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# BENEFIT SHARING AND REDD+: CONSIDERATIONS AND OPTIONS FOR EFFECTIVE DESIGN AND OPERATION

## FOREST CARBON, MARKETS AND COMMUNITIES (FCMC) PROGRAM

APRIL 2015

This publication was produced for review by the United States Agency for International Development.

The United States Agency for International Development (USAID) launched the Forest Carbon, Markets and Communities (FCMC) Program to provide its missions, partner governments, and local and international stakeholders with assistance in developing and implementing Reducing Emissions from Deforestation and Forest Degradation, conservation of forest carbon stocks, sustainable management of forests and enhancement of forest carbon stocks (REDD+) initiatives. FCMC services include analysis, evaluation, tools, and guidance for program design support; training materials; and meeting and workshop development and facilitation that support U.S. Government contributions to international REDD+ architecture.

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## **DISCLAIMER**

The author's views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

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# ACRONYMS AND ABBREVIATIONS

CDM	Clean Development Mechanism
EITI	Extractive Industries Transparency Initiative
FCMC	Forest Carbon, Markets and Communities
NFA	Uganda's National Forestry Authority
NGO	Nongovernmental organization
PES	Payments for ecosystem services
REDD+	Reducing Emissions from Deforestation and Forest Degradation, conservation of forest carbon stocks, sustainable management of forests and enhancement of forest carbon stocks
USAID	United States Agency for International Development

# I.0 INTRODUCTION

As Reducing Emissions from Deforestation and Forest Degradation, conservation of forest carbon stocks, sustainable management of forests and enhancement of forest carbon stocks (REDD+) readiness implementation progresses, governments and communities alike are developing systems to help understand and manage benefits. To move this process forward, it is important to understand options for sharing both monetary and non-monetary benefits. This report draws from experiences with benefit sharing in natural resource management, mining, and forestry, and sets out issues and options for equitable and effective benefit-sharing arrangements for REDD+.

Benefit sharing is generally understood as allocating, administering, and providing benefits to multiple actors for certain activities or results through some form of positive incentive, opportunity, payment, rent/profit, or other compensation – whether financial or non-monetary.<sup>1</sup> Arrangements are typically structured through negotiated contracts—as is often the case for payments for ecosystem services and biodiversity initiatives<sup>2</sup>—and/or centrally managed funds, as is often the case in forestry and mining.

This report offers policy makers and stakeholders benefit-sharing design considerations that focus specifically on outcome-driven incentives—as opposed to benefit sharing for policy reforms or public sector programs—based on three different models: payments for services, managed funds, and collaborative resource management. Following a description of these models and cross-cutting considerations, this report provides a series of steps to help structure benefit-sharing arrangements for effective incentives to improve REDD+ outcomes.

## 2.0 BENEFIT-SHARING MODELS

A review of models employed in various sectors is helpful in evaluating design options for REDD+ benefit sharing. Based on a review of benefit sharing systems associated with conservation, extractive industries, and ecosystem services, three models emerge as particularly relevant to REDD+. These models are contract-based payments for services, managed funds, and collaborative resource management. Each of these models has proven effective in some contexts and challenging in others.

### 2.1 PAYMENTS FOR SERVICES

Payments for Services typically involve private contracts between an investor or donor and a landowner or resource manager, as is often the case for environmental service projects as well as some projects generating carbon credits.<sup>3</sup> Generally, a contract offers a defined benefit (often cash) in exchange for an activity to be performed or refrained from. Conservation easements and payments for ecosystem services (PES) generally follow this model, where typically the national or provincial government compensates communities or households for their contributions to protecting natural habitats.

Under a payments for services model, benefits are generally proportional to the level of effort (input) or demonstration of results (output) based on certain criteria such as new trees planted or standing hectares of forest. Environmental service payments are more often input-based, providing rewards based on an agreement to undertake or refrain from a certain activity. Carbon credits tend to be output-based. Input-based activities have less complicated monitoring and reporting requirements but they also depend on a reasonable level of confidence that the actions agreed to are likely to lead to the desired results. Whether input- or output-based, these contracts typically require a beneficiary to demonstrate their right to manage a resource or land consistent with the expected outcomes. Illegal logging, disputed tenure rights, and potentially unclear carbon rights all could complicate the end results.

Experiences with PES stress the importance of initial arrangements, including identifying baselines and opportunity costs at the outset as well as making sure up-front costs are sufficiently covered.<sup>4</sup> Another key consideration involves equity: some experiences with PES show outcomes that disproportionately benefit wealthy landowners when transaction costs served as a barrier to smallholders, especially in areas with lower opportunity costs.<sup>5</sup> These experiences underscore the importance of being appropriately inclusive in determining

#### **PES IN PRACTICE: NICARAGUA'S INTEGRATED SILVIPASTORAL ECOSYSTEM MANAGEMENT PROJECT**

This subnational initiative offered household-level incentives to capture carbon, protect water supplies and biodiversity, and stem erosion. It included 138 households selected based on location, small-/medium-size landholdings, secure tenure, income derived from grazing, acceptance of external monitoring, and accessibility to roads. Benefits were both cash and non-cash. Cash payments were allocated via index scores based on opportunity costs and annual demonstrated household contributions to biodiversity. Non-cash benefits included technical assistance to enhance soil productivity, higher land value, easier titling, land use mapping, and new partnerships. The small scale of this program may have allowed more effective customization to reward various stakeholder interests.

*Source: Chandrasekharan Behr, et al. (2012).*

who are the beneficiaries and ensuring that they all have access to a fair share of benefits. It is also important to provide benefits over a significant time period in a culturally appropriate manner, include capacity building and technical assistance, and to address carbon rights constructively.<sup>6</sup> Transparency and monitoring arrangements should be clear and straightforward.<sup>7</sup>

In sum, payments for services can effectively enable direct payments to beneficiaries when tenure and carbon rights are settled and benefits are inclusive with adequate attention to capacity building, technical assistance, and transaction costs, particularly to smallholders.

## 2.2 MANAGED FUND

Fund-based models are frequently used in sectors such as extractive industries that concentrate natural resources into a central revenue stream. This model disperses cash benefits for specific purposes and often provides final beneficiaries with additional, non-cash benefits. As discussed below, funding is either allocated through central budgets or through a trust fund, and subsequently invested, spent on goods and services, or distributed as cash payments.<sup>8</sup> The scope of benefits can range from general public expenditures to specific payments for either projects or private beneficiaries. Where private sector actors hold primary rights to benefits, laws and policies can help facilitate more equitable distribution to subsidiary recipients, as discussed in more detail below.

### A TALE OF TWO FOREST FUNDS: INDONESIA PAST AND PRESENT

Decades ago, Indonesia established a national reforestation fund financed from timber royalties. While it generated nearly US\$6 billion, evaluations of the program found that many of the benefits never achieved their intended reforestation objectives. Instead, logging plantations and elite interests captured many of the benefits, while communities were regularly displaced. This experience underscores the need for an independently managed fund with strengthened measure for transparency, accountability, and equity. Indonesia is seeing a resurgence of investments in forests thanks to REDD+. Some REDD+ initiatives are applying lessons learned from the earlier Reforestation Fund experience. One example is the Kecamatan Development Project, a REDD+ initiative in which funds flow from the central government to the sub-district level and then to villages' public bank accounts. While the incoming flow is in cash, benefits are delivered at the village level primarily through approved development projects and governance improvements, with additional funding for capacity building and operational support. Structured payments provide a mix of up-front benefits (40 percent), with the remaining funds disbursed in two tranches following village review and approval of how the first 40 percent of funds were used.

