



REDD-plus and Benefit sharing

Experiences in forest conservation and other resource management sectors

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FOREST CONSERVATION PROGRAMME

REDD-plus and Benefit sharing

Benefit sharing systems should provide effective incentives for actions and build support and legitimacy for REDD mechanisms. To achieve this dual objective, benefits should be shared more widely than a strict focus on effective incentives would allow.

REDD is understood in the context of the broad set of forest mitigation options as expressed in the Bali Action Plan: Reducing emissions from deforestation and forest degradation including the role of conservation, the sustainable management of forests and the enhancements of carbon stocks in developing countries. REDD-plus can potentially be a significant source of financial benefits for forest countries. Payments will consist of compensation for the opportunity costs of land-use changes plus a so-called REDD rent. How such benefits should be shared nationally between different stakeholders has not been carefully explored. This is an essential

question in REDD strategy design and implementation. IUCN, with the support of Econ Pöyry has reviewed experiences with existing benefit sharing arrangements in the forest sector and in other areas, in order to inform discussions on how to develop benefit sharing systems under REDD. This brochure summarizes the conclusions of that study. The full document can be downloaded at http://cmsdata.iucn.org/downloads/iucn_report_experiences_with_benefit_sharing___approach_for_redd_first_draft_dec_2009.pdf and comments can be sent to henrik.lindhjem@poyry.com or kirsten.braten@poyry.com.

Overall benefits are determined by costs, demand and the set-up of mechanisms

REDD payments compensate opportunity costs of land use changes and pay a “REDD-rent”

The total amount of financial benefits available for a country depends on the opportunity cost, other costs of REDD actions in the country and the demand for REDD credits from developed countries. In addition, the baseline emission level is a crucial determinant. The payments will consist of compensation for the costs incurred plus a so-called REDD rent or surplus. The size of the rent will depend on how the international REDD mechanism

is set up. A fully competitive market will give one price for REDD credits, and a high rent for cheap actions. The bulk of benefits are expected to come from compliance-based finance, i.e. payments for REDD credits to offset emissions reduction targets in developed countries. REDD payments will, by design, end after a few decades, when tropical countries are expected to take full responsibility for their own emissions and carbon stocks.

Sharing benefits to give incentives for action and create broad legitimacy for REDD

Benefit sharing for REDD can be defined as agreements between stakeholders about the distribution of monetary benefits from the commercialization of forest carbon.

There are two main reasons to share benefits. The first is to create effective incentives by rewarding individuals, communities, organizations and businesses for actions that change land-uses and reduce emissions. This means providing benefits somewhat in excess of the costs of their sacrifices to change otherwise legal behavior. The prevention of illegal activities should not

be rewarded. The second reason is to build wider national (and international) legitimacy and support behind the REDD-plus mechanism. This can only be achieved if people directly affected by REDD-plus actions and the wider public are treated fairly and equitably. This may mean sharing benefits more widely than a strict focus on incentives would dictate.

Experiences from the exploitation of extractive resources demonstrate that wider sharing of benefits is important to foster cooperation and avoid conflicts. It can also be considered a moral obligation to distribute some benefits according to the needs of poor and vulnerable groups, and not just as a means to foster support as an end in its own right.

Careful balancing between effective incentives and legitimacy needed

Enough people must benefit to foster legitimacy for REDD, but if too many people benefit from something they did not contribute to, it will dilute incentives

There is often a trade-off between providing effective incentives and creating a legitimate REDD-plus mechanism. Change in behavior that reduces emissions needs to be sufficiently rewarded individually or collectively, for example at a community level. This is necessary for the REDD-plus mechanism to be effective in changing land-use practices that generate carbon emissions into the atmosphere. If too many people benefit from something they have not actively contributed to or have no legitimate claims to, incentives are diluted. The result will be lower

emission reductions and overall benefits to share. On the other hand, if rewards are given only to certain groups, actions or geographical areas, people may feel unfairly treated and turn against the whole mechanism as illegitimate. The degree of sharing that is necessary to ensure support and legitimacy would also depend on the specific type of REDD policy and measures, and the stakeholders involved. Views on fairness and equity will typically vary within and between countries.



