



# CORRUPTION RISK ASSESSMENT FOR REDD+ IN BHUTAN

Ministry of Agriculture and Forests  
Royal Government of Bhutan

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## **List of Abbreviations**

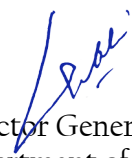
CF	Community Forest
CFMG	Community Forest Management Group
DoFPS	Department of Forests and Park Services
FMU	Forest Management Unit
GAO	Geog Administration Officer
GEAO	Geog Extension agriculture Officer
GEFO	Geog Extension Forest Officer
GNHC	Gross National Happiness Commission
MoAF	Ministry of Agriculture and Forests
NEC	National Environment Commission
NGO	Non-Governmental Organizations
NRDCL	Natural Resources Corporation Ltd
PPD	Policy and Planning Division
REDD+	Reducing emissions from deforestation and forest degradation in developing countries, and the role of conservation, sustainable management of forest and enhancement of forest carbon stocks
RGoB	Royal Government of Bhutan
RNR	Renewable Natural Resources
R-PP	REDD+ Readiness Preparation Proposal
TFD	Territorial Forest Division
DzFS	Dzongkhag Forestry Sector
UNFCCC	United Nations Framework Convention on Climate Change
WMD	Watershed Management Division
WS	Working Scheme

## Foreword

Under the UN framework Convention for Climate Change (UNFCCC), REDD+ (reducing emissions from deforestation and forest degradation in developing countries, and the role of conservation, sustainable management of forest and enhancement of forest carbon stocks) is an international financial mechanism that will compensate developing countries for cutting carbon emissions from their forest sector, through the conservation of standing forests and implementing more sustainable forest activities. While REDD+ is attracting momentum and interest, concerns are also being raised because REDD+ countries often face a number of governance challenges, inside and outside the forestry sector.

The UN-REDD Programme which supports REDD+ program in countries undertaking REDD+ and REDD+ Readiness programme initiated assessment of risks of corruption in REDD+ and developing possible mitigation measures for these risks. Anti-corruption measures for REDD+ is a core element of UNDP's five-year Programme Strategy which identified five key thematic areas: facilitating multi-stakeholder REDD+ Corruption Risk Assessments; developing the capacity of stakeholders to jointly mitigate corruption risks; guidance on promoting access to REDD+ information; guidance on institutional frameworks for equitable, transparent and accountable benefit distribution systems; strengthening the integrity of fiduciary systems for receiving and disbursing of funds; and coordinating anti-corruption activities at the national, regional and international level, including with programmes supporting law enforcement actors.

As a part of its REDD+ Readiness programme, Bhutan is preparing to develop a national REDD+ strategy to be implemented in accordance with the UNFCCC agreements. Therefore, this study on Corruption Risk Assessment for REDD+ in Bhutan is a timely initiative and would like to commend the Watershed Management Division for carrying out the study in collaboration with UN-REDD/UNDP programme. It is hoped that the findings and recommendations from this study will provide the required guidance for the Department in undertaking follow up actions thereby taking Readiness process to the next higher level and also ensure that the REDD+ Strategy incorporates effective measures to address corruption risks for implementation of REDD+ programme in Bhutan.



Director General  
Department of Forests and Park Services

## **Executive Summary**

*For many countries considering their strategic policies and measures, options to implementing REDD+, understanding forest governance weaknesses including corruption as well as governance strengths is important.* Increasing transparency, accountability and integrity may be needed to successfully and sustainably implement REDD+ policies and measures. At the same time, the process of implementing such measures could itself generate new issues, particularly when benefits are shared. Bhutan's REDD+ Readiness Preparation Proposal (R-PP) was approved in December 2013. The country is recognized as having extensive forest cover and low (if not positive) rates of forest loss, and as experiencing low levels of government corruption, while the country's careful transition to democracy has been widely heralded as a success.

The research for this study, commissioned by the Government of Bhutan and undertaken through a participative methodology, strongly suggests corruption is not a major threat to forests and forest-dependent people in Bhutan. However, stakeholders identified three main areas of concern, from which recommendations are developed:

**1) Access to timber and forests for rural communities**

Existing implementing arrangements are leading to some level of unsustainable forest use, as well as some concerns on equitable sharing of benefits in some locations. Two policies here are most critical: the policy of providing all rural citizens access to highly subsidized timber for residential purposes (known as *subsidized rural timber*), and the policy of devolving management responsibility over forests to community organizations (known as community forest management groups).

**►To address issues arising as a result of access to timber for rural communities, recommendations include:**

- Strengthen monitoring, oversight and enforcement, through a combination of increased verification of timber usage by households, more regular audits of saw mills and increased monitoring of transit permits for transporting timber
- Maintain a historical digitized database of requests and approvals of rural timber at the Geog level that would be used by both the Gup and relevant forest officials at the Dzongkhag level to secure final approvals. The DoFPS could be the ideal government department to maintain such a database.
- Revise the rules of *subsidized rural timber*, through, for example, a reduction in the amount of timber for households, minimizing the chances of surplus timber (possibly devolved to the Dzongkhag); and frame more stringent rules to ensure *subsidized rural timber* allocations are aligned with household needs.
- Strengthen collaboration between the Department of Forests and Park Services and the National Housing Development Corporation of Bhutan to

integrate new ideas on innovative and environmentally sound building methods and materials

**2) Forests offences , including illegal logging**

The majority of the forest offences in Bhutan seem to be small-scale and opportunistic, primarily meeting the subsistence needs of rural people, as opposed to implication by authorities, labeling as systematic bribery. However, there are isolated situations in places such as Paro and Sarpang where there are well-organized illegal logging, and cross-border smuggling into India.

**➤ *To address forest offences and illegal logging, recommendations include:***

- Strengthen existing data on forest offences, combined with other sources of information such as annual surveys sent to district authorities, CF heads and Gups to gain qualitative analysis in addition to quantitative data.
- Improve the litigation system in processing forest offences.
- Develop a more focused response system to deal with cross-border forest offences in Southern Bhutan, through increased resources for law enforcement, better information sharing between districts, and better co-operation and co-ordination between Indian and Bhutanese authorities, at various levels.

**3) Governance challenges in relation to decentralization or community co-management of forests**

Community forestry has emerged as a dynamic feature of forest governance in Bhutan, and is recognized as an important institution and possible pilot for REDD+. While the idea of community forestry is well supported within Bhutan, active participation is declining in some areas, due to both how Community Forest Management Groups distribute benefits and costs are shared among the communities. While there are inevitably some problems of corruption and abuse of resources, which fall within the two broad themes of allocations of timber and non-wood forest products, and distributing income, overall the problems are limited in scale and frequencies. Yet some governance weaknesses could become more problematic overtime, such as those related to democratic representation that open prospects of “elite capture” and conflicts of interest if adequate safeguards are not put in place right from the planning phase. Also, effective mechanism during implementation such as auditing, monitoring and evaluation of Community forestry programme can help to address such challenges.

*➤Considering that REDD+ could bring about greater revenues and responsibilities to community forestry, recommendations to address governance challenges in community management of forests include:*

- Re-examine the role of local government in Community forestry.
- Pay specific attention to the problem of equity and gender imbalance by reviewing the guidelines in the Community forestry Manual and focus on capacity building for Community Forest Management Groups.
- Develop the peer group networks that could regulate and improve standards (including on financial accounting, benefit sharing and democratic representation) a focus of REDD+ stakeholder engagement work during the implementation of Bhutan's R-PP.
- Strengthen auditing and evaluation through joint evaluations, simplifying procedures and forms, and ensuring that reliable qualitative data such as levels of participation, transparency and people's perspectives on groups/individuals dominance, possibly conducted by an independent organization.
- Review the distribution of incomes from Community forestry in terms of how these advance poverty alleviation and community cohesion, as well as avoid forms of corruption.

Looking forward, examining current forest governance weaknesses and possible ways to address them is relevant for two main elements of REDD+. First, considering the potential roles of community forestry in managing and **distributing REDD+ incentives**, early reform could help prevent a worsening or scaling up of existing issues. Second, such forest governance information can help promote and support **governance safeguards** under the 2010 UNFCCC Cancun Agreements, in particular safeguard 2b on "Transparent and effective national forest governance structures" and possibly safeguard 2d on "the full and effective participation of relevant stakeholders, in particular indigenous peoples and local communities." Some of the data and recommendations could be easily turned into useful indicators when the country develops its safeguards information system.

## **Acknowledgements**

This document on Corruption Risk Assessment for REDD+ in Bhutan is an outcome of the ongoing collaborative work between the Department of Forests and Park Services, Ministry of Agriculture & Forests and UN-REDD/UNDP program on REDD+ Readiness program of Bhutan. Therefore, we offer our sincere thanks to the UN-REDD programme for supporting REDD+ program in Bhutan starting from 2010 and its continued support for the Readiness phase. In particular, we thank the UNDP/UN-REDD programme for helping the DoFPS in carrying out this important study.

Many thanks are also due to all the stakeholders and relevant agency representatives for giving their time for interviews and also for giving relevant information (the list of interviewees is in annex I which really helped formulate the first draft of the document. Thanks also go to the stakeholders involved during consultative workshops at Paro and Sarpang in September 2014 for their valuable contribution and strengthening the draft document further with many more information. We also would like to thank the CFMG representatives of Bhur CF in Gelephu and CF in Paro for showing their CFs and sharing their experiences in CF management. We also would like to thank the participants of regional consultation workshops in Trashigang and Trongsa for their valuable feedbacks on final draft document.

Most of all, we would like to thank Mr. Andre Standing, UNDP consultant for his inputs starting from conducting interviews, regional consultations at Paro and Sarpang and for developing the document. His international experience and expertise in REDD+ implementation immensely helped in carrying out the study in the most appropriate and efficient manner. We also thank the UN-REDD/UNDP team based in Bangkok for their unwavering support rendered for this study and for providing their valuable suggestions and comments. Similarly, thanks are due to UNDP country office for their administrative and management support.

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## **1. Background**

This report summarizes findings on corruption vulnerabilities and relevant governance issues in the forestry sector of Bhutan, undertaken as part of the country's preparation for REDD+ implementation. For many countries implementing REDD+ projects, or gearing up to engage preparing to implement REDD+ activities at the national level, corruption is an important factor in understanding deforestation and forest degradation. It therefore needs to be tackled for REDD+ achievements to be met and sustained. While the existing corruption problems may undermine the implementation of REDD+, the process of implementing REDD+ activities could also generate new problems, particularly the sharing of resulting benefits. If the assessment is carefully conducted, anti-corruption measures in the early stages of developing and implementing national REDD+ programs may help avoid these problems and ensure REDD+ activities are implemented effectively.

Although there has yet to be a comprehensive analysis on rates of deforestation and forest degradation in the country, Bhutan is recognized as having extensive forest cover and low (if not positive) rates of forest loss. Bhutan is also widely regarded as experiencing low levels of government corruption, and the country's careful transition to democracy has been widely heralded as a success (see Box 1). In this context a study on corruption and governance in the forestry sector in Bhutan is unlikely to reveal significant problems for REDD+ implementation. This assumption largely holds true; the research for this study strongly suggests corruption is not a major threat to forests and forest dependent people in Bhutan. Partly, it is also attributed to the sustainable natural resource policy that emphasizes management of forests primarily for conservation of biodiversity and profit making is secondary. The decision of the government to ban export of timber stemmed from this consideration and for several decades there have been no private companies engaged in commercial forest exploitation, which is an area normally associated with high corruption risks. There are also many positive aspects of the existing governance of forests, including a binding Constitutional commitment to conserving forest cover at 60%, a national timber production system that prioritizes people's access to affordable timber, and progressive policies in place to engage rural communities in the management and ownership of forests.

A brief glance on the history of decentralization process in Bhutan and in particular the issues relating to the governance of forest use and access for rural communities is important. It forms a critical theme throughout the report to acknowledge the evolving nature of state-citizen relations. This requires some knowledge of the context of government decentralization in Bhutan and that is summarized in the table below.

**Box 1. Decentralization and important milestones**

Bhutan's transition to democratic governance began during the reign of the 3<sup>rd</sup> King Jigme Dorji Wangchuck (r.1952-72), with establishment of the legislative, judiciary and executive organs of the state (Puntsho, p. 568). An important step towards decentralization came in 1981, with establishment of Dzongkhag Yargye Tshogchung, now called Dzongkhag Tshogdu (DT) or district development committees and these are 20 in the country. These committees develop proposals and plans for district development and approved by the government. Ten years after the establishment of DT, decentralization was further enhanced by the formation of Geog Yarge Tshogchung ( now called GT) or the geog level development committees, headed by the Gup elected on a five-year basis. There are 205 Geogs in Bhutan. Beneath the Gup are 1044 elected village level leaders representing the communities at the lowest level.

In contemporary Bhutan, DT is represented by a District Assembly, and most ministries have line offices at the Dzongkhag levels. The chairperson of the District Assembly is elected from among the Gups. All Geogs Yarge Tshogchungs (or Geogs) also work to a five-year plan that is developed with consultation from the village level representatives and approved by the central government. About 27% of the state's budget is allocated for expenditure by the Geog authorities.