*Sources: Costenbader, 2011; Myers Madera et al., 2013.*

A **budget approach** allocates funds through existing mechanisms and channels, generally with a focus on public expenditures. This approach is helpful where central revenues are important to the economy. One lesson from extractive industries is that it can be helpful to structure benefits through central budgets combined with long-term planning while avoiding earmarking.<sup>9</sup> For example, a company could designate a portion of profits/revenues through a centrally managed national fund. In the mining sector, it is common to fund central budgets by earmarking a certain percentage of the revenue stream generated from companies (most common), communities, and/or the government.<sup>10</sup> Some successful resource tax and participation regimes for oil, mining, and gas operations have channeled benefits through public funds, designed in a manner that does not discourage private investment.<sup>11</sup> Often, a fixed, small percentage of revenues are required by law to go through specific institutional arrangements to



support community activities, but this approach has not always led to benefits arriving at the community level.<sup>12</sup> In Colombia the law awards municipalities 0.5-1.5 percent of subsurface mineral revenues, but a review of the program found that transparency and administrative challenges have impeded effectiveness of the arrangement.<sup>13</sup>

A **trust-fund approach** with strong transparency and participatory management enables more targeted benefits than a budgetary approach, which allows for a broader distribution of benefits. Trust funds enable beneficiaries to more directly link inputs with rewards. Trust funds also enable investors and beneficiaries alike to prioritize benefits and provide subgroups of beneficiaries with more targeted benefits better tailored to their needs. Trust funds are typically subject to specific allocation policies and governed by a board often comprised of donors, beneficiaries, and/or administrative officers that makes decisions on fund programming.

Experiences from extractive industries indicate that key factors affecting the effectiveness of a fund-based approach are institutional capacity, governance, transparency, and accountability mechanisms.<sup>14</sup> These factors are discussed in more detail in the cross-cutting themes section below.

Whether a trust fund or budgetary approach, funds tend to be most effective when revenue flows are transparent and integrated with long-term planning, as discussed in more detail in Chapter 3.

## 2.3 COLLABORATIVE RESOURCE MANAGEMENT

A more collaborative model involves participatory resource management or community-based natural resource management. In participatory natural resource management, a community and outside actors generally share decision-making authority. By contrast, outside actors generally support community-based natural resource management, but decision-making authority rests within a community.

In both cases, an integrated development model allows the exchange of benefits between an external actor—including companies, investors, and subnational governments—and community or other more local partners.<sup>15</sup> This model has experienced some success

for community-company partnerships in the forestry sector, where community members agree to cultivate trees in exchange for payments and nonmonetary benefits such as seeds and technical assistance.<sup>16</sup> Arrangements utilize management plans and agreements to specify how forests will be used and how resources will be allocated, often from the sale of forest products.<sup>17</sup> This participatory management model has significant potential for REDD+, especially when it targets poor communities and avoids exacerbating inequalities or rewarding undesired outcomes.<sup>18</sup>

### NILE BASIN REFORESTATION PROJECT

Uganda's National Forestry Authority (NFA) has a collaborative agreement with local community organizations that allows the World Bank's Biocarbon Fund to purchase carbon credits. Both the NFA and communities received benefits in the form of cash payments. One community group receives about 15 percent of the total carbon income for managing land owned by the State as a Central Forest Reserve. Within the community, members can receive cash payments or instead have a right to future revenues, though additional capacity building is needed to understand potential benefits associated with future credits. While the initiative is promising, investment costs have prohibited at least some members from participating.

*Source: Peskett et al., 2010*

## 3.0 CROSS-CUTTING PRINCIPLES AND CRITERIA

While all of these models have proven successful in some cases, their effectiveness for REDD+ depends in large part on the political, legal, and social context particular to any given initiative. Across the various models, some themes appear key to improving effectiveness and enabling more sustainable outcomes. Broadly, experiences in other sectors with benefit sharing underscore the importance of “governance, transparency, accountability and the involvement of the poor in decision-making processes.”<sup>19</sup> More particularly for REDD+, these models also present important considerations regarding tenure and carbon rights, as well as input versus output approaches.

### 3.1 TRANSPARENCY

Transparency in benefit flows increases confidence in a more equitable outcome.<sup>20</sup> For example, establishing and publicizing the basis for calculating payments helps manage expectations regarding who is receiving what benefits. Experiences with extractive industry arrangements demonstrate the importance of formal management structures such as boards and trust funds, policies supporting transparency, and reporting measures with clear oversight.<sup>21</sup> A managed fund may more easily provide the formal structure and processes that help increase the likelihood of a successful arrangement. Direct payments can also be effective where the central fund-holder adheres to strict criteria and policies for disbursement. Regardless of the model, funds should be disbursed through a mechanism that both those contributing to and receiving the benefits trust, with appropriate accountability provisions to maintain that trust over the long term.

The Extractive Industries Transparency Initiative (EITI) is a voluntary program that has obtained buy-in from many governments, multinational companies, the World Bank, and nongovernmental organizations (NGOs) alike. EITI sets a higher bar for transparency regarding oil, gas, and mining revenues. In this model, companies and countries commit to publishing payments made and received, while an independent civil society network helps hold them accountable. While national EITI initiatives can take time to become operational, their development follows a highly participatory and multi-stakeholder design process. These transparency initiatives have impacted revenue accounting, laws, and benefit flows in dozens of countries, particularly for national funds. For example, Ghana reports regularly on its mining revenues down to the subnational administrative level; the Democratic Republic of the Congo is an EITI candidate country with similar potential, as are Indonesia and Peru.

*Source: Ravat, A and Kannan, S. P. (eds.). (2014). Implementing EITI for Impact: A Handbook for Policy Makers and Stakeholders. Extractive Industries Transparency Initiative.*

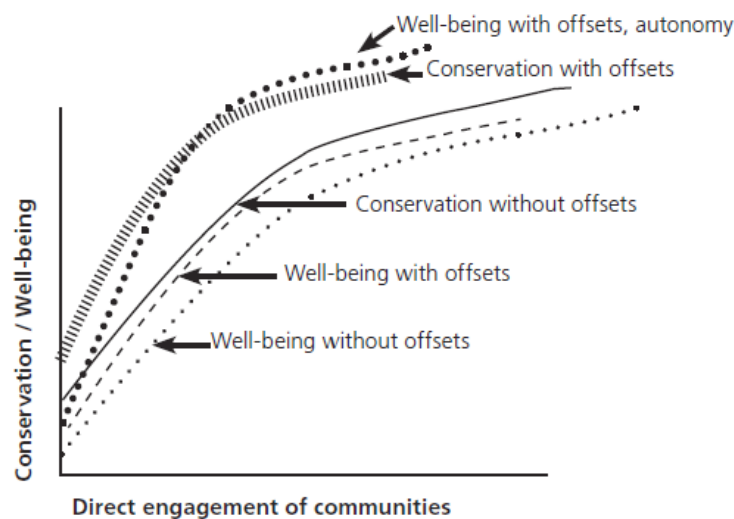
### 3.2 PARTICIPATION AND CAPACITY BUILDING

