



## Welcome to RUPES

### Welcome to the first newsletter produced for the RUPES.

For those of you new to RUPES, it is a project funded by the International Fund for Agriculture and Development (IFAD) and coordinated by the World Agroforestry Centre (ICRAF) that brings together a consortium of partners to build and test working models of best practices for successful environmental transfer agreements adapted to the Asian context.

The project is a combination of action research at a number of sites in Asia and intra-regional studies on the environmental services of biodiversity conservation, watershed protection, carbon sequestration and landscape beauty, and the interactions between and among the stakeholders, rewards, reward mechanisms and institutional/policy arrangements to facilitate equitable payment for these services to the upland poor in Asia.

The RUPES project team has planned to establish a regular newsletter to highlight the current activities of the project as well as to report on interesting and relevant information on some aspect of rewards for environmental services and the poor. In each issue, we will present one or more of the RUPES action research sites with a short description of the activities at that site.

In addition to information on the action research at the sites, we will provide updates on the regional studies directly and indirectly associated with the RUPES project. We also would like to include a list of associated web links and conferences, meetings or workshops around the Asian region that are particularly relevant to RUPES. Readers are encouraged to contact the RUPES project office and provide details of their work and upcoming events for future issues of the newsletter.

As our first newsletter, we invite comments on content and format. We are looking forward to providing an informative communication tool for reporting on the RUPES project and on related initiatives in the Asian region so please feel free to contact us with your suggestions.



*RUPES areas of work and interest in Asia*

## Meeting of the RUPES International Steering Committee

The second meeting of the RUPES International Steering Committee (ISC) meeting was held in Colombo, Sri Lanka on 29-30 May 2003 with the main purpose of the meeting to evaluate the 17 submissions that had been received in response to a call for proposals for RUPES action research sites. Other objectives of the meeting were to discuss and draft Terms of Reference for the ISC, provide input to the RUPES partnership framework and communication strategy and to firm and build the relationships between the ISC members.

Seven international organizations including Conservation International, ICRAF, IFAD, IIED, IUCN, WWF, Winrock as well as the Chairs of the Indonesian and Philippine RUPES Technical Committees attended the meeting and participated in discussions, which resulted in a number of specific outcomes.

### Outcomes:

- Discussion and selection of action research sites
- Commitment from the ISC partners to work together in planning and participating in joint activities including conferences, meetings and projects.
- Agreement that IUCN (with the support of Ford Foundation and WWF) will take a lead in expanding the RUPES network in Sri Lanka, Laos and Vietnam. Winrock (with input from CFI) will do the same in India in Nepal.

## Action Research Site Selection

In February 2002, the work of identifying the RUPES action research sites started with the participants of the RUPES Inception Workshop agreeing on "killer" criteria for site selection. The first scan resulted in well over 50 initial ideas for RUPES sites. Through a series of interactions, conversations, discussions the project received a more formal indication of probable sites through completion of 31 in-depth, comprehensive questionnaires. These in turn were honed down and developed into 17 proposals that were considered by the RUPES International Steering Committee (ISC) in May 2003.

As at August 2003, RUPES has two sites that are approved by the ISC (with some very minor information requirements) to start the action research on testing reward mechanisms, nine sites that are required to consider the ISC comments and contribute more information before being resourced, four sites that are not suitable for the RUPES project but still have offer partnership potential and finally two sites that are included in the RUPES portfolio but are there purely for sharing of information and knowledge (e.g. no funds are required from the project to assist the activities).

The approved sites are in the Philippines (Kalahan) and Nepal (Kulekhani). Other sites preparing revised proposals are in the Philippines and Indonesia.

The learning and information sharing that is a result of going through the filtering process has proven to be a valuable exercise. By carrying out this extensive sieving of sites there has been an increase in the profile and awareness of environmental service payments and the contribution to alleviating poverty. More awareness has been raised among the project's national partners and stakeholders on RUPES and its potential at the national levels. The project has been able to attract quite a bit of attention within the funding community in Indonesia and the Philippines especially as a result of hearing from their partners about RUPES. During all the discussions that have been held, those sites that didn't develop final proposals are much more aware of what the elements of RUPES are and are keen to keep involved even if its at the information sharing level.

The identification of sites will continue in Vietnam, Lao PDR, India and Sri Lanka over the remainder of 2003 and 2004 and the inclusion of partner sites in the exchange of information and communication will expand throughout the Asian region.

## Ikalahan Ancestral Domain

The Ikalahan Ancestral Domain includes the Kalahan Reserve and totals approximately 58,000 hectares of mountain lands between 550 and 1717 meters above sea level on the island of Luzon in the Philippines. The Reserve has been under the legal control of the Ikalahan community, represented by its People's Organization, the Kalahan Educational Foundation, Inc., since 1974. The Philippine government in 1999 approved the Ancestral Domain Claims.

The Domain provides both water for drinking and irrigation systems and has a proportion of the land in production forests as well as agriculture. About 20,000 persons live within the Ancestral Domain of whom at least 90% belong to the Ikalahan and another 5% belong to other tribes of Indigenous People, primarily the Ifugao, Ibaloy and Kankanaey. About 2,500 persons live within the Kalahan Reserve.

