of responsible forest management. It advocates for the use of REDD+ benefit-sharing mechanisms to support marginalized forest dwellers. The relevant activities could include the performance of forest protection and restoration, plan implementation (i.e. NFMS/MRV results for REDD+) and costs for executing and coordinating REDD+ implementation. • Communities, (Geog, Throm) with priority for REDD+

	• Investors / Businesses • Government (national and sub-national)
d) Costs compensation - Those actors incurring costs should be compensated	This approach asserts that actors who bear implementation, transaction, and opportunity costs should be compensated, regardless of the carbon emission reductions for which they are directly responsible. The argument suggests that as REDD+ is still in its early stages of implementation, there is a need to give actors incentives for getting involved. Although countries are working towards achieving results-based crediting, it is essential to look at the potential costs arising from REDD+ and whether the actors bearing the costs are the same ones receiving compensation or rent. The drawbacks of this approach include the following: it does not necessarily allow for a direct link between payments and reductions in deforestation and forest degradation, and it does not account for variability in the performance of forest managers, and their incentives are weak if paid regardless of forest outcomes. • Ministries/Departments • Dzongkhags/Dungkhags • Investors, private sector
e) Facilitation - Benefits should go to effective facilitators of REDD+ implementation	Others propose that REDD+ benefits should be shared with actors that are not necessarily forest-based but that are essential for the implementation of REDD+, such as NGOs, governments, project proponents, among others. • Ministries/Departments • Dzongkhags/Dungkhags
f) Pro-poor - Benefits should go to the poorest	This approach is based on the concern that an exclusive focus on carbon emissions and compensation of costs could result in the unfair distribution of REDD+ funds. This could result in increasing inequality and undermine the moral and political legitimacy of REDD+. This aligns with the Cancun Agreements “pro-poor” rationale as a safeguard, by emphasizing that REDD+ should be implemented in the context of sustainable development and poverty reduction to enhance other social and environmental benefits. Different countries have adopted different approaches/rationale, depending on the national/regional circumstances. • Marginalized groups • Communities

5.3.3 Framework for Allocating Benefits

93. Setting up an effective and equitable BSMs for REDD+ requires adequate institutional and governance frameworks, as well as clear instruments on how to allocate financial and other types of benefits (Luttrell et al. 2013; Vhugen and Miner 2011). There are horizontal and vertical types of benefit sharing. The vertical type is based on distributing benefits top to bottom - from the national to the local level. On the other hand, the horizontal distribution implies the allocation of benefits in and across households and communities (Lindhjem et al. 2010). As Bhutan’s approach to REDD+ implementation is national, the vertical benefit sharing appears to be more suitable. Irrespective of the approach Bhutan pursues, the important principle of ‘3Es’ should be taken into account.

94. To some extent, the effectiveness of BSMs for REDD+ is predetermined by established institution frameworks, which, in its own right, is largely influenced by where the financing comes from and where REDD+ is implemented. The nature and simplicity of the institutional framework might vary in accordance with adopted goals, objectives, as well as relevant stakeholders. The framework might be built upon the existing one, with some adjustments or a new institutional framework can be developed.

95. There are three main modalities that countries can choose to distribute REDD+ benefits: a) fund-based structures; b) existing BS schemes in forest-relevant management policies; c) contractual benefit sharing arrangements. Each modality is described in the next section.