Strong stakeholder engagement practices of dialogue, capacity building, and participatory decision-making enable benefit-sharing arrangements founded upon trust and legitimacy.<sup>22</sup> When engagement goes beyond consultations to meaningful and informed dialogue and decision-making, benefits can be better tailored to meet local needs as well as REDD+ objectives.<sup>23</sup> For example, “highly participative”

trust funds have emerged as a promising model in extractive industries, with a further focus on financial sustainability and governance.<sup>24</sup> In mining, expanded participation in the governance of benefit-sharing trust funds has improved benefit arrangements over the long term.<sup>25</sup> “Higher levels of stakeholder participation are likely to lead to more grounded, sustainable development activities in a region, thereby justifying the additional time and resources that greater participation requires.”<sup>26</sup> A 2009 study that looked at payment for services models found a correlation between direct engagement of communities in conservation initiatives and conservation outcomes, including both social and economic well-being. Outcomes were even stronger with external conservation incentives (“offsets”) such as payments for environmental services and emissions reductions (see Figure 1).<sup>27</sup>

Generally, the greater the participation, the longer the lead time required for developing a benefit sharing scheme; however, the result of strong participatory design and management tends to justify the delay by creating a sense of ownership and helping integrate community priorities with external objectives such as those of national and global REDD+ initiatives.<sup>28</sup>

**FIGURE 1: IMPACT OF ENGAGING COMMUNITIES IN BENEFIT SHARING ON CONSERVATION AND WELL-BEING**



Source: CBI/UNEP, 2009

Participatory design and administration requires financial and technical support at all levels.<sup>29</sup> Strong capacity at the community level, particularly including community, women’s, and forest groups, can strengthen outcomes and help lead to long-term satisfaction.<sup>30</sup> Local legal and financial expertise is needed to help manage benefits. NGOs also can provide expert advice and/or serve as honest brokers. At a broader level, government administrative bodies may have specialized expertise and perhaps even a mandate to assist with some of the more challenging issues likely to arise in REDD+, such as “land titling, land records and monitoring land use; legal institutions involved in negotiating contracts and adjudicating disputes.”<sup>31</sup>

### 3.3 TENURE AND CARBON RIGHTS

Formally recognized tenure rights are typically a primary basis for allocating benefits. However, “many sources point out that insecure land tenure may be at the heart of the problem of distribution of carbon benefits and entitlements to any sort of REDD+ payments.”<sup>32</sup> For example, in analyzing afforestation and reforestation projects carried out under the Clean Development Mechanism (CDM), a 2012 study found that stakeholders had a more difficult time agreeing on benefit sharing arrangements when there were

discrepancies between land-use rights and actual land use by non-land owners.<sup>33</sup> A threshold design question is how traditional users with customary rights can become eligible for benefits/rewards if their rights are not formally recognized by statute, such as whether benefits are based on actions or performance irrespective of State recognition of legal rights.<sup>34</sup>

**Benefits based on formal rights:** Formally recognized rights may determine by default who holds much of the power to decide how forest resources are used, which is a key consideration in determining the appropriate targets for a benefit-sharing scheme. Where a government formally recognizes customary rights, tenure rights may be an effective basis for determining benefit allocation. However, in many cases, customary rights to forest are not formally acknowledged. Lack of formal rights can, but need not necessarily, serve as a barrier to equitable benefit sharing arrangements, as formally recognized rights are an important but not the only basis for allocating benefits.<sup>35</sup> Formal rights may matter less if payments are based on inputs (e.g., supporting behavioral/livelihood alternatives to deforestation), because output-based payments are more likely to be tied to the land itself, while input-based payments are tied to users – which could differ from formal landowners.<sup>36</sup>

In many countries, individual households are primary holders of rights to forests. In other countries (particularly in Africa), statutory ownership rights may vest primarily in the State, while use rights may vest in entire communities. The assignment of REDD+ benefits can become more challenging where there are overlapping tenure systems.

In addition to applicable national and provincial legislation and policies, initiatives may include customary or cultural rules that require a particular understanding of the community context. As such, benefit-sharing arrangements demand a special emphasis on customary rights (particularly as regards land administration) and traditional decision-making processes, as many norms and tenure practices may not be formally recorded or recognized under national law.<sup>38</sup>

Lessons from PES schemes suggest that formal recognition of customary tenure systems may be necessary to avoid competing or opposing claims.<sup>39</sup> Full consideration of customary rights in addition to statutorily created rights to forest resources can help reduce the risk that some rights holders are excluded from their fair share of benefits. This result can be accomplished early in the process through a social or tenure assessment, the outcomes of which are incorporated into benefit-sharing design. Participatory dialogue and decision-making also highlight situations where it may be necessary to go beyond “paper” rights to facilitate equitable benefit-sharing arrangements. Where national legislation overlooks customary rights, the act of changing laws to formally recognize customary tenure rights can yield significant benefits. With evidence emerging that community-managed forests can be at least as effective as protected areas in preserving forests, recognizing customary rights could serve as an input-focused measure for REDD+.<sup>40</sup> For example, communities claim state-recognized rights to more than 500 million hectares of forests that contain an estimated 38 billion tonnes of carbon, while much more is managed or claimed by communities that have customary but not statutorily recognized rights to forests.<sup>41</sup> While land use decisions are inherently context specific, helping these communities obtain formally recognized and secure rights to forest lands could help avoid and reduce deforestation and associated emissions.

**Carbon rights.** Depending on the national context, carbon rights may need clarification as well as land and resource rights.<sup>42</sup> As Skutsch observed, “ownership of land itself may not guarantee ownership or even rights to the carbon. . . . Since land tenure is often the subject of conflict, however, it is clear that

“[E]ffective solutions to PES will likely require legal recognition of customary or otherwise socially legitimate tenure systems, allowing them to continue to function fluidly and informally, while making them visible so as to protect them from new or opposing claims.”<sup>37</sup>

Source: Knox, A. et. al, (2011). “Land tenure and payment for environmental services: Challenges and opportunities for REDD+”. *Land Tenure Journal*.

rights to rewards from carbon will be contested in many places.”<sup>43</sup> Practically speaking, payments for emissions reductions generally default to formal rights holders; benefit distribution beyond this point depends on any pre-negotiated arrangements. The importance of carbon rights to benefit sharing depends on the context, as carbon rights could—but need not—be determinative for eligibility for REDD+ benefits.

**Benefits based on actions/performance:** For benefit-sharing purposes, considerations related to tenure and carbon rights depend in significant part on the scale at which REDD+ is implemented. Project-level benefits can be more easily attributed and allocated to those actors most responsible for outcomes; at the provincial or national level, particularly if payments are based on rates of overall reductions, attribution to any specific rights holder may become more challenging. As Peskett (2011) observed, “in some countries rights to carbon could lie with government even if tree and land ownership lies with communities, meaning that communities will not benefit unless effective benefit sharing mechanisms are in place.”<sup>44</sup> For example, if emissions reductions are rewarded based on results calculated from a national reference level or baseline, then a government may receive the payments for results; the determination of whether and how these payments arrive to those contributing to the outcome depends on the structured arrangements either defined by national legislation or policy, or directly negotiated between a government and its citizens.<sup>45</sup> A national fund combined with a PES model may present one option to address payments across scales.<sup>46</sup>

On the other hand, if emissions reductions are compensated at the project level, then attribution to any given rights holder may be easier to determine – particularly when a project uses a spatially explicit baseline. In these cases, tenure rights help determine who was legally responsible for reducing the deforestation and associated emissions. For example, the ability to enforce or restrict illegal logging may be a significant factor for benefit sharing, and tenure rights help determine who has the power to exclude and/or regulate a given tract of land.<sup>47</sup> Additionally, some collective forest rights may cover a relatively large geographic area, such as indigenous rights to lands, territories, or resources – especially in Latin America.<sup>48</sup> However, for emissions reductions compensated at the national or provincial level with multiple tenure users, there may be significant challenges to attributing emissions reductions to any specific rights holder. For more discussion on options for addressing this, please see the discussion below on considerations of scale.