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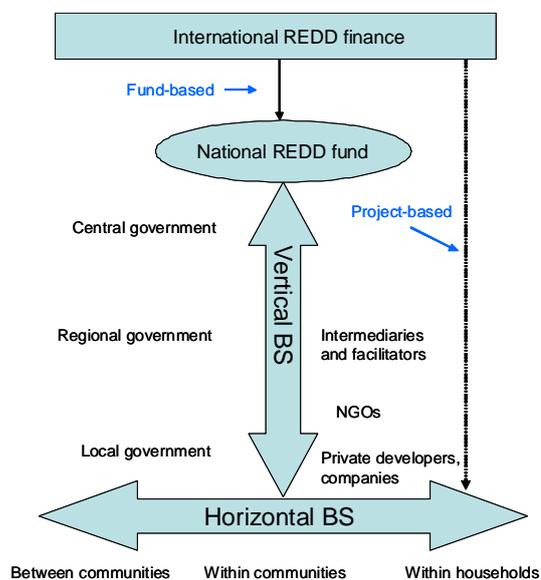
Both vertical and horizontal benefit sharing must be considered

Too many intermediaries demanding their share minimize benefits left to be divided amongst local actors

Figure A illustrates the workings of two main funding channels: a national REDD fund and a project-based architecture where funding goes directly to projects. The inclusion of both types of funding is likely as part of an international REDD-plus mechanism and is known as a 'nested approach'. A national REDD fund can be arranged within or separately from the state administration. Benefit sharing has two essential dimensions: vertical and horizontal benefit sharing. Figure A illustrates the vertical sharing of benefits between national levels and non-governmental stakeholders via regional government and intermediaries to the local level. The sharing of benefits between and within communities, households and other local level stakeholders is called horizontal benefit sharing. The figure illustrates an important concern for the development of effective national REDD funds: if too many stakeholders halfway down the local level demand a share of the benefits, incentives for local actions

will be weakened. This is an illustration of the trade-off discussed in the previous section.

Figure A: Vertical and horizontal national benefit sharing



Source: Adapted from Ellis-Jones

The time dimension of REDD-plus payments

Increasing demands on land for agriculture and alternative energy sources will make REDD more expensive in the long term.

REDD benefits are finite. The development of REDD payment schedules will be hard to predict and will depend on the establishment and stability of carbon prices and other factors. Large-scale REDD-plus action coupled to increasing demands for other land uses and commodities such as bio fuels are likely to contribute to rises in the value of timber and agricultural products. These in return will lead to increasing pressures on forest resources and land. It is expected that as a result, REDD action will become more

expensive over time and require higher compensations. Such factors are important when considering the overall scale of REDD and how to reward stakeholders over time. The needs of poor and marginalized groups are particularly urgent today and may require more front-loaded payments to fill gaps in funding. Front-loading benefits for emission reductions or carbon stock enhancements for delivery in the future may also dilute incentives to follow through on management obligations.

Benefit sharing mechanisms under REDD-plus should build on existing experiences

Rich experiences in benefit sharing mechanisms focus on governance, transparency, accountability and the involvement of the poor in decision-making processes

The review looked at benefit sharing experiences for five actions in forest conservation and management.

The results are presented in Table A. Some of these experiences use existing government structures

such as the local redistribution of tax revenues from production forestry. Others have experiences with setting up new institutions and channels dedicated to benefit sharing. The latter is typically the case for community forest management and integrated conservation and development projects. Benefits are delivered either as payments to individuals or communities or as contributions to development projects, or social services.