The year 2008 has been the historic year for Bhutan with the King handing over the responsibility of the nation's affairs to a fully democratically elected government and today the country follows democratic governance with the monarch as head of the state.

Despite the overall positive situation in Bhutan, there are some areas that many stakeholders recognize as being of concern, and in particular issues regarding access to timber and forest resources for rural communities, as well as human wildlife conflict that represents a cost for many rural communities of successful forest conservation. Existing governance arrangements are therefore leading to some unsustainable forest use, as well as unease about equitable sharing of benefits in some locations. Two institutions are the most critical – the policy of providing all rural citizens access to subsidized rural timber for residential purposes and the policy of devolving management responsibility over forests to community organizations (known as community forest management groups). Partly linked to these themes, additional governance challenges stem from forests offences, including illegal logging and poaching of wild life.

The following report provides analysis of the nature and extent of corruption in forestry in Bhutan, and it provides ideas on activities and policy changes that could positively contribute to the situation. It will be apparent throughout the report that a lot of this policy discussion is not aimed at directly fighting corruption. Rather, the report highlights gaps in knowledge and some weaknesses in governance and forest management that, if addressed, could further strengthen forest governance in ways that will contribute to keeping corruption at low levels.

## **1.1 Scope and structure of the report**

The report contains three chapters, the back ground to set the context of the main report followed by the main chapter on areas of corruption risk assessment and a concluding chapter that helps summarizes the policy recommendations. The main

chapter considers three priority themes that are the focus of this report. The first considers corruption and governance challenges in the production and supply of timber in Bhutan, and particularly subsidized rural timber. The second theme considers the nature of forest offences and whether corruption is a contributing factor to understanding the extent and difficulty in controlling these problems. The third theme looks at corruption and governance challenges in relation to management of community forests by the CFMG.

Each theme concludes with a discussion of specific policy issues related to the theme, and the conclusion offers a synthesis of these policy ideas, and some reflections for the Government on factoring in governance and corruption in going forward with REDD+ implementation.

This report focuses more on current corruption risks and practices in the forest sector than on assessing potential corruption risks that may emerge from and through REDD+ implementation. This is due to the fact that there is not yet a defined REDD+ strategy or set activities and approaches in Bhutan, as these will be defined through the implementation of Bhutan's RPP. The document emphasizes on how present risks may help project potential REDD+ related risks, such as in benefit sharing. A study focused on this could be carried out once Bhutan has better defined what REDD+ implementation will look like.

The report is also limited to examining drivers within the forest sector, and has not included a discussion on potential corrupt practices in sectors that have an impact from outside of the forest sector, such as infrastructure development and agriculture: This is also something that can be further studied in future work.

Finally, while the study for this report involved interviewing several people on the prevalence of corruption in government decisions on transaction of state forest land<sup>1</sup>, no detailed study on the transaction process on state forest land could be carried out. Some interviewees described that this is a concern and that there have been some cases where public authorities have personally benefited from land transactions. The Anti-Corruption Commission of Bhutan considers land allocations to be one important theme in their work. But overall the impression was that oversight and accountability is strong in the country, and that corruption in land allocations has quite a limited role in contributing to forest degradation/deforestation and the livelihoods of forest dependent people.

## **1.2 Methods**

The report is based primarily on the findings of field work visits to two districts, one in the north and one in the south of the country and consultation visits to various offices in Thimphu during July 2014 when several people were interviewed, mostly those working in government, to gain a broad understanding of how forestry sector

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<sup>1</sup>In many countries implementing REDD+, corruption in the allocation of land represents a major challenge, and it is something that REDD+ can exacerbate. Deforestation and forced evictions of rural people caused by abuse of power and criminality in the transfer of forested land between the state and private companies and political elites (so-called 'land grabbing') is an area of particular concern

management operates and what are the main challenges. A list of those interviewed during this fieldwork visit is listed in the annex to this report.

The fieldwork visit during September 2014 involved field trips to two districts in Bhutan, Paro and Sarpang, to explore specific themes in more detail, particularly subsidized rural timber, community forestry and forest offences. In each district the approach was to organize a consultative workshop, attended by 25-30 representatives from district and local level forestry and parks offices, local government (including several Gups), and community forestry representatives. The workshops provided an opportunity to share information on REDD+ with local stakeholders, and then participants, working in groups, were asked to describe and discuss the nature and extent of issues related to rural timber allocation, community forestry and forest offences. Plenary sessions allowed for all participants to discuss these issues further. The workshops were followed by further time to undertake interviews with specific individuals and to visit one example of community forests in each district. Regional consultation workshops were also conducted at East and Central Bhutan 2015 to get feedbacks on final draft document.

In addition to this primary research, information was accessed through newspaper reports, published documents and also several unpublished government reports and working papers. A list of these sources of information is provided in the references.

## 2. Areas of corruption risk assessment

This chapter focuses on the three main thematic areas that are vulnerable to higher risk of corruption namely a) commercial timber production & rural timber supply; b) Illegal logging & forest offences and c) Decentralization & community forestry. Although the study for this report has indicated several other possible areas of corruption vulnerability, the most relevant and significant ones for REDD+ Programs are identified, discussed and presented in this report.

### 2.1 Commercial timber production and rural timber supply

#### 2.1.1 Introduction

Until the late 1970s, timber production in Bhutan involved various private operators and local timber was largely procured through customary arrangements and with some oversight of civil authorities. The situation was, according to several sources interviewed for this study, poorly managed and the methods of timber production were criticized for their environmental impact. As a result, in 1979 private timber companies were banned, resulting in the nationalization of logging operations. There was also an end to timber exports afterwards. Currently, the production of timber is more tightly controlled, commercial timber production is almost exclusively based on a cable logging system (which minimizes forest degradation) and timber is only produced for national demand. This means that Bhutan does not face the challenges of managing high demand for export markets experienced by many other Asian countries. Still, timber production is considered by some to be an important driver of deforestation/degradation, primarily for construction of residential, government, monasteries, Dzongs, and commercial buildings.

Timber production in Bhutan operates through two main mechanisms and consumer markets. The Natural Resources Development Corporation Ltd (NRDCL) (see Box 2) is the only entity that is permitted to produce timber for commercial purposes from Forest Management Units (FMUs) and Working Schemes (WSs) managed through forest management plans approved by the government. Territorial divisions of the DoFPS carry out monitoring of the implementation of these plans.

#### **Box 2. NRDCL and its mandates**

A Logging Division within the then Department of Forests was established to carry out the timber production operation after the nationalization of timber harvesting in 1979. The Logging Division was upgraded to an autonomous agency under the name of Bhutan Logging Corporation (BLC) in 1984. A further change came in 1996 when the organization was incorporated under the Company's Act of Bhutan and renamed as the Forestry Development Corporation Limited (FDCL) and 100% owned by the government. The FDCL was further re-organized in 2007 and named as NRDCL when its mandate was expanded to the extraction of sand and stone. Today, NRDCL functions as one of the government owned company under the Druk Holdings and Investments (DHI), a state investment body.

Although established as a corporate entity, the objective of the NRDCL is to supply the country with good quality, affordable and sustainable timber and other resources. Profit making is not considered as the primary measure of success. The income of the NRDCL was significantly reduced in 2010 when the sale of timber was changed from auction to allocation based on a fixed price, decided by the Government's Natural Resources Pricing Committee. The change was made to make the timber affordable for the consumers inside the country.

The NRDCL implements the Forest Management Plans in approved Forest Management Units (FMU) and Working Schemes (WS) and works towards ensuring sustained yield, providing social and economic benefits and maintaining environmental stability. There are 16 FMUs and 5 WSs presently under implementation spread across the country. NRDCL also carries out environmental friendly forest road construction to facilitate timber harvesting and forest operations are all mechanized. The corporation carries out reforestation activities within harvested areas and also in blank and degraded areas within and outside FMUs. The total land area designated as FMUs and WAs represents just over 8% of the forest cover in Bhutan. Annual timber production has remained fairly constant over the past decade, fluctuating between 1.9 and 2.3 million cubic feet (cft).

The second mechanism through which timber is produced and consumed is referred to as subsidized rural timber supply. Allocation of timber for rural communities was practiced informally prior to the 1960s through local civic authorities and customary arrangements. With the enactment of the first Forest Act in 1969, allocation of timber was then governed through a more formal system managed by the forest department. Subsequently, the rural timber allocation process has gone through periodic changes, including a temporary suspension in the 1990s, and currently, the government grants every household outside the main urban centers 4,000 cft of unprocessed logs (or 2,500 cft of sawn timber) every 25 years for the construction of their household, and 1,000 cft in unprocessed logs (or 650 cft in sawn timber) for the maintenance of their household. In addition, subsidized rural timber is allowed for other purposes, including building of fences, livestock enclosures, cultural products and religious ceremonies, firewood and it can be requested for non-residential purposes, including renovation and construction of monasteries in rural areas.

The process of allocating subsidized rural timber involves requests being sent to the Geog from the head of the household, with the Gup having final approval, although assisted by a committee. Instructions for providing timber is passed on to the territorial forest division, who is then responsible for deciding where the timber can be obtained, which is indicated to the recipient via markings on trees. It is the intention of the government to digitize this process of submitting applications for rural timber with the introduction of community centers, which forms a key part of the government's 'government to citizens' (G2C) initiative. For the time being, only a few community centers are working optimally, so the majority of requests are paper based.

Some timber for rural supply is made available from within FMUs by the NRDCL, although the majority comes from outside protected areas and FMUs. Although there are plans in place to guide the territorial forest division to decide



where to grant timber for household and other *ad hoc* use through development of local forest area plans, this has just been initiated and the decisions on identifying suitable timber are therefore by and large discretionary. Except the areas of the Government Reserve Forest (GRF) falling within FMUs, Ws, Protected Areas and few local areas, the forest used for rural timber supply is not subject to any management plans, including allowable annual cuts. However programs are under way to prepare geog level local forest management plans to cover hitherto unmanaged areas to provide silvicultural basis for supply of such timbers in future.

Data on the total amount of timber provided for rural timber supply show that the proportion of supplied rural timber is of a higher volume than that which is supplied by the NRDCL. Moreover, while production of timber from FMUs/Ws has remained relatively stable, there has been an increase in the amount of timber granted by the state for rural supply. According to annual reports by the NRDCL, from 2004 to 2009 there was a three-fold increase in the amount of timber for rural supply, from 1.2 million cft to 3.6 million cft. Moreover, a significant amount of timber (normally in the region of 10% of commercial timber production) from within FMUs is being made available to meet rural demands.

This increase in subsidized rural timber may be indicative of increasing demands, however it should be appreciated that the rules governing rural timber supply, contained in the Forest and Nature Conservation Rules, have been amended on several occasions (in 2000, 2003 and 2006), and each time there has been an increase in the amount entitled to households. It is this increase that may explain increases in production of rural timber, alongside increasing demand caused by population growth and/or increasing construction.

Apart from the production of timber from the NRDCL and rural timber supply, further timber production is achieved by Community Forests (CFs). Part of the justification for supporting community forestry in Bhutan is to complement or replace subsidized rural timber system with timber produced for members of CFs within the forests that they manage.

### **2.1.2 Concerns over the sustainability of timber production**

There is growing recognition within the government that supply of conifer timber is under stress because of preferential demand for conifer over broad leaf species. Demand for timber has been increasing given economic growth and the enlargement of the construction industry in the main urban centers. In 2009/2010 there was a lull in construction due to an economic downturn. During this period the NRDCL experienced a surplus of timber that led to lowering costs. However, since then the NRDCL reports demand exceeding their supply, and prices have returned to that which is set by the government. Moreover, despite the trend towards urbanization, consumption of rural timber supply is also growing, as noted already. The DoFPS estimates that total demand is now close to what can be produced on a sustainable basis, and the shortfall between supply and demand is likely to grow. The problem is



more pronounced in some districts than others with considerable backlogs of timber for rural supply being reported in many Dzongkhags.

To understand this stress on timber production, it is important to note that total forested areas deemed suitable for quality timber production in Bhutan is relatively low, given the total land area reported as forests. Existing estimates suggest about 17% of forested land in Bhutan has potential to be managed as FMUs and WSSs for commercial timber production. With the remainder being in protected forests, forests containing trees of poor quality for construction, or forests in inaccessible terrain. A further 2% of the forest estate falls under community forestry, although for the time being this is making only a modest contribution to meeting rural demands.

Although the government plans to increase the number of FMUs, and have established tree plantations and engage in reforestation, growing demand for timber is placing strain on the productive areas of natural forests. For example, in Sarpang District, research completed in 2011<sup>2</sup> based on an extensive household survey and focus group meetings, described that demand for rural timber was in excess of what could be produced, with 47% of households complaining that allocations were insufficient. In addition the research revealed widespread fears over future timber supply, with 89% of households believing that timber production from their local forests was unsustainable. With concerns over future timber supply, in 2011, the government passed legislation to allow import of timber from abroad, and a year later the NRDCL indicated that it was considering importing timber from Tajikistan, India or Malaysia to make up for shortfalls,<sup>3</sup> although the high price of imports made this policy unlikely and apart from private imports for furniture making, Bhutan does not import timber on any sizeable scale for the time being.