### 3.4 IMPROVING OUTCOMES

It is important to build in mechanisms that enable adaptive learning at the outset. Adaptive learning involves identifying the type of information needed to improve operations over time, developing a system for reporting and monitoring that information, a means to evaluate and learn from the information generated, and a process for addressing disputes that arise during implementation.<sup>49</sup> This step may be particularly relevant for REDD+ if the beneficiaries are involved in achieving REDD+ results and the receipt of results-based payments.

**Monitoring and reporting.** Regardless of the vehicle, funds should be disbursed through a mechanism that both those contributing and receiving the benefits trust, and that mechanism should have the appropriate accountability provisions to maintain that trust.<sup>50</sup> Robust reporting systems are important both for tracking benefit flows as well as monitoring the impact of benefits.<sup>51</sup> Experience from extractive industries indicates that a successful system includes participatory monitoring and evaluation in a manner that provides adaptive learning for operations and governance.<sup>52</sup> Moreover, failing to include a system for monitoring, reporting, and evaluating outcomes could compromise an otherwise effective benefit-sharing scheme, which is what happened in the early stages of Colombia’s revenue-sharing program for minerals (see discussion above).<sup>53</sup>

# 4.0 OPTIONS AND DECISION POINTS FOR DESIGNING AND MANAGING BENEFIT-SHARING ARRANGEMENTS

Based on the models and factors described above, the following considerations may help the broad set of REDD+ actors to weigh options to design effective benefit-sharing arrangements. While these considerations are intended to build upon each other sequentially, if negotiations or arrangements for benefit sharing are already underway, they can be undertaken concurrently.

## 4.1 STEP 1: CLARIFY OBJECTIVE(S) AND DETERMINE THE SCOPE OF BENEFITS

To select the appropriate model, first clarify the objective, scale, and scope of planned REDD+ activities.

**Clarify objectives.** Forests have many different values for different actors. Some of the reasons actors are interested in REDD+ include: improving development outcomes, supporting sustainable livelihoods, enhancing forest cover, reducing greenhouse gas emissions, generating revenue, recognizing rights, implementing sustainable forest management, and supporting biodiversity and conservation. Sometimes these objectives are shared across different interest groups, sometimes they complement each other, and sometimes they conflict. Clarifying the objective(s) at the outset enables better tailoring of both the scope of the intervention and associated beneficiaries, and it helps identify links between benefit sharing and the achievement of results.

**Clarify the Scale.** REDD+ presents an opportunity to think through benefit sharing across scales – particularly given the fact that much of the accounting is undertaken at the national or regional level, while many of the activities and land use changes occur primarily at the project, community, or household level.<sup>54</sup> A recent analysis of benefit-sharing options for REDD+ concluded that coordination across different scales of government is an important factor in integrating development and planning considerations to increase effectiveness.<sup>55</sup> For comparison, payment for ecosystem services schemes often have targeted benefits at the household level, while joint forest management approaches tend to focus at the community level, and extractive initiatives often have taken a larger-scale approach that disburses funds to both governments and communities. REDD+ has elements of all of these approaches.

- *National/jurisdictional scale:* While REDD+ initiatives are expected to achieve results nationally (or subnationally as an interim measure), larger-scale benefit-sharing schemes such as these can increase transaction costs and complicate benefit-sharing arrangements by involving a larger and more diverse set of beneficiaries and their associated interests. This is because it may be difficult (if not impossible) to expect output-based REDD+ payments to be proportionally allocated to specific communities and landowners based on a quantification of their individual contribution to national



REDD+ results.<sup>56</sup> In this context, for larger-scale initiatives, a budgetary approach or one focused on rewarding various beneficiaries based on input-based contributions may prove more manageable than one focused on allocating benefits based on their respective outputs. This approach may, however, create risks for the government managing the scheme if input based payments do not align with output-based revenue.

- *Community/project scale:* Targeting benefit-sharing arrangements at the community level allows for some aggregation of impact while still operating at a scale that enables customized and culturally appropriate benefits. The community scale is ideal for joint-management approaches, as they can harness existing governance structures. Working through a community's own representative institutions enables a stronger participatory approach, which can be key to facilitating more equitable and successful outcomes over the long term. Community-level design considerations include gender equity, avoiding elite capture and political marginalization, and prioritizing those most in need of assistance, among others.
- *Household scale:* Benefit sharing focused at the household level offers a potentially powerful means to undertake a decentralized approach to REDD+, especially in places where landowners have clear control over land use decisions and carbon rights. In some national and other large-scale initiatives, it may prove easier to administer household-level programs if a budgetary approach is taken, or if payments are based on inputs rather than results-based emissions reductions. In any event, it is important that a household approach carefully consider tenure rights. Where a household-level approach is workable, transaction costs should remain low so that they do not serve as a barrier to smallholders.

To achieve success, REDD+ may require some benefit distribution at each of these levels. The fact that some changes in the rates of deforestation and associated emissions may not be geographically disaggregated easily should not prevent equitable benefit-sharing arrangements. Where there is a diversity of actors across scales, considering inputs can help buffer complications associated with attributing results to any particular actor. On the other hand, project- and other smaller-scale arrangements can more clearly correlate results with specific landowners, but these arrangements will also achieve bigger impacts when integrated with a broader development or policy approach. For example, Costa Rica aligned its payments for ecosystem services with broader national forest conservation policies and measures, enabling better integration of incentives with community priorities.<sup>57</sup> Participatory dialogue can also help; experience with benefit sharing related to biological resources demonstrates that community groups who provide input for decision-making can integrate their livelihood activities and development priorities with conservation objectives effectively.<sup>58</sup>

## **4.2 STEP 2: IDENTIFY BENEFICIARIES**

This step requires specifying who needs to benefit to achieve the objective(s), what cost/benefit tradeoffs these beneficiaries might face, and what actions or results they need to achieve to receive a benefit. Typically, REDD+ beneficiaries include national or provincial governments, communities, project investors, landowners, forest users, or actors beyond the forest who might affect forest cover and engage in REDD+. Beneficiaries are largely determined by pairing objectives with the appropriate scale of intervention. For example, if the objective is to reduce greenhouse gas emissions at the provincial level, the overall suite of beneficiaries needs to be capable of reducing emissions at that level, which may require working across scales with not only landowners and users but also those who regulate and manage land use.

Given the breadth of their potential scope, REDD+ interventions should carefully target those beneficiaries critical to achieving the desired objective(s). Depending on the context, it may be

important to engage the State, communities, households, and/or project developers in achieving desired outcomes.<sup>59</sup> In this sense, it is important to equitably balance the need to include all those whose behavior could be incentivized to support improved forest outcomes against the risk of disbursing benefits so broadly that such an action dilutes benefits and fails to incentivize the desired changes.<sup>60</sup> A robust stakeholder engagement strategy and social assessment combined with a clear analysis of the key drivers of deforestation can help facilitate effective decisions on the scope of beneficiaries.