The RUPES project with the Kalahan Foundation will confirm the carbon sequestration and watershed protection functions of the reserve and the Ancestral Domain and test payments for these services.

*The Kalahan Foundation will be working with RUPES in testing payments for carbon sequestration, watershed protection and biodiversity*

The buyer of the carbon is still to be determined although there is some certainty that the managers of the irrigation systems will provide the payment for the Ikalahan community's efforts in protecting the watershed. In addition there is the possibility of using payments from ecotourism efforts to bolster the biodiversity conservation in the Reserve.

The contact for this project is Pastor Delbert Rice, Kalahan Educational Foundation, Inc.

## Kulekhani

The Kulekhani watershed is located in the Makwanpur district, approximately 50 km southwest of Kathmandu in Nepal. At an altitude of between 1400 and 2300 m. this watershed has a total area of 12,496 ha and has a total population of 43,003 with the majority of the inhabitants being disadvantaged ethnic groups and low caste people (Dalits).

Water from the Kulekhani River and its tributaries are the source of power for two hydropower plants located downstream of this watershed. In their work with RUPES, Winrock International will work with local communities to identify the range of environmental services being provided, quantify and value such services, and identify transfer payment mechanisms, including new methods and ap-

proaches, and determine what preconditions are necessary and constraints to consider in implementing these services. The project will work towards strengthening the capacity of local institutions to implement transfer payments through appropriate institutional arrangements, agreements, and monitoring and enforcement mechanisms and then compile and disseminate best practices and lessons learned from these projects to raise awareness at all levels on how the transfer of payments in delivering environmental services can benefit upland communities in Nepal and other Asian countries.

The main contact for this project is Shyam Upadhyaya, Winrock International, Nepal.

## Costa Rica – The World of Rewarding Environmental Services

Costa Rica is the world of rewarding environmental services – that is the impression of Dr. Suyanto, an ICRAF scientist associated with the RUPES project when he joined a group representing ten organizations in Indonesia who visited Costa Rica in May 2003 to view forest sector reform and innovative financing mechanisms. In this trip hosted by GTZ-SMCP, CINPE (International Center for Economic Policies) and FONAFIFO (The National Forest Fund) the group saw first hand the great moves forward the small country of Costa Rica has made in establishing environmental service payments.



*Potential area for reforestation in Costa Rica under "environmental service payment" scheme*

From a severe rate of deforestation, Costa Rica has increased its forest cover significantly due, in no small part, to progressive and innovative policy reform and environmental services payment policy that has been successful in reforestation, conservation and establishment of ecotourism.

The payments for the environmental services are coming from a fuel tax collected by the Ministry of Finance and deposited in a trust fund in the national bank and administered by FONAFIFO. Although the funds from the fuel tax are the biggest share of the payments, a small proportion is coming from voluntary agreements with hydropower companies especially related to watershed functions and from international support. The total of the fund is \$75.5M US for period 1997-2001

There are a number of contracts for the producers of the environmental services varying in amount of funds per hectare and length of contract but all falling within three categories – forest conservation, sustainable forest management and reforestation. A new scheme for payment of agroforestry is also being introduced.

*(Continued on page 4)*

## Indonesia and the Clean Development Mechanism (CDM) – Report on the results of an ACIAR-sponsored project

A recent report on the results of an ACIAR-sponsored project undertaken by CIFOR and the Indonesian Forestry Research Centre on current CDM procedures is potentially interesting to any one considering carbon reward mechanisms as environmental service payments.

In Dr. Oscar Cacho's, (University of New England, Australia) presentation to the Indonesian National CDM committee he reviewed the criteria that countries need to meet to be eligible to access the Clean Development Mechanism (CDM). They include:

- Ratification of the Kyoto protocol by CDM country as well as 'buyer'
- Have a national system for estimation of anthropogenic emissions and removal of greenhouse gasses, and submit annual inventories
- Follow accepted methods to account for assigned amounts and have a national registry at a designated national authority

The operational guidelines for Land Use Change and Forestry (LUCF) activities in the CDM will be discussed at Conference of Parties (COP) in late 2003. At this point it seems that projects will have to:

- Meet nationally defined criteria for 'sustainable development'
- Prove that the area had no forest cover in 1990
- Be based on sound science, consistent and approved methodology for estimation and reporting
- Contribute to biodiversity and sustainable resource use
- Account for the reversal of the gains in terrestrial C stocks at the appropriate time (to create equivalence in long-term effects on atmospheric CO<sub>2</sub> concentration with effects of non-use of fossil fuels).

The crediting period is still under discussion for LUCF with two options being prepared – Option A 7 years, renewable twice and Option B: 10 years, non-renewable (this favours fast growing trees)

As yet there is no example of a 'Designated Operational Entity' (DOE) but it seems that the DOE is expected to review proposals and check against the eligibility criteria and confirm that the comments from local stakeholders have been invited and considered in the proposals. There will be a 30-day public comment period for CDM projects. After approval and start of any CDM project the DOE will be responsible for verification and certification.