Within FMUs, as described in an interview with the NRDCL, there are also doubts about sustainability and integrity in effective implementation of the ten-year management plans. Part of the challenge lies with uncertain information on forest regeneration and the success of tree replanting, while further difficulties stem from the practice of allocating timber from these areas for rural timber supply, which is done on an *ad hoc* basis and often timber is harvested beyond the limit of AAC calculation (over harvesting). The construction of forest roads is also considered a contributing factor to increased forest access, including some illegal logging (see 2.2).

### **2.1.3 Management challenges of Forest Management Units**

In the management of FMU/WSs by the NRDCL, according to sources within the NRDCL, potential conflict of interest in managing forest resources with conservation and financial objectives by a single agency influenced the decision to establish a separate logging company. Before this policy change, there were challenges caused by the same government department setting management plans and managing income.

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<sup>2</sup> Master's thesis by Tempa, K (2011), "Analysis of people's participation in subsidized rural timber allotment policy towards sustainable forest management at Sarpang Dzongkhag, Bhutan", Kasetsart University.

<sup>3</sup> See for example, Wangmo, T. "Import Indian timber to conserve Bhutanese forests, *The Bhutanese*, June 2<sup>nd</sup>, 2012. Downloaded from <http://www.thebhutanese.bt/import-indian-timber-to-conserve-bhutanese-forests/>

This may have been exacerbated when the Bhutan Logging Company was allowed to generate profits that could be ploughed back into its annual budgets. The current arrangement, which is based on a separation of responsibilities, is thought to have addressed these problems, and it is described by the DoFPS and the NRDCL that the distinct mandates between the DoFPS and the NRDCL works well, thereby achieving necessary ‘checks and balances’.

Also, the social objective of the NRDCL, as part of the social corporate responsibility as opposed to profit maximization, means the company does not face pressures to increase logging at an unsustainable limit. This could be a problem for timber companies where maximizing profits and shareholder dividends are viewed as the most important criteria of success for the company’s executives. However, meeting rural demand may lead to poor management decisions. A point of concern for some interviewed for this report lies with the discretionary power to grant timber access for rural supply. As far as can be ascertained, there is limited scope for nepotism/favoritism in this process given that requests for rural timber are processed by the Gup. Yet another concern, although quite probably of only minor consequence, is that decisions on where to grant access to timber may be influenced less by scientific considerations and more on sympathetic considerations for the user – allocating timber close to forest roads and close to households, for instance, instead of spreading timber production on a more prudent spatial system based on silvicultural principles or management plans where they exist. It should be noted that in many places the recipient of subsidized rural timber is expected to cut down trees for themselves, which they do directly or outsource to a local contractor. This approach to selecting trees that is more accessible for rural people to access may aggravate local forest degradation.

Within NRDCL, there is no evidence of fraud practices, but there are vulnerable areas for corrupt practices due to weak monitoring in the system as pointed out by RAA in 2014 (source: 2013-2014 financial audit report of NRDCL). Also the recent monitoring and evaluation reports of the FMUs by the DoFPS (Source: FMU evaluation report, DoFPS) show varying degrees of compliance failure and deviation in activities undertaken by the corporation and inconsistent monitoring by the territorial forest divisions such as overharvesting, deviation in road construction standards and selective extraction of felled timbers.

#### **2.1.4 Concerns with subsidized rural timber**

The commercial harvesting of timber within FMUs/WSs by NRDCL is generally within the plan prescriptions and may not be a concern with enhanced monitoring. However, the allotment of subsidized rural timber is the main problem area of timber production in the country. Several sources consider harvesting of subsidized rural timber to be the main cause of forest degradation and is therefore an institution that requires careful consideration in the context of REDD+. Indeed, in both Paro and Sarpang districts studied for this report, local stakeholders identified subsidized

rural timber as the most significant threat to sustainable forestry, more so than illegal logging and other forest offences.

The main concern with subsidized rural timber is the excessive quantity of timber provided to rural households and based on arbitrary entitlement of how much timber is needed to construct a traditional house. The policy is therefore thought to be too generous and this problem has increased with the periodic revisions to subsidized rural timber allocations. Moreover, in some cases the actual amount that households need to build or repair their homes has decreased over time, due to changes in building techniques, particularly the switch from rammed earth structures with wooden members and shingle roofing (requiring large amounts of good quality timber) to reinforced cement and metal (CGI) roofs (requiring much less). Also, the idea that households need to be rebuilt every 25 years, and require substantial repairs every 5 years, may no longer hold true in all cases (again, due to increased use of cement and iron). The rules governing subsidized rural timber specify that requests by households should be informed by building needs, but it appears that it is common for requests to be made and approved for the upper limit irrespective of needs. It was described that many citizens, and perhaps some of the Gups who approve requests, do not appreciate the law in this regard.

An outcome of this situation is that there is a significant trade in surplus timber, predominantly involving recipients of subsidized rural timbers who sell this to buyers in urban areas. The situation is explained not only by increasing demand in urban areas, but also the price differential between rural timber and the commercial timber. In addition to this illicit trade are other abuses, including households receiving timber for new buildings, but using part of the timber to renovate existing ones, and then selling the remainder. Further problems involve requests being approved for people living in semi-urban areas where the timber is being used for building non-residential buildings, including hotels. Subsidized rural timber is intended to help people in rural areas to have decent homes only.

The problem of misuse in subsidized rural timber is described by some people as being more likely near urban centers and connected by road heads. This is partly because these areas serve as easy entry points to bring subsidized rural timbers to urban areas. In some districts the illicit trade in subsidized rural timber is far less apparent, but this may also reflect the high costs involved in some areas for recipients of obtaining subsidized rural timber – in many rural areas the recipient will have to cut down and process timber themselves, or pay for someone else to do this. It may not make economic sense to harvest the full amount entitled to them beyond that needed for their homes.

The scale of illicit trade in rural timber is difficult to gauge. In Paro it was estimated by participants in the stakeholder workshop that households were reselling half of their subsidized rural timber allocations, although others present at the workshop thought this may be an overestimation. The situation in Sarpang was more confusing. Participants at the stakeholder workshop described abuse of subsidized rural timber as being quite widespread, but the in-depth independent

study published in 2011 that provided quantitative analysis on the use of subsidized rural timber, found that re-selling and unauthorized lending of subsidized rural timber was quite minimal – accounting for about 3% of total timber usage. In this district at least, the more common complaint was that subsidized rural timber was not sufficient for rural households as trees allotted were too small. This confirms the point that there are regional disparities in experiences in subsidized rural timber, and this is important when considering reforms. Moreover, the study in Sarpang alerts to the possibility that perceptions by local authorities on the scale of abuses of subsidized rural timber may not always correspond to the reality on the ground. One glaring case of misuse of rural timber by the beneficiaries is the selling off of subsidized timber in Gyelposhing, Mongar which was also pursued by Anti-Corruption Commission of Bhutan in relation to illegal allotment of plots by the plot allotment committee. The plot owners of proposed new town were allotted timbers on special kidu for house construction, but the timbers were illegally sold off.

At the national level, data on forest offences and penalties for illicit trade in subsidized rural timber have shown an increased trend over the past few years. In 2009 fines for misuse of rural timber amounted to just under half a million ngultrum (US\$ 8333) compared to just 38,000 ngultrum (US\$ 633) in 2005. The increase in fines is not a reliable indicator in the growth of illicit trade (it may simply show that the authorities are more aware of the problem), but several people spoken to for this report describe the trade as significant and growing, particularly in rural areas adjacent to the main urban centers. Other data provides some verification for this concern, as the rate of new houses being constructed in Bhutan does not correspond to the rate of increase in rural timber supply. The graph below shows number of house building construction reducing from 2007/08 while rural timber supply nearly doubled during the same period. It is possible this provides an insight into the illicit trade in rural timber, although it should be noted that not all subsidized timber is provided for rural house building. It may be possible to gain a better insight into rates of illegal trade in subsidized rural timber by studying trends in supply of legal timber to urban areas and analyzing this with estimates of consumption (i.e. new house buildings).

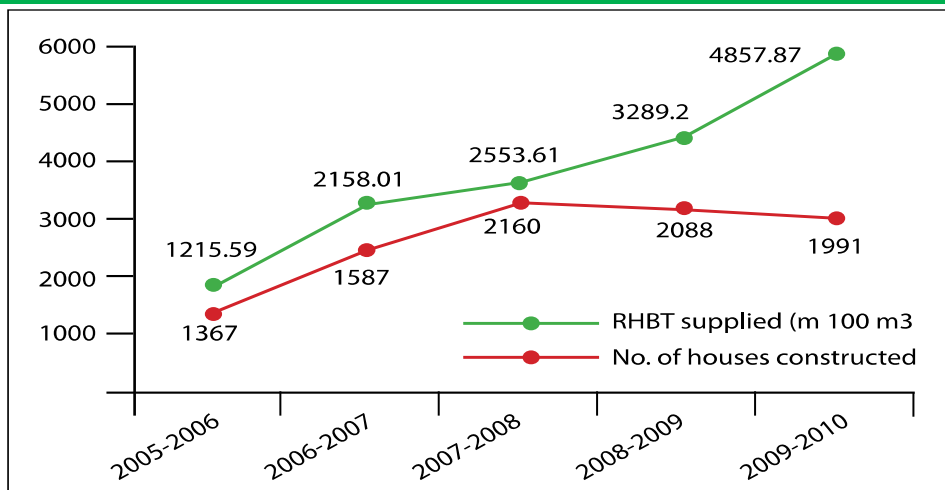


Figure 1. Graph showing data on rural timber supply and house construction trends in Bhutan. *Source: Facts, Figures and Trends, DoFPS 2011.*

The extent to which the illicit trade involves government officials is difficult to know, but collusion or bribe taking in the illicit supply of rural timber are activities that have occurred in the past. There were few instances where government officials and staffs were reprimanded for their involvement and misuse of authority in rural timber supply. In Paro and Sarpang several people knowledgeable about the local situation described systemic governance failures that allow significant misuse. Part of the problem lies with the very low levels of inspections to confirm that rural timber was used for actual house building purposes. There are also concerns that people applying for subsidized rural timber may be doing so more regularly than the law allows, with insufficient checks being made by either the local forest offices or the Geog authority. In Paro, it was noted that the DoFPS has undertaken periodic audits of sawmills that revealed some incidents of laundering rural timber, although that does not seem to have put an end to the problem.

Stakeholders interviewed in both Paro and Sarpang did not indicate that government authorities benefited financially through facilitating illicit trade. It is possible that regulating subsidized rural timber is lenient because of sympathetic attitudes by those in positions of authority and there are discrepancies in applying rules consistently. Subsidized rural timber is an important contribution to livelihoods and therefore its regulation will have influence on political relations. Nevertheless, Gups that participated in the workshops for this report recognized governance failures and indicated strong support for reforms.

### 2.1.5 Conclusion and recommendations

In summary, the supply of timber for household and construction in Bhutan is showing signs of being unsustainable, although there are significant variations among districts. Several stakeholders interviewed for this report consider a key problem

driving this is the policy of subsidized rural timber. In some areas the policy seems to provide too much timber for household needs, and this in turn has created the opportunities for illicit trade. Oversight mechanisms are not sufficiently strong to prevent this.

Although misuse in subsidized rural timber may involve corruption, the more reasonable observation is that governance failures are due to weaknesses in monitoring and perhaps a misunderstanding of the rules governing rural timber supply. However, in the context of REDD+, reforms to subsidized rural timber policy could be important, and this could be a critical part of further REDD+ readiness activities.

Reforming subsidized rural timber policy is highly challenging and politically sensitive, largely because it is an important institution for rural livelihoods, and therefore reforms could have unintended costs. There are several strategies that need to be considered. One of these involves the ambition of phasing out subsidized rural timber to be replaced by community forestry. This will be discussed in a subsequent chapter, although it is worth noting here that this policy does seem to have widespread support, including in government and among some rural populations. Other policy ideas involve strengthening oversight and monitoring, or more ambitious reforms on the rules governing rural timber supply. The following are some key points on these policy options.

- ❖ Discussions at the two stakeholder workshops organized for this study and subsequent consultation workshops highlighted a number of ideas on how oversight and law enforcement could be strengthened. This includes a combination of increased verification of timber usage by households, more regular audits of saw mills and increased monitoring of transit permits for transporting timber. There was also support for increasing fines for abuses, but before this happens it is important to ensure that all citizens are made fully aware of the rules and what constitutes abuses, so that large numbers of rural people are not subject to potentially impoverishing punishments in the event of more stringent law enforcement activities.
- ❖ If improving monitoring and oversight of subsidized rural timber is to be done successfully, it is important to consider the merits of an independent evaluation of the resources available to the Geog, including support in oversight provided by the DoFPS and Dzongkhag Forestry Sector. Most stakeholders thought that district and local authorities had insufficient capacity of monitoring subsidized rural timber usage and therefore more resources are needed. This was the situation reported in both Paro and Sarpang, where Gups felt that they do not have the capacities to undertake more comprehensive verifications of house building applications and then on-site visits.