6. PROPOSED NATIONAL REDD+ BENEFIT SHARING FRAMEWORK

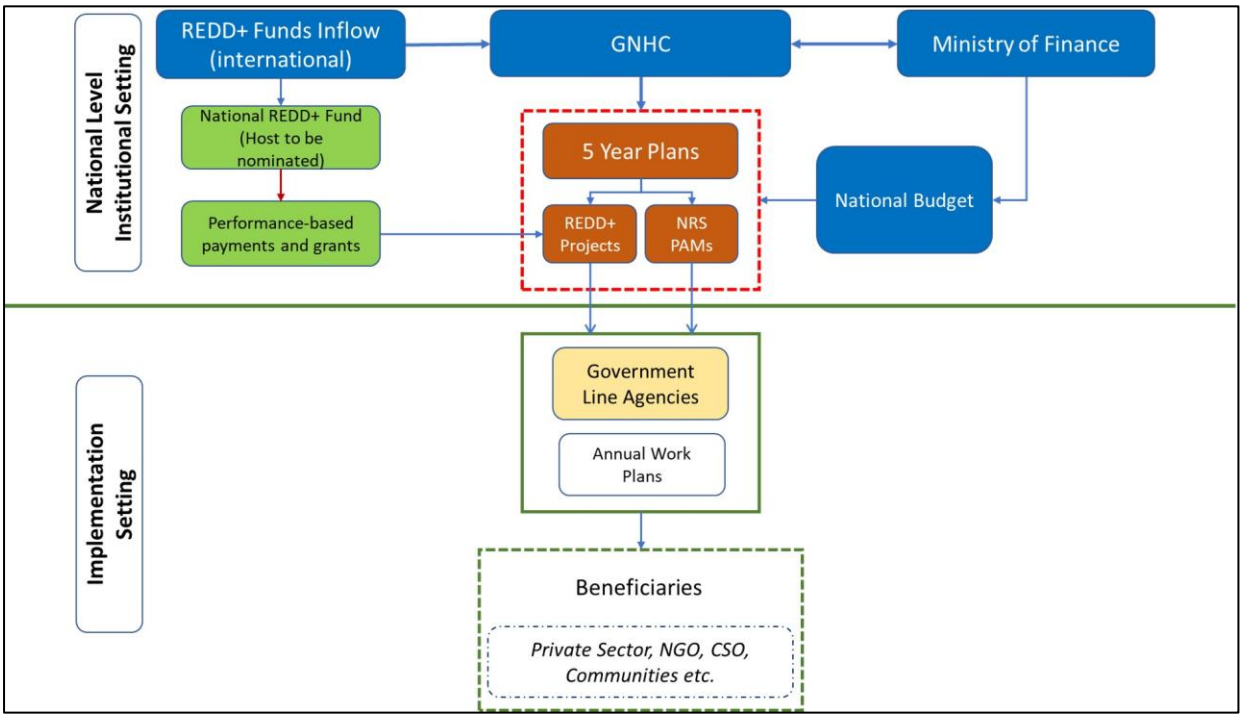
6.1 REDD+ Fund Management

96. The REDD+ Benefit Sharing Framework proposed is based on the existing institutional setting involving GNHC and the Ministry of Finance with an additional proposal to nominate a host for an independent National REDD+ Fund (NR+F). The host of the NR+F will be responsible for management of international funds received as results-based payments but may also be responsible for domestic funds specifically earmarked for REDD+ performance-based.

97. Figure 6 illustrates the proposed institutional setting for REDD+ funds management. This setting means that funding inflow from international sources is mobilized through GNHC and channelled into a REDD+ window within the Ministry of Finance, from where funding can be allocated in line with the FYP and NRS PAMs Action Plan for all institutions that hold roles and responsibilities for REDD+ implementation. The Ministry of Finance (MoF) is the financial arm of the government hence as a permanent institution has the required capacity and systems in place to administer relatively large funds. The mainstreaming of REDD+ into the National Five-Year plans will mean no separate process is required for fund allocation and monitoring and evaluation.

98. The second option entails the setting up of the NR+F where mobilized funds flow directly into this proposed independent fund. This approach can be in the form of bilateral projects undertaken directly with government line agencies target to benefit local communities, business organizations, and CSOs and are eligible under REDD+.

Figure 6 Benefit Sharing Institutional Setting and Funds Flow



99. With respect to setting up the NR+F, the Bhutan Trust Fund for Environmental Conservation (BTFEC) is considered as a possible option considering its longstanding history and experience in fund management and projects implementation, since its establishment in 1992. Having been established as a collaborative venture between the Royal Government of Bhutan, United Nations Development Programme (UNDP), and World Wildlife Fund (WWF), an endowment of US$20 million was set up as an innovative mechanism to finance conservation programmes. Donors to the trust fund include the Global Environment Facility (GEF), the governments of Bhutan, Denmark, Finland, the Netherlands, Norway and Switzerland.

100. Since the trust fund is legally incorporated (1996) in Bhutan under Royal Charter, it is effective conservation, grantmaking and autonomous organization. BTFEC is governed by the Royal Charter of 1996 and a high-level Management Board that was fully established in May 2001. The day-to-day business is conducted through a locally based secretariat. The framework for using the fund is already in place through Article III, Section 3.0 of the Royal Charter of BTFEC 1996 which states that "Capital of the Trust Fund shall be constituted by contributions/grants from donor, countries/organizations and shall consist the principal and investment income." In addition, BTFEC is recognized as a National Implementing Entity (NIE) of the Adaptation Fund and meets all UNFCCC safeguards requirements.

101. Taking note of the proposed institutional setting, at the sub-national level, the PAMs will be implemented through annual work plans, as part of the FYP. Each year, based on the terms and agreements with institutions responsible for implementing activities outlined in the Action Plan, each institution will receive a budget allocation to implement the annual plan. The budgets will include the costs of implementation of PAM activities, including required funding to cover activities of the local authorities (i.e. based on the facilitation and cost rationales for benefit sharing).