The projects need to confirm that the carbon gains will be additional – that means would not have been made without the project's intervention and that leakage and risk have been accounted for. Projects must use appropriate baseline categories and methods for monitoring and reporting.

Transaction costs are something that all projects must deal with, with the reduction of transaction costs essential to get LUCF CDM projects off the ground, and have a net flow of benefits beyond employment opportunities for the intermediaries. Experience so far (in a limited number of 'LUCF carbon projects' that did **not** have to meet all the conditions of CDM) indicates that 0.6 - 3\$ per Mg of carbon has been spent on transaction costs (including: negotiation, approval, administration), monitoring, enforcement plus insurance.

The next phase of the ACIAR project will include ICRAF as a partner and will focus on analysis of risk and expanding the database of land use practices with data on carbon stocks and profitability, needed to meet the formal requirements of CDM project proposals.

RUPES – A PROGRAM FOR  
REWARDING UPLAND POOR IN  
ASIA FOR THE ENVIRONMENTAL  
SERVICES THEY PROVIDE

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The end of the visit was dedicated to a special agenda for the participants to reflect and discuss the lessons learned from the Costa Rican experience in environmental service payments and how it could be used in the Indonesian context. It was clear that what was needed in Indonesia was a shared vision oriented on sustainable development and people welfare and an acknowledgement of the ecological crisis being faced. The Costa Rica example showed the success of policy and institutional reform and the importance of transparency, trust and accountability in the decision-making processes. Efforts in Costa Rica have been helped by the decentralization of the payment process and civil society participation in every level.

In Indonesia, the participants resolved to establish a network from the participants and work together in sharing and consolidating information both between and within institutions involved in the forest sector. The importance of awareness raising on environmental service payments and disseminating information to the public was acknowledged as well as bringing selected cases into policy and institutional reform of the forestry sector. Part of this would be empowering PERSAKI (Indonesian Forester Association). The participants finally agreed to some joint activities on priority areas including the RUPES project.

For more information on the Costa Rican experience contact Dr. Suyanto, The World Agroforestry Centre ([suyanto@cgiar.org](mailto:suyanto@cgiar.org)).

Special thanks to GTZ-SMCP for organizing and hosting this opportunity.

## Meeting and New Initiatives Alert

**Reward Mechanisms for Environmental Services: How to Assess, Negotiate and Monitor.** Combining Theoretical Knowledge and Case Studies on Reward Mechanisms for Environmental Services.

TRAINING WORKSHOP - SII/ ICRAF project - 'Teaching advances in agroforestry research and development'. **September 17-25, 2003 in Chiang Mai, Thailand**

A nine-day training and orientation workshop for invited participants (including but not limited to, site personnel at RUPES action research sites who can influence decisions on their site project) to share their experiences and add to their knowledge on environmental transfer payments and the poor. This training workshop is targeted at those participants who will transfer the knowledge gained within their local, regional and national context – e.g. Training of Trainers. For more information contact RUPES Project Office – [RUPES@cgiar.org](mailto:RUPES@cgiar.org)

**Katoomba VI** - On **October 29-30, 2003**, The Katoomba Group and Swiss Re, at its Rüschrlikon Centre for Global Dialogue in Zürich Switzerland, will co-host a conference on "**Markets for Carbon & Ecosystem Services: the Business Case**". The conference will bring together experts from around the world, the private and public sector as well as the NGO and scientific community, to discuss ecosystem services and markets. The conference will focus on market frameworks, enabling institutions, and market drivers. Following the conference will be a private workshop of The Katoomba Group on Markets for Environmental Services. Please visit the website: <http://www.katoombagroup.org/>

**New CDM Initiative** - Forest Trends and members of The Katoomba Group have recently begun working together to raise awareness about the potential benefits for poverty reduction, rural livelihoods and biodiversity of forestry projects under the Clean Development Mechanism (CDM) of the Kyoto Protocols, thanks to grant support from the Mitsubishi Foundation. Forest Trends and partners will provide accessible information for delegates to the United Nations Framework Convention on Climate Change at the Conference of the Parties in December 2003, to promote adoption of rules and principles for CDM that will encourage investment in livelihood- and biodiversity-enhancing projects. (For details on the potential benefits and requirements of such projects, see CIFOR/Forest Trends publication *Forest Carbon and Local Livelihoods: Assessment of Opportunities and Policy Recommendations* by Joyotee Smith and Sara J. Scherr, which can be found on the CIFOR website: [http://www.cifor.cgiar.org/publications/pdf\\_files/occpapers/op-037.pdf](http://www.cifor.cgiar.org/publications/pdf_files/occpapers/op-037.pdf))

**GEF to Double Funding Available to NGOs for Community-Based Environmental Projects** – GEF recently announced that it will more than double the amount of funding available for small grants of up to \$50,000 available to community groups and non-governmental organizations. The increase in funding will allow GEF to award more grants and increase the number of countries participating in the program.

GEF is the single largest funder of actions to benefit the global environment. The World Bank serves as trustee of the GEF Trust Fund and is one of three agencies, along with UNDP and UNEP that implement GEF's larger projects.