- ❖ Efforts to improve compliance with subsidized rural timber rules may also benefit from periodic analysis of the problem in different areas. It is worth recalling that the extent of abuse in subsidized rural timber in Paro seems to be much higher than it is in other districts, such as Sarpang, even though several stakeholders in Sarpang considered abuses of subsidized rural timber to be significant in their area. Evaluation of the problem may involve, for example, analysis of the amount of rural timber approved by the Gup of a Geog, compared to the amount of timber that is actually used for local consumption, including house building and other purposes. This would present good data on the scale of the problem and could help the government direct scarce resources for capacity building/increased monitoring.
- ❖ Better data on the discrepancy between allocations and the use of rural timber would not resolve the problem of Gups approving, knowingly or unknowingly, fraudulent applications, including applying for rural timber more frequently than they are allowed to. This may be a minor problem in Bhutan, but it is a separate form of abuse by people using surplus timber for profit. Here a historical digitized database of requests and approvals of rural timber at the Geog level could be useful, and this could be used by both the Gup and the relevant forest officials at the Division level to make final approvals. The Forest Information Management System under the DoFPS could be the ideal location to maintain such a database.
- ❖ Considering that an important conduit for rural timber is the sawmill sector, an audit of individual sawmills by forest authorities should reveal the extent of timber laundering by the sawmills although it may be relatively easy to conceal this through off-the-book records. Unannounced inspections by the territorial division of the DoFPS were reported to have taken place in Paro, with some success in identifying abuses. Other districts could replicate this method. Audits could be prioritized for sawmills supplying urban centers, as this is where the largest amount of laundered timber can be expected.
- ❖ A more profound strategy for addressing misuses in subsidized rural timber and supporting sustainable forestry in Bhutan involves reforming the rules of subsidized rural timber.
  - The most obvious option, and one expressed by many people spoken to for this report, lies with a reduction in the amount of subsidized rural timber for households so that surplus timber is not produced. This is a strategy advanced in a draft policy for the reform of Subsidized Rural Timber, written in 2012, but yet to be approved by the government. There are however potential problems with this approach. It may generate greater demand for illegal timber, given that some rural households may be unable to meet their domestic demands because of these revisions, and it may place more demand for timber sourced from CF, thereby leading to more problems of

unsustainable harvesting in these areas (discussed later). Alternatively there may well be options in building techniques, particularly for the poorest households who cannot afford to buy additional timber at the government set price. Decisions on reducing household entitlements for subsidized rural timber therefore need to be based on very careful analysis of actual requirements.

- Another suggestion is to introduce more stringent rules to ensure subsidized rural timber allocations are aligned with household needs. This could involve introducing upper limits of subsidized rural timber for building types, including an estimated timber requirement for a cement building as opposed to a traditional building, a one storey house compared to a two or three storey house and so on.
- Yet another approach is to mainstream supply of subsidized rural timbers entirely in log and sawn form through NRDCL or other specialized logging agencies and stop allotment of timbers in standing tree form. This can facilitate better monitoring and verification to reduce misuse of so called surplus subsidized timbers.
- One of the challenges of reforming subsidized rural timber system lies with wider discussions on building methods in Bhutan. The traditional method using rammed earth and elaborate timber constructions requires greater amounts of timber than more modern buildings that rely on cement and iron reinforcement. Traditional buildings are however easier for rural people to construct and in many cases more affordable. There is also an important cultural consideration, as the traditional building form is an important characteristic of Bhutan's cultural heritage and landscape. From the perspective of conserving forest resources in Bhutan, it is possible that modern building techniques will be encouraged. This may be a useful strategy to take the pressure off forests in the future. However, it is equally important to appreciate that the modern buildings appearing throughout the country have their own ecological costs – the production and transport of cement and iron contributes significantly to greenhouse gas emissions and cement quarries are scarring on the environment. Although seemingly disconnected to considerations on governance, there is a **need to integrate new ideas on innovative and environmentally sound building methods and materials in the country as part of discussions on reforming subsidized rural timber**. In this respect the DoFPS could consider collaboration with the DES, MoWHS.
- To phase out subsidy in kind and provide cash incentive to eligible people so that they can buy timber for house construction at the market rate. If such a decision is taken, stringent criteria will have to be developed to ensure that only the needy citizens get the benefits.



## 2.2. Illegal logging and forest offences

### 2.2.1 Introduction

Corruption is an important consideration in understanding the prevalence of illegal logging and forest offence in any country. In Bhutan illegal logging in GRF occurs, but there are no reliable estimates on its scale. Bhutan's REDD+ Readiness Preparation Proposal (R-PP Year 2013) reports that illegal forest and wildlife exploitation is considered the most worrying threat to these resources. Data presented in the R-PP, taken from an FAO report from 2010, highlights that the most common form of forest related offence is wildlife poaching, accounting to 35% of all reported crimes, with illegal felling and clearing of trees being the second most prevalent (22%). Other data from R-PP paints a slightly different picture, with illegal logging and misuse connected to rural timber supply being the most common offences (44%).

The official data used for FAO, 2010 study shows a decline from the mid 2000s in all forest offences. However, more recent data (Source: Forestry Facts and Figures 2013) from DoFPS indicates substantial increase after this period. The reported cases of forest offences increased from 202 in 2010, to 1659 in 2013 (Table 1). During the stakeholder workshop in Paro organized for this study, slightly different data on overall forest offences were presented for this district (see Figure 2). Figure 3 also indicates an increase in legal logging from 2009 till 2012, but again showed a drastic decrease in 2013. Still, the general trend in reported crimes over the past few years is increasing, which is something that needs to be understood in the context of REDD+.

**Table 1. Forest offences from 2009 to 2013**

Dzongkhags	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	Total
Paro	39	33	56	234	280	642
Thimphu	62	32	35	193	199	521
Mongar	17	11	21	105	180	334
Samtse	3	5	9	65	164	246
Punakha	63	29	13	45	66	216
Bumthang	6	7	16	67	85	181
Ha				75	106	181
Trashigang	2	5	9	56	90	162
Chhukha	19	11	10	65	55	160
SamdrupJongkhar	19	17	19	33	48	136
Wangdue	22		2	26	79	129
Sarpang	11		11	32	70	124
Dagana	1	11		44	56	112
Trongsa	3	6	10	36	28	83
Pemagatshel	2	4	7	24	28	65
Trashiyangtse	2	2	4	18	39	65
Zhemgang	6	11		14	29	60
Lhuentse	5	9	4	9	21	48
Gasa		9	4	16	13	42
Tsirang				9	23	32
<b>Total</b>	<b>282</b>	<b>202</b>	<b>230</b>	<b>1166</b>	<b>1659</b>	<b>3539</b>

*Source: Forestry Facts and Figures, DoFPS 2013*

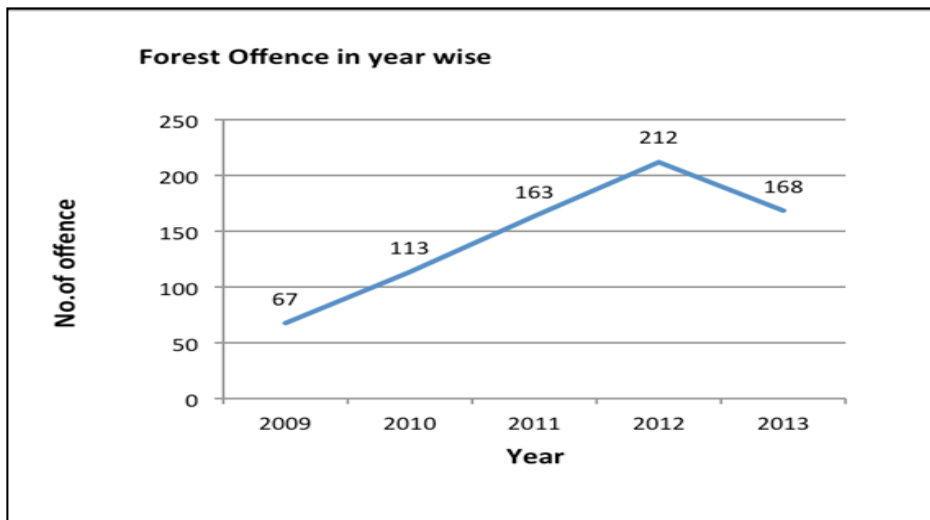


Figure 1. Reported forest offences in Paro. *Source: Presentation by Paro Territorial Division, DoFPS, Paro 2014*

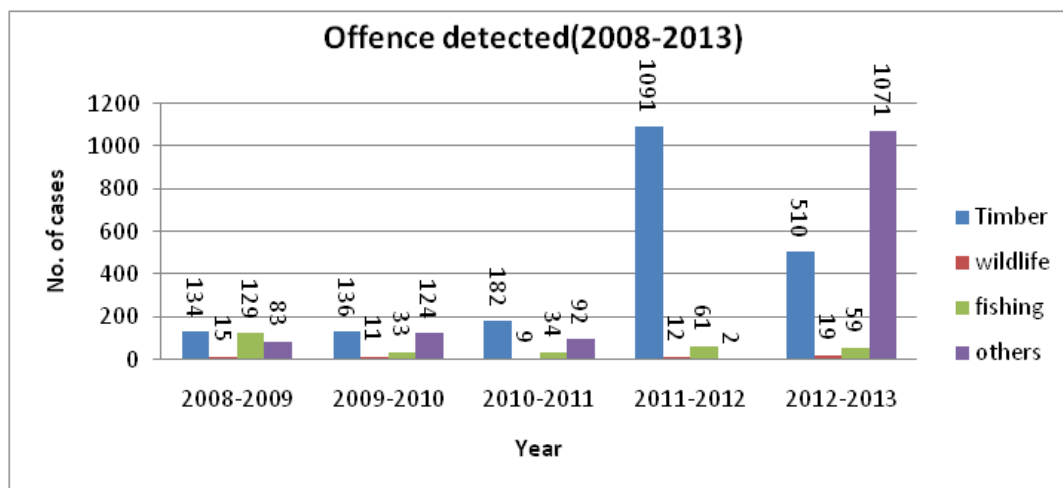


Figure 2. Graph showing forest offences including illegal logging. *Source: Forestry Facts and Figures, DoFPS 2013)*

In an effort to improve responses to forest related offences, the Government in 2009, enacted a new policy that allows employees of the forest department, as well as informers, to retain a proportion of the fines for any crimes they are responsible for detecting. In the case of wildlife poaching this is 100% of the fines as rewards, while for logging related crimes the proportion retained is 25%. It is possible that this change in policy could account for the much higher levels of reported offences seen from 2010.

Another aspect to forest crimes was described during meetings with stakeholders in Paro. There have been several cases in Paro where local authorities have intercepted illegal timber that originates from India and is being smuggled through the country to China. Arrests and penalties for this illegal timber trade will

be included in the district level data for Paro, although clearly this data is not describing crimes that occur in the district.

The data on offences and fines are not reliable proxies for understanding rates of illegal logging in different areas of Bhutan. The database on forest offences also contains some anomalies. For example, the data in 2013 showed a tenfold increase in forest offences between 2012 and 2013 categorized as ‘other’. It has also not been possible to understand trends in different types of forest offences, including the extent to which reported offences involve illegal trading of subsidized rural timber or illegal felling of trees and unauthorized firewood collection.

There is a need for improvements in gathering data on forest offences, standardizing procedures across districts and also further disaggregating data to better distinguish between types of offences. When combined with data on forest degradation and deforestation for REDD+, this improved data could assist Bhutan in monitoring trends and informing more in-depth analysis involving qualitative research methods.

### **2.2.2 The nature of forest offences and corruption**

In the context of addressing corruption risk, one concern is the extent to which forest offences implicate those in position of authority, if they are involved in such offences that allows forest offences to go unpunished.

In Bhutan, there was very little evidence from interviews in Thimphu and visits to two districts, and also the regional consultation workshop in Trashigang and Trongsa that corruption in relation to forest offences is a common problem. The majority of the forest offences in Bhutan seem to be small-scale and opportunistic, meeting the subsistence needs of rural people. It is worth noting that one important contributing factor are the delays experienced in some areas in the process of applying for rural timber allocations. It is considered one reason for illegal logging; people proceed to obtain timber out of frustration before they have the official authorization. Reforms to subsidized rural timber, including making the procedure more efficient, are therefore important for addressing forest offences.

There are, however, anecdotal reports of more organized illegal logging in some parts of the country. It is possible that this type of offences involves corruption more than opportunistic or small-scale offences that are carried out by rural people to meet basic needs. This was one of the themes explored in fieldwork visits to both Paro and Sarpang Districts.

### **2.2.3 The situation in Paro**

According to the official data (see Figure 2) in Paro, illegal forest offences are more prevalent than any other district in Bhutan. The Bhutanese<sup>4</sup> newspaper conducted an investigation in January 2013 of illegal logging in Paro and described it as ‘rampant’. Illegal logging was occurring at night and with the use of pick-up trucks, suggesting

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<sup>4</sup> <http://www.thebhutanese.bt/>

those involved were supplying the construction industry in Paro and Thimpu. Information on the scale of illegal logging was not provided, but the newspaper referred to hundreds of trees being illegally felled during one incident. Our fieldwork study in Paro confirmed that some forms of illegal logging for commercial trade has occurred, although it was not considered frequent. Most cases involved smaller quantities and involved local farmers accessing fallen trees without permission. This picture conforms to statistics presented at the workshop on the characteristics of offenders prosecuted for forest offences (see Figure 3).