The Clean Development Mechanism (CDM), voluntary carbon projects, integrated conservation and development projects all struggle with delivering both environmental services and livelihood contributions. The taxing of carbon credits has been suggested in order to strengthen the poverty dimension of projects, and enable the funding of dedicated livelihood programs. The design and development of benefit sharing mechanisms under REDD-plus should build on these existing experiences.

Table A: *Lessons for benefit sharing under REDD+ from review of experiences*

Benefit sharing area reviewed	Lessons for benefit sharing under REDD-plus
Forest conservation and management types:	
Integrated Conservation and Development Projects (ICDPs)	<ul style="list-style-type: none"> - Key stakeholders for benefit sharing need to be more carefully identified - Links between incentives, benefits and actions is often too loose - Criteria for benefit sharing could include cost, compliance, need and residency - Embezzlement and elite capture are often major problems - ICDPs take on too many things – lesson for REDD-plus?
Payment for forest Environmental Services (PES)	<ul style="list-style-type: none"> - Links between incentives, benefits and actions stronger than for ICDPs - PES is usually not targeting the poor, one reason is high transaction costs - Flexible tenure arrangements and up-front payments may improve benefit sharing
CDM & voluntary carbon markets	<ul style="list-style-type: none"> - Sustainable development concerns under CDM are left to countries - Standards in voluntary markets for social issues may be useful - Front-loaded payment schedule is important for poor participants - Taxation of carbon credits can be redistributed for benefit sharing purposes
Community Forest Management (CFM)	<ul style="list-style-type: none"> - Vertical benefit sharing is often specified in regulations, horizontal benefit sharing is often decided locally - Government procedures for CFM are often cumbersome and benefits are low - Clear and stable government rules on benefit sharing are important for incentives - The inclusion of marginal groups makes benefit sharing more fair and transparent
Production forestry	<ul style="list-style-type: none"> - Sensitization and training is needed before receiving monetary benefits - Transparency and accountability problems at different levels
Other areas and sectors:	
Extractive industries	<ul style="list-style-type: none"> - Appropriate benefit sharing can induce cooperation also in difficult situations - Dedicated benefit sharing systems are needed if existing systems are dysfunctional
Infrastructure project safeguards	<ul style="list-style-type: none"> - Available guidelines may be useful for benefit sharing under REDD-plus - Monetary compensation systems may create local problems

Other valuable benefit sharing experiences

Experiences from sharing revenues from extractive resources such as minerals, oil and gas span decades. One encouraging lesson is that appropriate benefit sharing arrangements may be able to induce cooperation even under the most difficult circumstances. Another lesson is that if existing governance systems are dysfunction-

nal, it is better to set up new benefit sharing mechanisms. Experiences with safeguard policies show best practice guidance on compensation and benefit-sharing systems, and stakeholder participation for hydropower dams, pipelines etc.

REDD-plus can learn important lessons from benefit sharing mechanisms arranged under the Convention on Biological Diversity (CBD). The guidelines developed for access and the benefit sharing of revenues from the commercialization of biodiversity resources under the CBD are very general and implementation is decided nationally. The problem with the guidelines is that they are so general that almost any benefit sharing scheme would satisfy them. Another important lesson to be learned from the CBD is that these mechanisms suffer from complexity and uncertainty in the future. This is particularly true when considering royalty benefits for products that often never reach the market, and hence governments don't receive their share of the revenues. Income flows are uncertain.

Benefit sharing – international conditionality or leave countries to decide?

Benefit sharing under an international REDD-plus mechanism can either be left to each individual forest country to decide and implement or be attached as a condition, in some form or another, to the payments for reduced emissions. The latter option is similar to classic conditionality under aid assistance. National and international REDD-plus legitimacy and effectiveness depend to a degree on achieving appropriate benefit

sharing, but some countries will not accept what they see as interference. Some financing will not be forthcoming unless there are stronger conditions on national actions. A possible solution to this problem could be to develop guidelines for appropriate benefit sharing for different levels, contexts and REDD-plus actions. To be meaningful, these guidelines would have to be more specific than those developed for the CBD.