Recognizing that REDD+ outcomes depend upon longer-term land use decisions, targeted beneficiaries may extend well beyond forest users and include agricultural and grazing interests.<sup>61</sup> As Skutsch et al. explain:

A national government might for example choose to stimulate agricultural practices that reduce pressure on forests. It would therefore be quite reasonable if some of the financial benefits derived from international sales of REDD+ credits or carbon funds were to be invested in the promotion of these practices, if it can be shown that this is an effective way of conserving forests. The underlying principle here is that it is not only the owners or managers of forests who could be eligible for benefits, but also actors outside the forest. There could also be many stakeholders, such as intermediary agencies, who might legitimately claim a share of the financial rewards from REDD+, if they are implicated in generating participation of forest users, farmers, etc. in REDD+ activities which result in decreased emissions or increased sequestration of carbon in forests.”<sup>62</sup>

Given the potential need to reward actors at multiple scales, consider whether and when it is appropriate to work through intermediaries. For example, for national-level emissions reductions, the national government might receive financial and other benefits, but there may be political or legal expectations that the government further distribute these benefits to subnational governments, communities, households, and/or private interests.<sup>63</sup> This concept is supported by a 2013 REDD+ decision that allows for a national focal point to designate national entities eligible to receive international results-based payments. While it is generally better to minimize the number of intermediaries, if there are REDD+ interventions planned across multiple scales, intermediaries may help target beneficiaries. In that case, transparency and monitoring of benefit flows become even more important elements of a benefit-sharing scheme.

Where private sector actors hold primary rights to benefits, legal or policy standards may play a key role in ensuring more equitable distribution to subsidiary recipients. Uniform rules for benefit distribution may ignore important local context and be counterproductive to broad community participation.<sup>64</sup> In this context, considerations of equity are paramount.<sup>65</sup> This is particularly the case in a concession-style model where companies pay royalties from licenses or enter into contracts providing payments for leaseholds or resource harvests.<sup>66</sup> As described in the budgetary approach above, a certain (generally small) percentage of revenues is required by law to go through specific institutional arrangements to support community activities.<sup>67</sup> For example, in Ghana, mining and

### POSSIBLE ELIGIBILITY CRITERIA FOR REDD+

- Tenure rights: statutory and customary
- Carbon rights
- Revenue-sharing rules
- Poverty rate
- Social needs and priorities
- Cultural rights
- Ecological/biodiversity values
- Ability to deliver emissions reductions/removal credits
- Agreement to measure, monitor, report, and/or verify results
- Capacity to govern

*Source: Adapted from Peskett, 2011.*



other companies pay ground rent, with 90 percent of the rent payments (calculated as a fixed monetary amount per acre) designated for local use – district assemblies receive 55 percent of the share, 25 percent goes to local/community units called stools, and 20 percent to traditional authorities. The remaining 10 percent of rent payments covers administrative fees.<sup>68</sup>

**Eligibility criteria.** Beneficiaries can become eligible to receive benefits for numerous reasons (see box). While all these factors may influence decisions over who receives benefits, Peskett predicts that the broader distribution of REDD+ benefits will be influenced primarily by tenure and forest revenue management as well as legislation on carbon rights, the preferred policies and measures for implementation, and national REDD+ funding criteria – including permanence, additionality, and forest definitions.<sup>69</sup>

Equity is important in determining eligibility criteria for beneficiaries. Equity for REDD+ benefit sharing generally means allocating benefits in a manner that diverse stakeholders, whether beneficiaries or not, perceive as “fair,” although perspectives among stakeholders may differ in opinion on who should receive REDD+ benefits. Considerations of equity may demand a focus on those with the greatest need—such as communities traditionally dependent on the forest—or those most closely linked to the desired outcome, like landowners at the forest frontier. Alternatively, the range of beneficiaries may be broader for regional or national goals. In some REDD+ initiatives, equity may at times compete with cost efficiency and potentially even emissions reductions. As such, it may be helpful to consider a deliberate decision as to how to balance performance considerations with broader conservation and development priorities. This approach helps prioritize targeted beneficiaries, which should include those most essential to achieving performance-based results as well as those with the greatest need for support. Overall, the more central revenues are to the economy, the more important it is to integrate with the broader development pathway.<sup>70</sup>

**Tradeoffs.** In some REDD+ initiatives, equity may compete with cost efficiency of generating emission reductions/removals, and in some cases an exclusive focus on emissions reductions objectives could compromise equitable outcomes.<sup>71</sup> As such, it may be helpful to deliberately consider during the design of any benefit-sharing arrangements how to balance a focus on performance/results with broader conservation and development priorities. This approach will help determine the targeted beneficiaries, which could include those most essential to achieving results as well as those with the greatest need (such as indigenous peoples, women, and/or politically marginalized groups).

Design of benefits distribution systems should reflect the costs and tradeoffs for undertaking activities that help achieve the intended outcome. This approach helps improve the effectiveness of incentives and helps provide a more realistic estimate of the costs<sup>72</sup> as well as establish a reasonable value for the benefits above what recipients believe they are already entitled to receive without making any further investments or changes in how land is used.<sup>73</sup> For an increased chance of success, it is generally advisable to give some benefits to a broad set of actors that influence how land is used, and not limit benefits to direct contributors to the desired outcomes.<sup>74</sup>

### **4.3 STEP 3: DETERMINE THE TYPES OF BENEFITS AND DELIVERY SYSTEM**

Once the objectives, scale, and beneficiaries have been clearly identified, it becomes easier to weigh design options for benefit-sharing systems. Two threshold questions arise: first, what types of benefits and delivery schedules will best achieve the desired objective(s); and, second, how should benefits be distributed and/or reinvested?

## What types of benefits will best achieve the desired objective(s)?

**Valuing benefits.** Benefits can be valued in various ways such as based on opportunity cost, input-based activities, and/or REDD+ rent or profit, e.g., marginal implementation value above REDD+ credit sales/revenue should at least cover costs.<sup>75</sup> In any event, it is important for those providing payments to consider net benefits based on costs to the beneficiaries in addition to the value of the results. Governance costs, transaction costs, and opportunity costs are all significant and need to be considered when valuing benefits.

**Cash and/or non-cash benefits.** The decision to structure benefits with cash or other means depends in large part on the objectives as well as the culture and agreed needs of beneficiaries. Benefit-sharing discussions may begin when an externally interested actor approaches potential beneficiaries to discuss collaboration on a project involving results-based emissions reductions, perhaps with prospects of cash payments.

### CONSIDERING INPUT-BASED INCENTIVES FOR REDD+

“In input-based systems, potential participants are free to decide if it is worth their while to participate, based on the size of the incentive offered. Payments may be higher in areas with particularly important ecological characteristics... and may be restricted to areas which are genuinely under threat of deforestation. This input-based system of distribution of benefits relies on calculation of overall carbon achievements of a large area (state or national level), the financial value of which form the basis of the fund to be distributed. It is therefore fundamentally different from the output-based one which pays each participant on the basis of the direct measurement ex-post of carbon achievements.”