According to those interviewed in Paro, as well as those involved in the workshop organized for this study, corruption involving government authorities was not prevalent in these cases. It was however noted that some leaders of community forest management groups were involved in some incidents (see Figure 3) and that some civil servants were among those apprehended for engaging in forest offences. Only one case of abuse of authority in connection to illegal logging was described that involved interference by an influential politician. While corruption was considered only a minor issue, local stakeholders thought that the main drivers of illegal logging included inefficiency in rural timber supply, timber shortage in the construction sector and the opening up of forest areas through the construction of forest roads and farm roads. Stakeholders in Paro also highlighted problems in the litigation system such as delays in verdicts with cases forwarded to the courts by the Department and fines and penalties were also considered lenient.

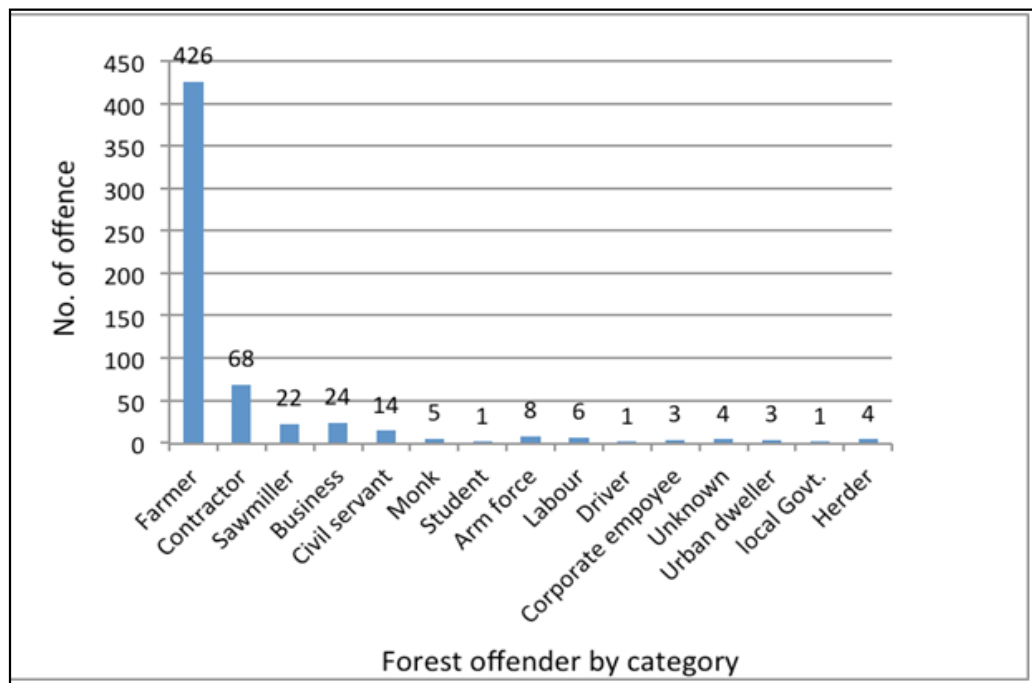


Figure 3. Characteristics of offenders involved in reported forest offences in Paro. *Source: Presented by DoFPS at stakeholder meeting in Paro 2014.*

#### **2.2.4 The situation in Sarpang**

In the South of Bhutan the nature of illegal logging is quite different from other regions of the country as the location shares the boundary with India. Most of the illegal happens due to inadequate human resources for patrolling and difficult environment. Bhutanese foresters face considerable difficulties in monitoring forests on the border, particularly during the monsoon period where large areas of the forest are made inaccessible by rising rivers. The control of the illegal activities is also difficult because of porous border and easy accessibility.

According to local stakeholders involved in the management of Royal Manas National Park, the issue of illegal activities is on the decline due to improvement in patrolling system and with improvement of cooperation between the Indian and Bhutan authorities. The India-Bhutan study on tiger populations that occurred in 2012 and the on-going collaboration between DoFPS in Bhutan and several Indian NGOs that works on tiger conservation has further improved the co-ordination. Because of all this, the numbers of illegal activities have dropped since then.

On the basis of what was described during consultation, collusion and forms of bribery involving Bhutanese authorities was not a characteristic of forest offences in Sarpang. It was described that corruption may be happening, but again according to those interviewed felt that corruption may be at individual level and not systemic.

#### **2.2.5 Conclusion and recommendations**

Beyond the illicit trade in subsidized rural timber described already, this includes illegal felling of trees for both subsistence and commercial purposes, although in wider perspective, Bhutan's experience of illegal logging seems to be less than reported in other Asian countries. We know from the proceeding chapter that the NRDC is not characterized by significant irregularities due to monitoring by DoFPS, and the absence of commercial timber companies in the country rules out the type of problems with large scale illegal logging (as well as regulatory capture) that happens in many other Asian countries. However, Bhutan must be aware that what is considered minor offences today may become intractable if not addressed timely with effective policies, rules and regulations and carrying out monitoring and auditing, and implementing corrective measures.

For Bhutan the most important policy objectives to respond to forest offences lies with strategies to achieve sustainable and equitable forest management, in particular reform the rural timber supply and community forestry policies. These are dealt with in separate chapters. However, beyond these recommendations, would like to suggest some more activities and policy considerations that could be pursued in the context of REDD+:

- ❖ Existing data on forest offences could be strengthened, leading to a better understanding on the extent and nature of these problems and the contribution to forest degradation. Official offence statistics compiled by the DoFPS could be improved by ensuring standardized procedures for reporting by

Dzongkhags, Territorial Divisions and Parks and the inclusion of more descriptive fields of data to provide a more in-depth understanding. This quantitative data needs to be combined with other sources of information. This could include annual surveys sent to district authorities, CF heads and Gups for instance to gain more of a qualitative analysis to compliment the quantitative data. When doing so, one aspect that does need to be considered is the extent to which forest offences involve rural people for subsistence needs, or more organized activities for commercial purposes. In addition it may be useful to combine this data with forest inventories and future forest mapping under REDD+, although this would clearly be a long-term project. Satellite imagery has been successfully used in other countries, such as Indonesia, to monitor forest crime and corruption). However, further consideration is needed in Bhutan if the contribution of forest offences to forest degradation is of a magnitude that would be revealed by this type of spatial/photographic analysis. A pilot project in one district where forest offences are thought to be most prevalent could be attempted.

- ❖ In Paro, local stakeholders identified the need to improve the litigation system in settlement of forest offences. Capacity building for law enforcement and litigation officers is recognized, although as a medium priority, in the strategic options of Bhutan's RPP. This topic could be reviewed through a separate report, considering community attitudes towards punishments for forest offences, average length of court cases, what penalties are being administered and the problem of repeat offenders etc. Increasing penalties may be considered appropriate on the basis of this review, although where forest offences are undertaken to meet basic livelihoods among poor rural communities, a heavily punitive response may be inappropriate. At a minimum, there appears to be a need for sensitizing magistrates/judges about forest offences and to identify the causes of slow court procedures. In doing this, lessons can be learned from a number of development partners supporting such efforts.<sup>5</sup>
- ❖ There is a need for a more focused response to cross border forest offences. There are immense challenges to effective law enforcement and almost certainly a need to strengthen the resources for law enforcement in this region, which may include better information sharing between districts. However, the challenge also requires better co-operation and co-ordination between Indian and Bhutanese authorities, as has successfully happened in the Royal Manas National Park. This needs to be taken forward at the appropriate level between the two countries, potentially building on the joint ministerial summit for tiger conservation. It was noted during the stakeholder workshop in Sarpang that a more in-depth study of the extent of cross border forest offences could help inform a high level political process.

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<sup>5</sup>See for example

[http://siteresources.worldbank.org/EXTFINANCIALSECTOR/Resources/Illegal\\_Logging.pdf](http://siteresources.worldbank.org/EXTFINANCIALSECTOR/Resources/Illegal_Logging.pdf)

## 2.3 Decentralization & Community forestry

### 2.3.1 Introduction

Forest governance in Bhutan is undergoing gradual decentralization through participation of local communities in forest management; the accuracy of this however depends on underlying definitions. Many experts on decentralized natural resource management note that countries considered to have decentralized natural resource management often do not devolve significant management and fiscal power to more locally elected authorities. Instead, some management powers are transferred to community user groups. This approach to improving community participation in forestry and creating a 'bottom up' approach to forest management is therefore not through democratic decentralization, but rather through establishing community user groups, known as Community Forest Management Groups (CFMGs).

It is important to note this approach to decentralized forestry as against the usual devolution of management authorities to elected local bodies. One view is that democratic decentralization is more enduring and stronger where it involves locally elected authorities. This observation is relevant for Bhutan, as the Geog has quite a limited role in the management of state forests and national parks. This is a matter that was contested when Geogs were established. In the early 2000s many Geogs assumed that royalties from forests could be levied by them to help fund their budgets. The situation is described as being poorly managed, with arbitrary payments from citizens being levied and in some situations monies were being mismanaged. The Anti-corruption Commission, and other central state organizations including the Department for Local Government, helped address the situation by communicating to Gups that they were not allowed to raise local royalties and taxes from natural resources. According to a representative of the ACC in Bhutan, this was justified partly due to concerns that if Geogs derived significant funding from their own jurisdiction this could lead to disparity in incomes between Geogs. Striving to achieve equality between districts in Bhutan was described as an important policy in the country.

#### **Box 3. Chronology of Community Forest establishment in Bhutan**

The enactment of 1969 Forest Act of Bhutan led to the nationalization of timber production and the consolidation of state ownership of forests. Previous local authority and customary arrangements for managing forests became less important. However, the need for community based natural resource management was later prioritized through a Royal Decree in 1979. A Social Forestry and Afforestation division was established in 1989, subsequently renamed the Social Forestry Extension Division in 2003. With the enactment of new Forest Nature and Conservation Act 1995, that Community Forestry was provided a strong legal framework. The mid 1990s also saw the *deconcentration* of the DoFPS, organized to reflect the new decentralized state; forest extension offices were established at both the Dzongkhag and Geog level. Rules governing community engagement in forest management were initially established through the Forest and Nature Conservation Rules in 2000. These have been subject to periodic review and updated several times, in 2003, 2006 and 2009, highlighting the fact that community forestry is evolving in the country.

The first community forest to be approved was the Dozam Community Forest in Mongar Dzongkhag in 1997. There was a slow increase in the number of CFs during the first half of the



2000s, with only seven being established by the end of 2006. The numbers started to increase in 2008/2009, reaching 173. Since then the number of CFs has grown impressively, reaching over 500 today. According to one government publication, almost a third of people living in rural areas are members of CFMGs, which highlights how important CF has become to rural livelihoods and community relations. About 2% of the GRF is now designated as CFs: the goal of the government is to increase this to at least 4%, although there is scope to increase it further. Given that about 17% of forested land is considered available for timber production, with half of this being managed by the NRDCL, the area under community forests is an increasingly important aspect of productive forest governance in the country

The objective behind Bhutan's CF policy is to improve sustainable management of forest resources and to increase the benefits from these resources to local citizens. Members of CFs are given rights to manage and generate income from various NWFPs as well as to control timber production, including carrying out reforestation work. From this, CFs are expected to provide members with a sustainable supply of timber for house building and other domestic uses. In this respect an important feature of CF is the ambition to reform rural timber supply, with a greater proportion of timber for domestic consumption coming from community managed forests, as opposed to the areas of largely unmanaged state owned forests outside FMUs from where much subsidized rural timber is sourced. It should be noted, however, that members of CFs can apply for timber through their Geog in addition to receiving timber from their community forests if incase their entitled amount of rural subsidized timber is not met from CF. Moreover, if the production of timber from CF is in excess of local demand from CF members, then this can also be sold outside the CF at the prevailing market rate.

The size of land available to CFs is dependent on the number of its members, with 2.5 hectares included in each community forest for each household. This amount of land is assumed to be sufficient to meet the needs of each household's timber needs, although most sources now acknowledge that for many communities 2.5 hectares per household is too little to replace entitlements for subsidized rural timber, although this is a complex issue given that subsidized rural timber is thought by many experts to be too generous for community needs, as already described.<sup>6</sup> A review of the amount of land allocated to CF is currently being undertaken, identified as a priority during the third national forestry conference in Bhutan held in September 2013.

Prior to 2006 all community forests were supposed to be split equally between degraded forested areas and what was referred to as 'good' forests (i.e. those with a healthy density of mature trees that could be used for construction), but the revision to the guidelines in 2006 meant this policy was phased out. It is not clear

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<sup>6</sup> One study conducted in 2008 estimated that for CF to meet household timber needs, the allocation of land per household in CF needs to increase substantially, although the correct amount is dependent on the type of forest due to differing timber production between forest types. For CF in warm broad-leaved forests the area for CF needs to increase from 2.5 to 13.2 hectares, and in blue pine forests – the most productive, it needs to increase to 4.5 hectares. See Wangchuck, T and Beck, M (2008) 'Community forests in Bhutan need to fulfill the minimum timber requirement and provide income', published by the Ministry of Agriculture.



why this is the case, but one report suggested reluctance by the government to hand over too great an area of productive forests.<sup>7</sup>

All CFs establish rules and bylaws governing their operation and management, published as Community Forest Management Plans. The first CFs that were established in Bhutan tended to have management plans lasting for five years, although now the CF plans are for ten years). Management plans should set out the quantities of forest resources and timber that can be produced and specify timeframes and targets for reforestation activities. There has also been a gradual shift in the nature of the government rules, suggesting the initial spirit of devolving power to CFMGs has been revised. Up to 2006 the responsibility for the development of management plans and by-laws was with the CFMGs themselves, with assistance from Dzongkhag forest officer.