From drawing board to implementation

The design of benefit sharing may in theory be fairly simple. If land ownership and user rights are clear, then costs of sacrifices can be easily valued. This will make it relatively straightforward to achieve satisfactory law enforcement as well as transparent, accountable and effective government systems. The latter are needed for the development of effective benefit sharing mechanisms and the fostering of trust between stakeholders. However, the physical, social, economic and institutional conditions that dominate many tropical forest countries, move the design and implementation of

benefit sharing mechanism into so-called “second best” territory. For example, if governance is a problem within existing local government structures, REDD funds may have to be distributed through a new mechanism. If REDD funds just displace current transfers from the central government, REDD funds may need to be “earmarked”. If direct payments to poor individuals are a problem, then incentives may be better provided in kind as development projects. Experiences from existing benefit sharing mechanisms may help in judging what is the best approach under different circumstances.



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Five features of well-functioning benefit sharing mechanisms

Given the degree of variation in the conditions that might affect benefit sharing between and within countries, there is no one single blueprint for the definition and implementation of benefit sharing mechanisms for REDD. Table B gives an overview of five generic features of well-functioning benefit sharing mechanisms. Building on discussions in Bennet (2002) these are combined with lessons drawn from this review of benefit sharing experiences. The table lists the five main feature areas, describes the key

features and explains the results or impacts of these characteristic in terms of achieving a well-functioning benefit sharing system. The five features should be equally valid to a national level system as to small-scale REDD-plus projects, for example, support for community forestry or integrated conservation and development projects. As can be seen in the table, to achieve a well-functioning benefit sharing system, the following requirements are needed:

- i) Stakeholders need to be carefully identified and engaged, and not just consulted.
- ii) 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.
- iii) A mechanism which is trusted and has the necessary accountability provisions should be in place to disburse timely payments to stakeholders.
- iv) Information about all transactions should be available in the public domain for scrutiny by civil society, government and private sector.
- v) Benefit sharing agreements should be flexible and allow for necessary changes based on learning and have clear dispute settlement mechanisms.

Table B: Five features of well-functioning benefit sharing mechanisms

Key area	Feature of benefit sharing mechanism	Results in...
1. Stakeholder engagement	Identifies stakeholders, consults with them, and builds local capacity for them to engage	→ Basis for determining incentives, builds ownership, trust and legitimacy
2. Incentive design	Estimates costs of people's sacrifices, determines level, form and timing of benefit distribution	→ Clear and direct incentives for stakeholders to engage in REDD-plus activities
3. Delivery mechanism	Ensures proper procedures for reporting, auditing, and monitoring of benefit streams	→ General trust and legitimacy, and effective safeguards against corruption
4. Transparency provisions	Harnesses internal and external forces for increased transparency	→ Cost-effective, meaningful levels of accountability
5. Dispute settlement	Prepares for changes in agreements, adopts dispute settlement mechanisms	→ Avoids costly conflict, disciplines actors and reduces uncertainty

Next steps

The study on the results of which this brochure is based, was a first attempt to grapple with the difficult issue of national benefit sharing systems under a REDD-plus regime. The intention has been to stimulate discussion and provide a starting point for moving the design of such systems into the practical arena, e.g. in the form

of guidelines or sourcebooks. As a next step, to achieve this, there is an urgent need to test and learn from different benefit sharing arrangements as part of REDD-plus demonstration activities that can help move forward the implementation of REDD-plus.



For further information, please contact:

Stewart Maginnis

stewart.maginnis@iucn.org

Consuelo Espinosa

consuelo.espinosa@iucn.org

**INTERNATIONAL UNION FOR
CONSERVATION OF NATURE**

US Multilateral Office
1630 Connecticut Avenue, NW
3rd Floor,
Washington DC 20009
USA

Tel +1 202 387 4826

Fax +1 202 387 4823

www.iucn.org