*Source: Skutsch et al., 2014.*

If beneficiaries are primarily targeted at the household level with settled land claims and a culture that relies upon active participation in a market-based economy, then cash payments may be a particularly effective means of incentivizing the desired REDD+ outcomes. While it may seem easier to establish a system of cash benefits at the outset, there may be cases where it is better to include at least some portion of benefits in non-cash form. For example, one lesson learned from extractive industries is that cash transfers generally do not help advance development objectives; thus, if a principal objective is development, it may be worthwhile to consider alternative forms of payment or benefits, particularly where communities do not heavily rely on cash-based economies.<sup>76</sup> As another example, a focus on community development priorities might include support for public infrastructure, health, and education, preferably administered through an independent- or government-managed fund as opposed to direct cash payments.<sup>77</sup> Additionally, legal rights to forests can be an important non-cash benefit that potentially leads to new revenue streams. Please see section 3.3 for more details.

**Payments for inputs vs results.** Design options include rewarding beneficiaries based on their inputs—activities undertaken or pledged, on the assumption that they will lead to the desired results—or instead on the actual results, or outputs. Some benefits from REDD+, such as clarifying rights or tenure, may come from the readiness process. Other benefits, such as employment or technical assistance to increase agricultural yields, may come as part of implementing activities to reduce emissions/enhance forest carbon stocks. Funds for benefit sharing may also come from results-based payments made after emission reductions or forest enhancements have occurred.

The appropriate blend of input- and output-based benefits for REDD+ is perhaps similar to payments for environmental services, which typically reward outcomes (standing hectares, etc.) but also may pay for inputs through regular payment intervals based on agreement to undertake certain activities linked to desired ecosystem outcomes. Vietnam is undertaking a complex system that considers both the effort for inputs as well as performance-based outputs. While it is premature to speculate as to the outcome,

experts are optimistic about this kind of hybrid approach, in which support is provided for activities to generate emission reductions with additional payments—potentially across a larger geographic area—for achieving these results.<sup>78</sup>

If some benefits are allocated prior to verification of results, stabilization funds can help assure consistent payments, and the use of insurance agreements can help mitigate risks.<sup>79</sup> For example, one lesson from mining activities is that the amount of money held in trust (as opposed to distributed) may depend in part on the predictability and consistency of generated revenue. If the inflow of finance is relatively consistent over a longer period, then it becomes less important to use a managed fund to structure payments. On the other hand, single or sporadic payments may necessitate structured funding disbursed through interval schedules so as to buffer the “boom-bust” cycle,<sup>80</sup> especially where funds are intended for development purposes and public budgets depend on certain benefit inflows.<sup>81</sup> As such, when structuring REDD+ payments to beneficiaries over the long term, it may help to think in terms of providing a “stabilization fund” that can provide consistent incentives over time in addition to a bigger reward for demonstrated results ex-post. If liability is also built into a benefit distribution scheme,<sup>82</sup> stabilization funds may also help to avoid burdening the poor with liability for accidental loss of trees.<sup>83</sup>

**Delivery schedules.** One difference between typical payment for environmental services and REDD+ involves the timing of when the first and subsequent payments are made. Environmental service payments tend to be scheduled in more predictable intervals based on an agreement to undertake certain activities, while reducing emissions or sequestering carbon in forests is often thought of as a payment upon delivery following some form of verification.<sup>84</sup> However, these results-based payments are often based upon decisions made years earlier by a diverse and likely different set of actors, often over a broad geographic area. Because of this change in context, it is important to consider the timing of payments not only for the end results but also for interim inputs and outputs, more akin to a PES approach.<sup>85</sup>

Particularly for the poor, the timing of payments is critical to addressing opportunity costs as well as practical needs.<sup>86</sup> While some funders of forest carbon initiatives gravitate toward results-based payments, the optimal timing of benefit distributions may include substantial up-front payments, especially when beneficiaries lack the resources for initial investments. This challenge is compounded when ex-post performance payments are made years after activities have commenced. For example, experience from CDM afforestation and reforestation projects demonstrates that some landholders have experienced difficulty committing to long-term forest enhancement plans due to shorter-term competing pressures on forest land.<sup>87</sup> At the same time, the more up-front payments made, the lower the incentives for longer-term conservation. The longer the timeframe, the greater the importance of allocating more time up-front for participatory decision-making and capacity building.

Particularly for the poor, the timing of payments is critical to addressing opportunity costs and practical needs.

## Distribution System

Payments for ecosystem services, extractive industries, and collaborative natural resource management initiatives offer three different models for benefit distribution relevant to REDD+: direct payments, managed fund, and collaborative arrangements. These models are described above and summarized in the table below. Regardless of the model, key decisions include: (a) how much funding should be allocated to project costs and future investments; (b) whether to provide benefits directly at the household/parcel level or instead disburse benefits through a central fund such as through public budgets or managed trust funds; and (c) whether to utilize an existing mechanism or create a new one for fund management and disbursement. Typically, payments for services are more likely to reward beneficiaries

directly at the household level, while central funds are utilized for larger scale payments. Additionally, managed funds tend to enable conversion of cash benefits to non-cash benefits. These options are discussed in more detail below.

**New or existing mechanism?** Experiences from extractive industries indicate that existing channels tend to work well with good governance, i.e. strong capacity, clear strategy, transparent budget, commitment to robust financial management, and agreement between donors and recipients on the process and priorities for programming funds.<sup>88</sup> Fisher (2007) recommends utilizing company-managed or other new trust funds only where the use of existing funds or designing a new mechanism seems impractical; these channels may be more appropriate where governance is weak or there is a higher risk of corruption.

**Direct payments** provide a decentralized approach where local actors such as communities, households, subnational authorities receive payments based on input criteria and/or performance outcomes. A payment for services model likely will require establishing a new mechanism. Considerations of equity are paramount to the long-term success of direct payments, which tend to work best when they are tailored to the local context and directly aligned with outcome and broader policy objectives.<sup>89</sup> Note, however, that there are tradeoffs with a direct payment option. Many actors can carry higher transaction costs, which increases the risk that smallholders will fail to benefit and/or that intermediaries could capture a significant portion of the benefits.<sup>90</sup> These risks can be mitigated in part through participatory decision-making, which is seen across sectors as likely to improve outcomes; however, they may again increase transaction costs.<sup>91</sup> A collaborative management approach should utilize at least part of a community's existing decision-making structures, although a separate management entity (e.g., governing board or trust) may be necessary for REDD+-specific efforts.

**Central fund:** Depending on local economic and development conditions, it may be more effective to channel money through a fund that allocates funds for specific purposes such as investing in development projects and other non-cash benefits instead of making direct payments to beneficiaries.

To achieve multiple objectives or for approaches across different scales, some experts recommend a hybrid approach that combines direct performance incentives with input-based disbursements made through a managed fund, thereby rewarding results while structuring benefits to provide more interim payments over a longer period of time.<sup>92</sup> For example, some experts have advocated a “stock-flow approach” for REDD+, which combines a stabilization fund with performance payments.<sup>93</sup>

**Recovering costs and reinvesting dividends:** Recognizing that REDD+ initiatives may require substantial investments as well as ongoing management costs, it is important to consider what portion of REDD+ payments should be allocated toward recuperating costs and investing in future results.

# 5.0 SUMMARY AND RECOMMENDATIONS FOR EQUITABLE AND EFFECTIVE OUTCOMES

Drawing from various sectors, including payment from ecosystem services, extractive industries, and collaborative natural resource management initiatives, three models appear most viable for REDD+ benefit-sharing systems – payments for services, managed fund, and collaborative resource management. Table I summarizes these three models.