In terms of land tenure, often identified internationally as an important feature of sustainable forest co-management, CFs in Bhutan operate under a conditional lease. That is, CFMGs retain the right to manage community forests as set out through management plans, but if the forest is being managed in an unsustainable way the DoFPS/Dzongkhag has the right to suspend the arrangement. This has not happened in Bhutan yet, and it is not clear how an appeal process would work if this occurred. The Government also has the right to use land demarcated as CF for its own purpose as it needs. This happens, for example, when government undertakes the construction of power lines in CFs. Members of CFs are often compensated by the state for this loss of resources, but it has been described that communities do not always consider compensation adequate.

While most sources describe the actual working relations between the state and CFMGs as positive, the policy allowing arbitrary interference by the state in CF is not favored by some CFMGs, based on the view that it undermines the sense of ownership by communities that may influence attitudes towards sustainable stewardship. If we consider the revisions to community forest rules that have transferred more powers to the government within the management of CF, then Bhutan is like many countries where the balance of power in devolved forest management is continuously being renegotiated, with a potential for advances in community participation to be eroded or improved overtime.

### **2.3.2 Issues and challenges to community forestry**

The idea of community forestry is well supported within Bhutan. In Sarpang, for example, research on rural timber supply based on a household survey found that 90% of people were not involved in any way with local forest management, but 77% wanted to be an active member of a CF. The same report highlighted that a majority of people (55%) also supported the idea of replacing subsidized rural timber with CF (Tempa, K. 2011). The growth of CFs has been largely driven by demand in rural communities. We should note, however, that while the number of CFs has grown

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<sup>7</sup> See the 2010 report “National Strategy for Community Forestry: the Way Ahead”, published by the Ministry of Agriculture and Forests, p. 50.

rapidly in Bhutan over the past five years, a common concern is that active participation is declining in some areas, and some CFs are experiencing a decline in membership renewals. This situation was described during a field visit in one CF in Sarpang, with the reason for a decrease in enthusiasm among some community members being the lack of obvious benefits accruing to them. This is not simply a problem of how CFMGs distribute benefits and costs within communities. Equally important is the observation in Bhutan that the potential for CF to generate benefits for members is restricted by the size, quality and accessibility of the land demarcated to them. For instance in March 2015, Dadogoenpa CF in Shangana Geog under Punakha Dzongkhag has been handed back to the department by the CFMG since they are not interested in pursuing the CF further as there does not seem to be any benefit immediate tangible from it.

While support for CF is based on the expectation that CF can lead to improvements in sustainable forestry, in 2010 a review published by the DoFPS rated the success of CF to achieve sustainable forest use as 'low'. Yet many people spoken to for this study believe that the outlook is more positive than this, and there are encouraging examples of communities engaging in reforestation and sustainable timber harvesting. More data is needed to build up a picture of how CF is performing on this aspect, and international experience shows community management of natural resources can lead to better resource stewardship, although this is certainly not the case everywhere.

There are also well-recognized difficulties in the implementation of CF, and some controversy about the functioning of CFMGs. Because of some concerns about the management of CFs, including a number of adverse media reports and at least three cases of alleged corruption reported to the ACC and DoFPS, the head of the DoFPS took the decision to temporarily suspend approval of new CF management plans in September 2013. A government-initiated review of CFs was subsequently undertaken, with the final report delivered to the DoFPS in June 2014. The temporary suspension of the approval of new CF management plans has now been lifted on the recommendations of the review report. The decision to temporarily stop approvals of new CFMG plans has been interpreted differently in the country, with the DoFPS stressing this is necessary to streamline and improve procedures rather than a decision based on a negative perception of CF in principle, which some fear might be the view held by some rural communities.

While a thorough review of CFs covering all aspects of their performance and impact is beyond the scope and purpose of this study, the following pages consider the extent to which CF is undermined by corruption and abuse of powers, and the extent to which the governance of CF contributes to these problems and could cause further risks. The main conclusions made by the recent government review of CFs show that there are inevitably some problems of corruption and abuse of CF, but overall we should not exaggerate the scale and extent of these problems. Yet there are governance weaknesses in CF that could become more problematic overtime. This analysis is important not only in the context of achieving REDD+ objectives, but also

given that CFMGs in Bhutan could be important groups in the implementation of REDD+ activities and benefit sharing mechanisms.

#### **2.3.4 Corruption & abuse of powers within CFMGs**

International experience highlights a number of corruption risks within community based natural resource management initiatives. Most importantly, there is a tendency of community based forest management to be undermined by ‘elite capture’. Elite capture occurs through domination of decision-making by a minority of powerful interests, and typically results in unfair benefit distribution. Furthermore, there is a risk that the establishment of community user groups works to exclude some sections of society. This is a danger where membership is dependent on payment of membership fees, and where community groups exercise powers of local law enforcement. Other problems with community based forest management include engagement in illegal logging and other forest offences, as well as administrative mismanagement and fraud, particularly in terms of managing income.

To what extent these types of problems have surfaced in Bhutan is difficult to be certain about. However, research for this study suggests that, while some forms of corruption within CFMGs have most likely happened, there is very little reason to believe they are happening in a significant number of places. There is certainly a perception among some people that problems of integrity and lack of accountability have undermined some CFMGs. That this critical observation was becoming more widespread was influential in the government’s decision to temporarily suspend the formation of any new CFs in the country. But the government’s subsequent review of CF found that of the three cases where corruption allegations were made against CFMG members, further investigations by the government and ACC in 2014 revealed that two allegations were false.

In the stakeholder workshops conducted in 2014 at Paro and Sarpang, there were examples given of some specific problems. Further interviews and readings of the available literature on CF in Bhutan suggest that the main concerns relating to corruption and abuse of power in CFs fall into two broad themes.

##### *Timber and NWFP allocations*

There are concerns in Bhutan about the integrity of CFMGs in abiding to the details of management plans for harvesting and selling timber, as well as other NWFPs. One aspect to this is that the management of CF involves deliberate unsustainable harvesting, which includes allowing timber extraction/forest exploitation beyond that which is stipulated in management plans, and that there can be discrimination against some members of CFs in terms of accessing timber and other NWFP. Such fears are held by some of those in government and may be evidence of a pessimistic outlook on the ability of community leaders to resist the temptation to exploit forests on an unsustainable basis in order to gain short term material benefits.

In better understanding these risks, an important distinction needs to be made between cases where the CFMG allows over harvesting supporting community needs, and cases where overharvesting is done by elites for their own needs. In Paro a

local Gup described one case that involved a head of a CFMG being accused of personally benefiting from over harvesting trees in the CF, although the case had not yet been subject to a formal investigation. When asked if this was a regular problem in Paro, the Gup thought that it was not. In Sarpang, there was no evidence that elites manipulated timber harvesting for their own benefits, although it was described that CFMGs had to make difficult decisions on who gained CF timber and who had to apply for subsidized rural timber. Eventually all citizens will get timber through one channel, but the process of gaining subsidized rural timber is more lengthy and can be more costly. Another theoretical problem here is that it might be possible for households to receive double amounts through accessing both CF timber and subsidized rural timber and then selling the surplus.

Other sources suggest a more common risk is for CFMGs to deliberately *under* harvest trees in their CF area. In this case the problem is that the CFMG prefers that members gain more of their timber from the state through the subsidized rural system, thereby relieving pressure on their own community resources. This can be considered an abuse of power, as it undermined the policy goal of transferring, where possible, rural timber supply from the subsidized rural system to CF. However, it is unlikely that this protection of CF resources is done to confer personal benefits to those in the executive of CFMGs.

This failure to adhere to management plans was also raised in the recent review of CF by the government, although the report (2014) also noted that their study revealed positive aspects where CFMGs were able to supply community needs entirely and remain within allowable harvest limits. What does seem to be the case is that there is a need to ensure reporting by CFMGs, and subsequent verification of these reports, accurately capture information on actual harvest of trees and the amount of subsidized rural timber community members request and are allocated from the GRF. There is also a need to ensure that community members are aware of the details of management plans and have accessible means to raise concerns outside of CFMGs where they feel allocation of CF timber has been discriminatory. Since community forests are described in Bhutan's R-PP as an "easy pilot", the considerations above may guide implementation of demonstration activities.

#### *Income Distribution*

The second theme related to corruption or abuse of power with CF involves the management of income by the CFMG. There is a need for the government to gather more data on precisely what incomes are being received by CFMGs in Bhutan, disaggregating this information to show income from timber sales, sales of NWFPs, incomes from membership fees, grants, penalties and so forth. This data should be accessible to CF members and easily obtained by district level authorities in order to report to the DoFPS. Similarly there is a need for a review on how incomes are used. What could be relevant for this study is how to manage their income that covers their administrative costs and equitable distribution of the surplus if any. Many CFMGs face shortfalls in income to cover administrative costs or to compensate members for

transaction or opportunity costs. Indeed, there have been some calls for the government to subsidize CFMGs, given the fear that they are financially unsustainable in the short to medium term.<sup>8</sup>

However, some do manage to establish surplus cash and there are various approaches being adopted by CFMGs on how it is redistributed. The community fund is used to provide loans to CF members. Other examples include providing direct cash transfers to CF members, or using surplus funds for community development activities. In Paro one CF has decided to use some of its income to support a disabled widow and her children.

The view of most stakeholders spoken to for this report is that embezzlement of funds or the unfair distribution of funds to elites is not a common problem. Most people thought that community members, if aware, would challenge this, and any criminal behaviors would be easily detected by the Geog level or district forest authorities. Nevertheless, several stakeholders thought that standards of accounting and transparency within CFMGs were inconsistent, and that this is an area where CFMGs need further guidance and support. In Paro the head of a CFMG described that there was no formal obligation for external financial audits in the CF management plan, but the CFMG submits its annual audit report to the Geog for verification. The CFMG also has its accounts (incomes, payments, loan agreements etc.) filed in their office and available for any CF member to access, although in this and many other cases a lot of booking and minute taking is done in English, which many CF members cannot read. However, this level of transparency is not apparent in other CFs in the region, and a general observation made by interviewees for this study is that CFMGs in Bhutan can be weak in terms of communicating incomes and expenditures to CF members. There seems to be a lot of good will and trust that CFMGs are honest, but there is an obvious opportunity here to support improved financial accounting across all CFMGs.

There are further issues related to distribution of surplus incomes. In particular the common approach of establishing a fund for loans to community members is open to some criticism, and could become the source of community tensions and allegations of unfairness. In the case of the CF visited in Paro, such a fund is being used. This provides different types of loans to CF members according to their status or intended use of funds. Poorer members of the community are provided loans on more favorable terms than those considered more affluent, and loans for business startups are made with higher interest rates than those for subsistence needs. For the poorest households loans are given at zero interest for the first year, rising to 2% thereafter. As is apparently the case elsewhere, the CFMG describes that they have experienced many members defaulting on payments. The head of the CFMG described that 21 households in the CF had overdue loan repayments, and it was learnt that the CFMG is facing considerable difficulties in ensuring these repayments. It was also described in this CF that not all funds were

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<sup>8</sup> See for example, DoFPS (2010) 'Community Forestry Program Evaluation in Bhutan', p. 35



given as loans, with some being used for ad hoc expenses, including assisting for the payment of religious ceremonies, and funerals.

The decision to distribute income from CF as loans needs to be given careful consideration. The danger of this approach is that, in addition to CFMGs becoming embroiled in uncomfortable disputes and debt collections, loans may be more accessible and attractive for those with the means to repay them. This is possible despite favorable terms for poorer households. In this way a loan system may exacerbate inequalities over time, and is therefore not progressive in addressing poverty. They may well also be perceptions that CFMGs give some people in communities slightly more favourable loan agreements than others, given that loan decisions are made based on subjective means testing (i.e. distinctions between wealthier and less wealthy households). Here again, if CFMGs are used to manage and distribute REDD+ benefits, careful attention should be paid to addressing fund management and decisions on redistribution of surplus incomes.

### **2.3.3 Governance challenges: democratic representation & accountability**

There is a lack of evidence to show CFMGs in Bhutan are experiencing widespread problems of corruption. It is therefore reasonable to think that in most cases people who adhere to community interests and government rules run CFMGs. However, as CF develops further it is important to ensure that the governance of CF is robust and specifically there is strong democratic representation within CFMGs that supports accountability.

#### ***Weaknesses in democratic representation***

In terms of democratic representation within CFs in Bhutan, experiences vary. All CFMGs have an elected chair and executive committee, with further administrative roles typically including a secretary, a treasurer, a clerk, one or more forest guard/patrollers and a designated messenger. CFMG bylaws specify how members are elected, how their term in office can be terminated due to non-performance, and some contain rules on offences and penalties for the executive committee and CFMG members. For instance, the Wongrbaab Community Forest Management Plan contains bylaws that impose a fine on CFMG members for not attending meetings. It is also normal for bylaws to include commitments for regular meetings and community reporting by the executive committee.