102. A part of the work plan budget may be triggered as a performance-based conditionality under a set eligibility criterion outlining specific REDD+ activities in line with the NRS Action Plan. This approach will ensure that REDD+ funds received from both domestic and external sources, are transparently allocated and can be clearly monitored and reported.

103. Benefits under this framework will include both monetary and non-monetary benefits and include benefits that are achieved after some period of implementation (ex-post), as well as upfront benefits (ex-ante), to enable the REDD+ interventions. This framework is based on the tenet that the greater proportion of REDD+ financing in Bhutan will come from international sources, with some domestic finance and limited if any results-based payments.

6.2 Social and Environmental Impacts

104. Bhutan already has a set of legislation that aims to minimize or mitigate, harm to people and the environment, and at the same time to bring the most benefit from development activities, including REDD+, to people of all ethnic groups throughout the country. National PLRs that explicitly, and some cases implicitly, reflect social and environmental safeguards already exist. Therefore, the benefit sharing framework is considered within the this context.

105. The development of the Strategic Environmental and Social Assessment (SESA) was informed by an analysis of Bhutan's existing safeguard policies and regulations, along with relevant World Bank safeguards policies, in a manner that confirms the execution of REDD+ activities are in accordance with UNFCCC (Cancun elements) guidelines. Bhutan has now completed the development of four safeguard instruments to reduce the potential environmental and social risks and enhance the benefits of REDD+ implementation. These instruments include SESA, Environmental and Social Management Framework (ESMF), Resettlement Policy Framework (RPF) and Process Framework (PF). These safeguard documents will provide clear directions for managing and mitigating the environmental and social risks and impacts of future investments (projects, activities, and/or policies and regulations) associated with the implementation of the country's REDD+ strategy.

6.3 Feedback and Grievance Redress Mechanism

106. Bhutan has designed a Feedback and Grievance Redress Mechanism (FGRM), which is one of the critical requirements for the REDD+ implementation. The Feedback ensures effective engagement of communities and other interests and would serve to improve the planning and implementation of REDD+ towards preventing potentially adverse impacts on project-affected communities. FGRMs are intended to complement, not replace, formal legal channels for managing grievances. These mechanisms are not intended to replace the judiciary or other forms of legal recourse. FGRMs act as recourse for situations in which, despite proactive stakeholder engagement, some stakeholders have a concern about the organization's actual or potential impacts on them (FCPP and UN-REDD 2015).

107. Potential issues that the FGRM may have to deal with include:

- Allegations of non-compliance with safeguards and standards;
- Financial, fiduciary and benefit sharing disputes;
- Land tenure and customary rights;
- Rights to carbon;
- Participation and free, prior and informed consent;
- Access to information; and
- Adequacy and the independence of reporting from project implementers and local, provincial and national governments including on information provided to the SIS.

108. Conflicts may result from project activities. They will be resolved following a grievance mechanism that is based on the following key fundamentals:

- Rights and interests of impacted people, communities', workers and others associated with or impacted by the project are protected.
- Concerns of project participants arising from the project implementation process are adequately addressed and in a prompt and timely manner.
- Entitlements or livelihood support for project participants are provided on time and in accordance with the Government and World Bank safeguard policies.
- Project participants are aware of their rights to access grievance procedures free of charge.
- The grievance mechanism should be in line with existing policies, strategies, and regulations on grievances as defined by RGoB, which require project owners/developers to set up grievance mechanisms starting from the village level.

6.4 Monitoring and Evaluation

109. REDD+ monitoring will be integrated into existing national frameworks. The GNHC monitors the implementation of plans and programmes at the national level, through annual status monitoring of the National Key Result Areas and corresponding Key Performance Indicators, as well as the mid-term review of the five-year plans. The implementation of the five-year plans is monitored through the national monitoring and evaluation system (Single System). The preparation of this NRS coincides with the commencement of the 12th FYP and will continue into the 13th FYP. Under the 12th FYP, all agencies and local governments shall ensure that cross-cutting themes such as environment, disaster management, gender, vulnerable groups and sports are mainstreamed into the programmes and projects.

110. Therefore, no separate monitoring framework shall be developed for REDD+ as reporting on REDD+ is now inherent within the National Key Result Areas, Key Performance Indicators, and Agency Key Result Areas in the 12th FYP. This approach will continue into the 13th FYP. The Local Development Planning Manual will help the Local Governments, in terms of tools and techniques to mainstream or integrate cross-cutting issues and opportunities in plans and programmes.

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