**TABLE I: SUMMARY OF DESIGN OPTIONS FOR BENEFIT SHARING**

	<b>Payments for Services</b>	<b>Managed Fund</b>	<b>Collaborative Management</b>
<b>Description</b>	Contracts to compensate specific uses of land and/or reward specific outcomes based on pre-defined criteria	Earmarked revenue stream that funds projects and activities based on pre-defined processes	Jointly managed land use planning and projects based on a formal agreement between an external (often private) actor and community or collective
<b>Often used for</b>	Multi-year agreements with a number of legally recognized owners/users	Non-cash development priorities such as education, health, and infrastructure	Projects that require long-term land use planning and management over a relatively large area pertaining to a specific community
<b>Advantages</b>	Benefits can be customized to the level of effort or result achieved; payments can be structured to incentivize results.	It allows integration with public budgets and potentially reaches a broad scope of beneficiaries.	Strong participatory management increases the likelihood of long-term success through integration with community culture and priorities.
<b>Risks</b>	Transaction costs and eligibility barriers tend to exclude smallholders and marginalized groups.  There is potential for perverse incentives, depending on benefit structure and amount.	It is particularly vulnerable to weak governance leading to misappropriated funds.  The budget approach has a potential disconnect between desired REDD+ outcome and payments received.	It requires significant investment of time and capacity building.  There are potential challenges for horizontal equity, depending on culture and governance.

Each of these models will work better in some contexts than in others. Key considerations in deciding between them include whether the objectives focus on development, conservation, and/or climate priorities; the scale of intervention; the scope of the actors and activities involved; and the nature of the intended benefits. In many cases, hybrid models across scales and actors may provide the most resilient benefit-sharing system, but this model should be balanced against governance and administrative capacity and their associated transaction costs.

The following recommendations emerge across models for designing effective benefit sharing systems:

- **Integrate with development priorities.** It is not uncommon for community priorities to focus initially on core development needs such as health, education, and infrastructure. A managed fund can enable investments that address these needs and also help build long-term capacity to support sustainable livelihoods. Social assessments can help improve equity and integrate benefit-sharing schemes with broader planning and development priorities. When development priorities seek to benefit poor and vulnerable groups, the scale and timing of benefits are two critical factors.<sup>94</sup>
- **Facilitate participatory design and decision-making.** Robust involvement of funders and beneficiaries alike in designing and administering benefit-sharing arrangements increases the likelihood of success over the long term, even if it takes longer to become operational.
- **Provide dispute settlement options.** REDD+ combines a diverse set of actors who may depend on each other for results but may not have a history of working collaboratively. Experts recognize the value of grievance mechanisms to help manage disputes over REDD+ benefits.<sup>95</sup> A formal process to resolve complaints helps facilitate more equitable outcomes and minimize delays when conflicts arise.
- **Enable adaptive management.** Given the complexity of scope and scale of REDD+ intervention and the diversity of potential beneficiaries, it is important to build in mechanisms at the outset to incorporate lessons learned to generate improvements over time.<sup>96</sup> Transparency helps generate information necessary to identify opportunities for improvement, while participatory monitoring and evaluation enables benefit arrangements to evolve with changing community needs.
- **Prioritize beneficiaries based on objectives and equity.** Uniform rules for benefit distribution may ignore important local context and be counterproductive to broad community participation, particularly where companies pay royalties from license or enter into contracts providing payments for leaseholds or resource harvests.<sup>97</sup> With no set or predictable formula to establish payments—and recognizing that benefits are limited—a broad perception of a “fair” benefit-sharing arrangement helps build trust and keep diverse actors constructively engaged in building long-term solutions.
- **Carefully consider rights and obligations.** To realize lasting land use changes, it is critical to consider a broad scope of actors claiming statutory and customary rights as well as management and regulatory authority, as all may control how forest resources are used. Experiences with extractive industry arrangements suggest that clear oversight and formal management structures and funding priorities with strong transparency and reporting measures help ensure success.<sup>98</sup>

# ENDNOTES

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- <sup>1</sup> Chandrasekharan Behr, D.; Mairena Cunningham, E.; Kajembe, G.; Mbeyale, G.; Nsita, S.; Rosenbaum, K. (2012). Benefit Sharing in Practice: Insights for REDD+ Initiatives. PROFOR. (Hereinafter Chandrasekharan Behr, 2012).
- <sup>2</sup> CBD/UNEP. (2009). Learning from the Practitioners: Benefit Sharing Perspectives from Enterprising Communities. publication. (Hereinafter CBD/UNEP, 2009).
- <sup>3</sup> Peskett, L. (2011). Benefit Sharing in REDD+: Exploring the Implications for Poor and Vulnerable People. World Bank and REDD-net. (Hereinafter Peskett, 2011.) (Citing Cotula and Mayers, 2009).
- <sup>4</sup> Chandrasekharan Behr, 2012.
- <sup>5</sup> Skutsch, M. (2012). "Slicing the REDD+ pie: controversies around the distribution of benefits" (hereinafter Skutsch, 2012).
- <sup>6</sup> Chandrasekharan Behr, 2012.
- <sup>7</sup> Id.
- <sup>8</sup> See, e.g., Wall, E. and Palon, R. (2011). Sharing Mining Benefits in Developing Countries: The Experience with Foundations, Trusts, and Funds. Extractive Industries for Development Series #21. World Bank. (Hereinafter Wall & Palon, 2011). "Annual operating budgets present options for investment that differ from those of endowed funds."
- <sup>9</sup> Fischer, C. (2007). International Experience with Benefit-Sharing Instruments for Extractive Resources. Resources for the Future. (Hereinafter Fischer, 2007).
- <sup>10</sup> Wall & Palon, 2011.
- <sup>11</sup> Fischer, 2007. NOTE: "However, one must proceed with caution in applying these guidelines to other circumstances. Some of these recommendations rely on three critical characteristics of the central government: 1) having clear title and authority to engage in resource development; 2) being strong and effective in providing public goods and services; and 3) being able to regulate and enforce environmental compliance, without conflicts of interest. When these conditions are not met, second-best practices may be more suitable."
- <sup>12</sup> Chandrasekharan Behr, 2012. Note that Cameroon and Liberia both provide examples of this model.
- <sup>13</sup> Based on municipalities receiving 12.5 percent of the State's royalties, which are cited as 3-12 percent of total revenue. See: Myers Madera, E.; Blockhus, J.; Ganz, D.; Cortez, R.; and Fishbein, G. (2013). Sharing the Benefits of REDD+: Lessons from the field. The Nature Conservancy. (Hereinafter Myers Madera, 2013).
- <sup>14</sup> Fischer, 2007.
- <sup>15</sup> Chandrasekharan Behr, 2012.
- <sup>16</sup> Id.
- <sup>17</sup> Id.
- <sup>18</sup> Id.
- <sup>19</sup> IUCN. (2009). REDD-plus and Benefit sharing: Experiences in forest conservation and other resource management sectors. (Hereinafter IUCN, 2009).
- <sup>20</sup> See, e.g., Peskett, 2011: "Information about all transactions should be available in the public domain for scrutiny by civil society, government and private sector."

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21 Fischer, 2007.

22 IUCN, 2009.

23 Id.

24 Wall, L. (2011). Foundations as Models for Distributing Benefits from Extractive Projects. World Bank. (Hereinafter Wall, 2011).