There are weaknesses in the approach to democratic representation. One of these is the tendency for the executive committee and chairperson to be elected through public meetings or *ad hoc* procedures.<sup>9</sup> It was therefore described that there is a tendency for executive positions, including the chairperson, to be filled by people with higher economic and social standing, and the vast majority of chairpersons and

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<sup>9</sup> Leadership and administrative roles could also be assigned on the basis of rotation, with willing members having to assume these positions every year, for example. For such community bodies this system may be preferable to achieve democratic accountability than voting, which tends to favor elites and men.

executive committee members are men. According to a study in 2006, women made up 20% of the executive committee and less than 3% of chairpersons were women, although getting a more up to date picture was not possible for this report.<sup>10</sup> We do not know whether this situation is problematic and against the wishes of the majority of CFMG members. A similar outcome may be achieved with secret voting anyway. Indeed, gender disparity is strongly evident at the Geog level as well, with the procedures for electing the Gup being based on competitive elections and secret ballot. Furthermore, if the executive positions in CFMGs require literacy and volunteering of time, this may inevitably favor those with more resources and higher standing in communities. Nevertheless, the government's recent review of CF identified concern among those canvassed that those with higher social standing and influence took leading positions in CFMGs, and the report further noted concerns over the prospect of 'elite capture'.

The issue of gender representation was discussed during field visits to CFMGs in Paro and Sarpang. In both cases those interviewed thought gender representation was managed well by their CFMGs. Indeed, in the case of the CFMG in Paro, the female members of the CFMG informed that they participated more than men in the community meetings arranged by the CFMG. This was explained by the fact that women play an important role in forest work, particularly collecting firewood. Still, the ideal of promoting more women to take an active role in executive positions of the CFMG was widely held by people interviewed for this study, and again a point raised by the government's review report.

Another important factor in evaluating democratic representation concerns conflicts of interests. According to the Social Forestry & Extension Division, the position of the CFMG chairperson is often represented by the Gup of the Geog. This is allowed as long as the Gup resides in the same area of the CF, and it is not possible for the Gup or any other person to be a member of more than one CFMG. In the case of a CF visited in Sarpang for this study, the acting head of the CFMG was a retired Gup, and in Paro one of the two Gups who attended the stakeholder workshop was also head of their local CFMGs.

Whether this situation represents a conflict of interests or not is matter for further reflection. It was an issue that was discussed in both stakeholder workshops undertaken for this study, although views differed, and in general it seemed that few people had thought about this potential problem. It was not mentioned in the government's review either. However, the Gup does make decisions on the allocation of *subsidized rural* timber, so in theory having the position of chairperson on a CFMG at the same time as being the Gup could cause conflicting duties and loyalties. A point raised during the stakeholder meetings is that a potential abuse stemming from this situation comes from the possibility that members of the CF may apply for subsidized rural timber while also receiving timber from their CF. Another issue is the role of the

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<sup>10</sup> See Namgay, K. and Sonam, T. (2006) 'Gender and Equity, a Challenge in Community Forestry', published by the Ministry of Agriculture and Forests.

Gup as the first point in mediating conflicts and complaints by CF members. If a Gup, acting as head of the CFMG, is subject to complaints by members of a CF, then these people will have to seek other avenues, which may be less easily available to them. Discussions through stakeholder meetings showed some support for reforming CFs to ensure Gups do not hold executive positions on CFMGs, although by no means did all endorse this policy idea.

An additional variable in understanding democratic representation within CFMGs is the potential for entry to be restricted or made difficult for some members of the community. The majority of CFMGs, as far as could be ascertained, operate a membership fee. It is difficult to know if this membership fee is prohibitive for the poorest households. It is not clear whether CFMGs are monitored on this aspect and it would seem important for CFMGs to operate in ways that ensure non-discrimination of participation, providing membership for free where people are unable to pay, or providing the option for members to join through other contributions (in-kind work for example). In both Paro and Sarpang, stakeholders thought membership fees were sufficiently low to allow all households to join. However, not all households residing close to or within CF areas chose to become members. When asking about the reasons for this, the main factors identified were disinterest and also uncertainty that being a membership would confer benefits.

### *Auditing and monitoring*

Problems of inadequate auditing and monitoring and evaluation of CF have been recognized by the government. A policy recommendation endorsed at the third national conference on forestry in 2013 was to enhance internal auditing and M&E for CFs.

The FNCR states that joint monitoring and evaluation of CF should be done annually by the DzFS and the territorial forest division of the DoFPS. However, standardized monitoring procedures are not established and it was informed during consultation that there is considerable regional variation in practices. There are also weaknesses in transparency and communication by CFMGs, with reports being available to community members only in English. Likewise, it was noted above that financial audits approved by local government are sometimes done, but do not seem to be an obligation. At times CFMGs are engaged in forms of self-monitoring, which can involve participation with community members.

For the purpose of this report, it is not necessary to dwell on the strengths and weaknesses of past approaches to monitoring and auditing. However, it is important that pragmatic ideas are developed to improve this.

### **2.3.4 Conclusion and recommendations**

CF has emerged as a dynamic feature of forest governance in Bhutan, and is recognized as an important institution and possible pilot for REDD+. The analysis above has highlighted some of the problems associated with corruption, and it has identified certain weaknesses in the governance of CFMGs. A lot of this analysis



compliments previous findings and policy debates in the country, and in particular the recent review of CF undertaken by the government. The decision to put a hold on the approval of new CF management plans has provided impetus for further debates and policy reforms, and it is likely that regulations and procedures for governing CFs will be strengthened over the next few years.

To contribute to these efforts, the following are some observations for policy reforms that contribute to addressing corruption risks and weaknesses in democratic accountability. Again, it is important to stress that corruption within CFs is not rampant and a primary threat to its success or failure. However, REDD+ could be one factor that both strengthens CF (through providing support to reforms) and has the potential to aggravate certain problems unintentionally. This is because CF may be provided with greater revenues and responsibilities as part of a national REDD+ strategy or multilateral/bi-lateral agreement, and a failure to address corruption risks in an early stage may mean these problems could surface to a greater extent later.

Thus, building on the recommendations presented by the recent government review, the following are some policy ideas that could help inform further debates and decision making:

- ❖ One of the issues that emerged in this study is the role of local government in community forestry. It was noted in the introduction to this chapter that international debates on forest decentralization have critically examined the tensions between devolving powers to (normally) unelected community user groups, as opposed to devolving management powers to locally elected authorities. These debates do not necessarily conclude with an either / or scenario, but rather an emerging theme is that local governments are too often sidelined in decentralization policies, and in some countries this may have negative implications.

In Bhutan it is unlikely that a profound review of decentralization of forestry, considering the merits of democratic decentralization as opposed to community management, is appropriate. CF has gained an impressive momentum and that needs to be built on. However, the role of the Gup in CF is ambiguous in the present setting. In stakeholder workshops where Gups were present, they were either peripheral to discussions on CF (because they seemed less well informed about the functioning of CFs than others), or they presented dual roles as local government and heads of CFMGs. In Paro, for example, one Gup who was head of his CFMG commented that he was unaware of the workings of two other CF in his region, and that he thought he should be more actively involved in order to fulfill his responsibility as a local leader for the wider community, which includes not only members of CF but non-members who are potentially impacted by CF. To this we can add the potential conflicts of interests caused by the Gup having the responsibility to approve subsidized rural timber allocations and also providing a first step in conflict resolution. It is important to acknowledge that in comparison to the head of a CFMG, Gups are elected through more robust

democratic processes, and unlike CFs who represent only those who want and are able to participate, local government represents all citizens unconditionally.

A recommendation is therefore to re-examine the role of local government in CFs. A straightforward reform is to end the practice of existing Gups being chairperson of CFMGs. In addition however, accountability of CFs could be strengthened if the Geog administration has a stronger oversight role of CFs, including being involved in their establishment, monitoring and evaluation and verifying financial reports along with TDs/Parks, Dz. This may also avoid any problems arising through duplication of state and CF timber supply. Furthermore, while CFMGs are given the responsibility to administer fines and penalties in their CFs, this function could be transferred to the Geog, or at least any punitive decisions administered by CFMGs should be made conditional on the Gups approval. CFMGs are not ideal institutions to meet out fines and punishments in their communities and this could be a source of potential community friction and abuse.

- ❖ Irrespective of whether local government can and should play a more active role in CF, there are weaknesses in democratic representation within CFMGs that require potential reforms. This is acknowledged in the government's review of CF, referred to as the need to strengthen 'group governance'. Specific recommendations in this report included further guidelines in the CF Manual and support to capacity building for CFMGs.

In developing these new guidelines for group governance, specific attention should be given to the problem of elite capture and gender imbalance. At the heart of the problem is the mechanism in place to decide on who is elected to positions on the CFMG. Here a recommendation is to explore the merits of different options. One of these is the use of secret voting, to replace the practice of deciding on executive positions by open discussions. However, voting in communities also has the tendency to favour more wealthy and influential people. Another approach could be based on selecting leadership roles through lot, with positions being changed periodically (every 3 years, for example). Anyone interested in taking a management position would put their name forward. This system could also be designed so that equal gender representation is guaranteed.

A complaint about such a system is that this would enable some people to take on positions of authority who do not have necessary capacities to do so. This is unlikely to be as problematic as positions being captured by elites and men only. Furthermore, administrative roles that require some technical and educational capacities could be distinguished from a management committee, and the management committee, based on considerations of merit rather than lot, could allocate these administrative roles.

- ❖ There are attempts to help CFMGs network among each other, and this is seen as important to help share experiences and learn best practices. Peer group networks may also have the benefit of providing a regulating function, helping to improve standards, which could include on financial accounting, benefit sharing and democratic representation. The recommendation here is that this be a focus

for REDD+ stakeholder engagement work during the implementation of the R-PP. At the moment, however, there is no coordinated structure that represents CFMGs. The Social Forest and Extension Division provides the important role of supporting capacity building and collating information on CFs. However, as CF grows in importance, support for a representative body from among CFMGs could be beneficial. This could be established incrementally, with meetings between heads of CFMGs in districts being the first start, followed later by a national convention and the establishment of a civic body outside of government that supports CF (if this is identified as a need by CFMGs).

- ❖ As stated already, the government has identified the need to improve auditing and monitoring and evaluation of CFs in Bhutan. Specific recommendations advanced by the recent review include strengthening joint evaluations, simplifying procedures and forms, and ensuring that there is use of qualitative data. It is expected that based on these recommendations, a more detailed plan for CF evaluations will be established. It is important that future monitoring integrates governance criteria, such as levels of participation, transparency and people's perspectives on elite capture.

Here it may also be important to reflect on whether the mandate to conduct external reviews is given to an independent **organization**. The proposed revisions to monitoring and evaluation suggest government forestry staff will continue to do this. This may not be ideal as these people may have some vested interest in ensuring a positive evaluation, particularly if the success of specific CFs reflects positively on their work. Other government departments may provide a more independent assessment. For example, more in-depth audit reports (that would supplement joint assessments by government forestry departments) for CFs could be undertaken by the Royal Audit Authority. Of course, this more in-depth evaluation would not be feasible for all CFs because of their large numbers, so it could be done periodically for a selected number chosen randomly. This is something that could be supported through REDD+ and if pilot REDD+ activities are selected for specific districts, then a series of audit reports could be focused on CFs in these districts only.

- ❖ The existing approach to managing finances and distributing surplus income by CFMGs is open to criticism and could become a source of community friction. Again, this is flagged in the government's review, and noted as an issue for further debate. This is potentially relevant for REDD+ if, through implementing REDD+, CF receive additional income or other benefits as part of a national benefit sharing and distribution system for REDD+.

The loan system seems to be well supported in Bhutan, and is specifically advanced as the most viable option by the government review report. This report also discourages CFMGs distributing cash directly to CF members. In contrast, cash transfers may be an ideal system for redistribution, and there are many examples of where these have been administered successfully around the world, including in India where pilot unconditional cash transfer systems have been supported by UNICEF.

### 3. Conclusion

#### 3.1 Policy recommendations

The report has considered corruption and related governance concerns in three important and interrelated areas of forest management in Bhutan. Overall, the findings support the view that corruption is by no means widespread and it does not represent a major challenge to environmentally sustainable and socially equitable forestry. However, there are certain weaknesses to forest management and governance that can be observed in each of these three areas. The report, based on consultations, has therefore put forward some ideas and recommendations for activities and potential reforms that could help further strengthen governance in these areas.

For ease of reference, these policy recommendations are arranged in table format below.