25 Wall & Palon. (2011).

26 Wall & Palon, 2011.

27 “Well-being” in this case derived from Sen and Nussbaum’s ‘Capabilities Framework’ and Maslow’s ‘Hierarchy of Human Needs,’ which were applied to case studies on benefit sharing efforts related to biological resources and conservation initiatives. The case studies illustrated how “some communities have used principles of governance, ethics, equity and resource sharing as key bases for securing livelihoods at the local and household levels.” These cases demonstrated improvements in community well-being based on different factors, including “basic needs (i.e., food security, shelter, and health); safety needs (i.e., security from natural and economic risks); belonging needs (i.e., equity in governance, access to resources and benefits); and self-esteem (i.e., of degree of autonomy to determine use of resources, economic activities, education, etc.).” CBD/UNEP, 2009.

28 Wall, 2011.

29 Peskett, 2011.

30 Id.

31 Id. (“This will be particularly important in cases where intermediary organizations participate as aggregators for a number of individual land owners within REDD+ schemes.”).

32 Skutsch, 2012.

33 Yamanoshita, M.Y. and Amano, M. (2012). Capability Development of Local Communities for Project Sustainability in Afforestation/Reforestation Clean Development Mechanism. *Mitigation and Adaptation Strategies for Global Change* 17:425-440. DOI 10.1007/s11027-011-9334-6.

35 Costenbader, J. (2011). REDD+ Benefit Sharing: A Comparative Assessment of Three National Approaches. UN-REDD & FCPF. (Hereinafter Costenbader, 2011).

36 Id.

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38 Peskett, 2011.

39 Id.

40 See, e.g., Stevens, C.; Winterbottom, R.; Springer, J.; and Reytar, K. (2014). Securing Rights, Combating Climate Change: How Strengthening Community Forest Rights Mitigates Climate Change. WRI & RRI.

41 Id.

42 Peskett, L. (2011). Benefit Sharing in REDD+: Exploring the Implications for Poor and Vulnerable People. World Bank and REDD-net. Citing Streck, 2009; Peskett and Brodnig, 2011.

43 Skutsch, 2012.

44 Peskett, 2011: “This approach was used in New Zealand’s emissions trading scheme, with negative impacts on both forest cover and industry trust in government (Cox and Peskett, 2010).”



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45 Peskett, 2011: "While land tenure may not be an important determinant in how benefits are shared, it would still likely emerge as a key factor in the debate about who has what sort of rights to the benefits associated with emissions reductions, and in terms of the of financial incentive of REDD+ influencing governments or project developers to secure stronger rights over contested lands in order to generate emissions reductions. This issue is discussed more in Peskett and Brodnig, 2011."

46 Skutsch, 2012 (distinguishing between community-level REDD+ credits and national-level credits held by the government "but in which financial benefits from sale of carbon credits could be distributed to participating forest communities, subject to a system such as PES." (internal citations omitted).

47 Costenbader, 2011.

48 Id.

49 Myers Madera, 2013.

50 IUCN, 2009.

51 Peskett, 2011.

52 Wall, 2011.

53 Myers Madera, 2013. Under this system, the State receives a royalty of 3-12 percent of revenues from subsurface minerals, with approximately 60 percent these royalties allocated at the subnational level to administrative departments and municipalities. While the allocation formula is targeted to meet local needs and support priority development projects, revenues have not always been spent for their intended purpose, and weak transparency, monitoring, and planning capacities allegedly have compromised effectiveness. *Id.*

54 See, e.g., Skutsch, M.; Turnhout, E.; Vijge, M.J.; Herold, M.; Wits, T.; Willem den Besten, J.; and Balderas Torres, A. (2014). Options for a National Framework for Benefit Distribution and Their Relation to Community-Based and National REDD+ Monitoring. *Forests* 5, 1596-1617. (Hereinafter Skutsch et al., 2014).

55 This includes coordination with the central, provincial, and local governments; communication between agencies in both design and implementation stages; dedicated planning teams; and strong processes for consultations and partnerships in establishing funding priorities. See Myers Madera, 2013.

56 Skutsch et al., 2014.

57 Myers Madera, 2013.

58 CBD, 2009.

59 Wilder and Chapman. (2013). Designing National Legal Frameworks for REDD+. REDD+ Law Project (hereinafter Wilder and Chapman, 2013).

60 IUCN, 2009.

61 Skutsch et al., 2014.

62 Id. (Internal citations omitted).

63 Wilder & Chapman, 2013.

64 Chandrasekharan Behr, 2012.

65 Id.

66 Id.

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- 69 Peskett, 2011.
- 70 Fischer, 2007. NOTE: “However, one must proceed with caution in applying these guidelines to other circumstances. Some of these recommendations rely on three critical characteristics of the central government: 1) having clear title and authority to engage in resource development; 2) being strong and effective in providing public goods and services; and 3) being able to regulate and enforce environmental compliance, without conflicts of interest. When these conditions are not met, second-best practices may be more suitable.”
- 71 Skutsch, 2012.
- 72 IUCN, 2009.
- 73 Chandrasekharan Behr, 2012.
- 74 Id.
- 75 Peskett, 2011.
- 76 Fischer, 2007.
- 77 Id.
- 78 For example, Skutsch et al. (2014) recommend output-based rewards for stock increases and using performance payments for larger geographic areas to fund smaller-scale input-based incentives likely to generate even more results.
- 79 Peskett, 2011.
- 80 Fischer, 2007. (“However, one must proceed with caution in applying these guidelines to other circumstances. Some of these recommendations rely on three critical characteristics of the central government: 1) having clear title and authority to engage in resource development; 2) being strong and effective in providing public goods and services; and 3) being able to regulate and enforce environmental compliance, without conflicts of interest. When these conditions are not met, second-best practices may be more suitable.” Id.)
- 81 Fischer, 2007.
- 82 Depending on how REDD+ is accounted and how payments are structured it may not be necessary to include liability in a benefit sharing scheme. For example, some forest loss may be due to natural disturbances. Depending on how these emissions are treated developing countries may not be responsible for this loss. The temporary crediting approach of the CDM also passes the risk of reversal onto the purchaser – at least from an accounting perspective. Funders or purchasers of emission reductions may also not include liability provisions in their funding agreements.
- 83 Peskett, 2011.
- 84 Id. (citing Cotula and Mayers 2009).
- 85 Peskett, 2011.
- 86 Id.
- 87 See World Bank. (2011). BioCarbon Fund Experience Insights from Afforestation and Reforestation Clean Development Mechanism Projects. Retrieved from [http://siteresources.worldbank.org/EXTCARBONFINANCE/Resources/BioCarbon\\_InsightsARCDM\\_Final.pdf](http://siteresources.worldbank.org/EXTCARBONFINANCE/Resources/BioCarbon_InsightsARCDM_Final.pdf)
- 88 Myers Madera, 2013.
- 89 Id.

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- 90 IUCN, 2009; Myers Madera, 2013.
- 91 Costenbader, 2011; Peskett, 2011 (“The amount of incentive payments to these stakeholders, the timing and the form in which this payment takes place need to be decided and linked directly to actions agreed with them.”).
- 92 Myers Madera, 2013.
- 93 Id.
- 94 Peskett, 2011.
- 95 IUCN, 2009.
- 96 Id.
- 97 Chandrasekharan Behr, 2012.
- 98 Fischer, 2007.

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