**Table 2: Matrix on policy recommendations**

Objectives	Activity	Expected outcomes	Comments
<i>Theme: Subsidized rural timber</i>			
A) Improve government monitoring of misuses in subsidized rural timber	<ul style="list-style-type: none"> <li>Undertake quantitative analysis and provide a report on subsidized rural allocations and consumption at the district level.</li> </ul>	Improved data on subsidized rural timber misuses that can inform policy debates and help government prioritize actions/resource allocations for addressing abuses among districts.	This analysis on subsidized rural timber allocations and usage will be time consuming, so it is recommended that it is piloted in one or two districts initially, chosen for their probability of experiencing higher rates of illicit trade. Districts containing or being adjacent to the larger urban centers could be prioritized.
B) Strengthen oversight of rural timber allocations and usage	<ul style="list-style-type: none"> <li>Implement mandatory monitoring of rural timber usage by Territorial Forest Divisions and Parks</li> </ul>	Reduced opportunity for recipients of subsidized rural timber to request excessive timber for their needs.	Before supporting capacity needs building and allocation of increased resources, it could be prudent to undertake a short review of capacity needs at the local level in selected districts to confirm initial findings from this and other government reports.
	<ul style="list-style-type: none"> <li>Conduct periodic audits of saw mill sector at the district level</li> <li>Maintain a robust digitized central database of rural timber allocations, potentially housed in DoFPS HQ that can be accessed</li> </ul>	Decrease opportunities for saw mills to be conduit for illicit trade of -subsidized rural timber.  Improve ability of local authorities to conduct historical	It is important that the government ensures all citizens in Bhutan are aware of subsidized rural timber rules and what constitutes abuses of these rules.

	online by Geog and TFD. The digitized database will enable the geogs and TFDs to verify eligibility before approval & allocation	verifications of subsidized rural applications, in order to reduce possibilities of abuses in allocations.	
C) Reform government policy on subsidized rural allocation of timbers to ensure entitlements are better aligned with household needs	<ul style="list-style-type: none"> <li>- Review subsidized rural timber rules and ensure that the existing recommendations contained in the draft policy on subsidized rural timber (prepared in 2012) are given final consideration by the government</li> <li>- Introduce appropriate provisions in the rules to allocate subsidized rural timber according to building types.</li> <li>- Explore possibility to provide cash incentives (or subsidy in cash) to buy timbers at market rate for the eligible citizens</li> </ul>	<p>Surplus timber will be reduced and so will illicit trade in subsidized rural timbers</p> <p>Rationalize excessive use of timbers in rural house constructions</p>	<p>Reforms of subsidized rural timber need to be based on careful consideration to the impact this may have on poorer households in rural communities. This also requires consideration to innovations in house construction that may be less timber intensive, while avoiding the switch to other environmentally damaging building methods and materials. Further consultations between DoFPS and DES could be productive.</p> <p>It is important to recognize that reforms to subsidized rural timber allocation cannot be viewed in isolation to further support to community forestry, so a restriction in one could affect the other.</p>
<b>Theme: Forest offences</b>			
A) Strengthen national data collection on extent and nature of forest offences	<ul style="list-style-type: none"> <li>- Enhance existing statistical database held by the DoFPS, including additional descriptive fields.</li> <li>- Ensure consistency in data reporting from districts</li> <li>- Consider incorporating qualitative data through survey techniques at the district level.</li> <li>- Consider opportunities and methods of linking data on forest</li> </ul>	<p>Improved understanding of trends in forest offences, which will support the government in better understanding causes and appropriate use of resources to support law enforcement.</p>	<p>It is important that quantitative data on arrests and fines for forest offences are not confused with reliable indicators on actual forest offences. Further qualitative data is needed to make sense of these statistics.</p> <p>Design and analysis of data should help distinguish between forest offences for subsistence needs, and more organized criminal activities, which may have a higher probability of involving corruption.</p>

	offences with geospatial data on forest degradation/deforestation, as compiled through Bhutan's national forest monitoring system for REDD+	Improved understanding for the government in making decisions on whether to strengthen penalties for forest offences and how best to support criminal justice system in effectively responding to forest offences.	Care needs to be taken to ensure penalties for forest offences are not overly harsh and potentially impoverishing.
B) Sensitize stakeholders like judiciary on forest offences.	<ul style="list-style-type: none"> <li>- Undertake a study into the quality of responses to forest offences at the district levels by the law courts, highlighting any problems with inconsistent penalties and lengthy delays.</li> <li>- Based on or incorporated in the above study, undertake workshops for judiciary personnel on forest offences and their impact on rural livelihoods and the environment.</li> </ul>	An improved response from the criminal justice system in responding to litigation of forest offence cases.	
C) Strengthen cross border coordination to monitor illegal trade	<ul style="list-style-type: none"> <li>- Convene periodic bilateral talks on cross border forest offences and poaching to enhance enforcement</li> </ul>	Potentially it may lead to stronger co-ordination between Bhutan and neighboring countries in addressing these issues.	
<b>Theme: Community Forestry</b>			
A) Strengthen the role of local government in decentralized forestry	<ul style="list-style-type: none"> <li>- Involve local government in management and oversight of CFs, including verification of audit reports and approval of penalties and fines for CF members.</li> </ul>	Stronger local governance of CFs, improved grievance mechanisms, improved representation in CFs for marginalized people and non-CF members.	Would require capacity building on CF for Gups, which could be done on a district basis. Consider also including support staff/committees in local government and local forestry officers in this capacity building.
B) Strengthen democratic representation in CFs	<ul style="list-style-type: none"> <li>- Initiate different mechanisms for selecting CFMG members, including secret voting and gender balanced lot systems.</li> </ul>	Decrease in potential for elite capture Improved gender representation	
C) Strengthen co-ordination and representation among CFMGs	<ul style="list-style-type: none"> <li>- Intensify support meetings of CFMGs at the district level, while further efforts could support a national meeting of</li> </ul>	Increased information sharing Improved self regulation and standards	



		Improved voice of CF in national policy debates.		
D) Improve auditing and M&E of CF	<p>Reduced opportunities for corruption and misuse and better systems for identification of concerns of CF management among CF members.</p> <p>Formulate stronger rules and guidelines for annual M&amp;E as well as auditing of financial reports. - Explore external auditing of selected CFs.</p>	<p>Improve the quality of assessment of CF by providing external evaluation free of any potential vested interests.</p>		
E) Review of guidelines/policy on income distribution by CFMGs	<p>Undertake analysis on existing approaches to income redistribution and the impacts on CF members.</p>	<p>Improved understanding on strengths and weaknesses of redistribution systems that can influence policy decisions.</p>	<p>Discussions on approaches to redistribution could be an ideal topic for district meetings of CFMGs, supported by views of government and external experts.</p>	



### **3.2 Going forward**

This study has generated recommendations at policy and operational level (Table 5) to address the potential corruption risk in undertaking REDD+ activities in Bhutan. As far as possible, these recommendations should now be followed up so that it can positively contribute to the successful implementation of overall REDD+ programme in Bhutan. More specifically, the recommendations can significantly inform the development of Safeguard Information System (SIS) and Benefit Sharing mechanism for REDD+ that are some of the key components of REDD+ under UNFCCC as described below:

#### **3.2.1 Safeguards and safeguards information system**

Examining current forest governance weaknesses, as this report did, is also relevant to help promote and support governance safeguards that REDD+ countries agreed to promote under the 2010 UNFCCC Cancun Agreements, in particular safeguard 2b on “Transparent and effective national forest governance structures” and possibly also safeguard 2d on “the full and effective participation of relevant stakeholders, in particular indigenous peoples and local communities.”

Bhutan has initiated in 2014 a nationally appropriate approach to develop safeguards-related principles, criteria and indicators. Without pre-empting the participatory process to define this, it is suggested that the three main components of this report - namely commercial and rural timber supply, illegal logging and forest offences, and decentralization & community forestry - provide a useful framework to develop either criteria under safeguard 2b. Furthermore, the analysis of the issues in this report and the related recommendations can provide suggestions to formulate indicators that could help monitor either the extent of a current weakness or the impact of a particular measure to address it.

#### **3.2.2 Design of a benefit sharing mechanism for REDD+**

The REDD+ has been recognized in the international climate change negotiations as an important market mechanism to compensate developing countries for their effort to conserve and manage forests. There is a growing optimism both at international level and among developing countries on the benefits that REDD+ would bring.

Bhutan has embarked upon the effort to join the mechanism through the implementation of the R-PP to harness benefits post 2020 under the global negotiations under way. Therefore, determining how best to allocate benefits from efforts for reducing emissions from deforestation and forest degradation (REDD+) is one of the fundamental components underlying an incentive based mechanism such as REDD+. The design of Benefit Distribution Systems (BDS) for REDD+ must consider the process of allocating international finances that flow into a developing country, all the way to communities, households and other stakeholders involved in undertaking REDD+ activities in an equitable and corruption free environment.

As one of the UN-REDD Programme’s implementing countries, Bhutan needs to think to design and develop an efficient, effective and transparent mechanism for sharing REDD+ benefits. This report on CRA can provide some thrust areas that BDS

study in future can focus so that the benefits accruing from implementing the REDD+ activities can be equitably and efficiently distributed horizontally and vertically.

## **References**

Tempa, K. 2011. Analysis of people's participation in subsidized Rural Timber allotment policy towards sustainable forest management at Sarpang Dzongkha.

## Annexures

### Annexure I. List of interviewees for first fieldwork visit, Thimphu (July 2014)

Name	Designation	Agency
Mr. Leki Dhendup	Sr. Integrity Promotion Officer	Anti-corruption Commission
Mr. Karma Thinlay	Chief Planning Officer	Anti-corruption Commission
Mr. Vijay Moktan	Conservation Director	World Wildlife Fund, Bhutan
Dr. Tashi Yangzom	Program Director	National Biodiversity Centre
Mr. Mani Prasad	Biodiversity Officer	National Biodiversity Centre
Mr. Ashit Chhetri	Regional Manager	Natural Resources Development Corporation Ltd.
Dr. Lungten Norbu	Specialist	Council of RNR Research of Bhutan (CoRRB)
Mr. Tashi Tobgyel	Assistant Auditor General	Performance and System Audit Division, Royal Audit Authority (RAA)
Mr. Saran Pradhan	Forestry Officer	Forest Resource management Division, Department of Forests and Park Services
Mr. Gyeltshen Dukpa	Chief Forestry Officer	Social Forestry and Extension Division, Department of Forests and Park Services
Mr. Tashi Wangchuk	Forestry Officer	Social Forestry and Extension Division, Department of Forests and Park Services
Ms. Annamari Salonen	Programme Analyst	UNDP, Democratic Governance Unit

### Annexure II. List of team members for this study

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Mr. K.B Samal	Watershed Management Specialist	WMD
Ms. Sigyel Delma	Dy. Chief Forestry Officer/ REDD+ Focal Officer	WMD
Mr. Samten Wangchuk	Sr. Forestry Officer	WMD

**Annexure III. List of Participants for regional consultative workshop at Trashigang in June 2015**

Sl No	Name	Designation	Office
1	Mr. Dendup Tshering	DFO	Trashigang Division
2	Mr. Karma Tempa	Park Manager	BWS
3	Mr. Pema Tenzin	DzFO	T/Yangtse
4	Mr. Chandralal Gautam	Forester	Rangjung beat
5	Mr. Khawjay Drukpa	RO	Radhi range
6	Mr. Lhab Dorji	Sr. FR II	P/Gatshel. S/Jongkhar
7	Mr. Kinga Norbu	Sr. FR	Trashigang Range
8	Mr. Sonam Tobgyel	Sr. FR III	Wamrong Range
9	Mr. Kezang Dawa	ADzFO	Lhuntse
10	Mr. Kunzang Thinley	Sr. FR	BWS Khoma
11	Mr. Karchung	FR	Kanglung BO
12	Mr. Khawjayla	Forester	T/Yangtse Range
13	Mr. Lham Tshering	FR II	DFMU
14	Mr. Sonam Tobgay	Park Manager	SWS
15	Mr. Kumbu Dorji	FO	SWS
16	Mr. Ugyen Wangchuk	FR II	RNR-EC Sakteng
17	Mr. Phurpa Wangdi	Sr. FR	Duksum Range
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20	Mr. Pema Lekshey	Adm	Udзорong
21	Mr. Phuntsho Wangdi	FR I	Trashigang
22	Mr. Sirjel	Fr	BO Bartsam
23	Mr. Tandin Jamtsho	Fr	Trashigang BO. Samkhar
24	Mr. Letho	Asst Fr	Khamdang beat
25	Mr. Zapa Dorji	Fr	DFMU
26	Mr. Tenzin Choeda	Sr. FR	SWS
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29	Mr. Sangay Loday	Fr	BO Udзорong, Trashigang
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33	Ms. Karma Choden	GAO	Khaling
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35	Mr. Kuenlay Penjor	GAO	Phongmey
36	Mr. Sangay Wangchuk	GAO	Merak
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64	Ms. Sigyel Delma	DyCFO	WMD
65	Mr. Samten Wangchuk	Sr FO	WMD
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**Annexure IV: List of participants for regional consultative workshop at Trongsa, June 2015**

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3	Mr. Tashi	DzFO	Sarpang
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5	Mr. Ugyen Phuntsho	GAO	Korphu
6	Mr. Cheku	Park Ranger	JSWNP/Nabji Range
7	Mr. Yeshi Tshering	FO	PNP
8	Mr. Tenzin Dorji	Sr. FR	Dzongkhag Forestry, Wangdi
9	Mr. Yeshey Wangdi	Sr. FR	RMNP
10	Mr. Ugyen Thinley	FR II	Gelephu Range
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8	Ms. Kesang Droelkar Tshering	Social Forestry and Extension Division	
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10	Mr. Tashi Jamtsho	Department of Public Accounts	Special Invitee

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