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

As Reducing Emissions from Deforestation and Forest Degradation, conservation of forest carbon stocks, sustainable management of forests and enhancement of forest carbon stocks (REDD+) implementation progresses, governments and communities alike are working to develop systems to manage payments and other benefits. This brief draws from experiences in other sectors and sets out issues and options for equitable and effective arrangements to share both monetary and non-monetary benefits for REDD+.

BACKGROUND

Benefit sharing is generally understood as allocating, administering, and providing benefits to actors for certain activities or results through some form of positive incentive, opportunity, payment, rent/profit, or other compensation, whether financial or non-monetary. This brief is based on the report "Benefit Sharing and REDD+: Considerations and Options for Effective Design and Operation"[1] and summarizes design considerations for contract- and fund-based approaches based on three different models. Following a brief description of these models and cross-cutting themes, a set of considerations helps stakeholders determine how to best structure benefit-sharing arrangements for REDD+ initiatives that use incentives as part of their strategy to drive land use outcomes.

BENEFIT-SHARING MODELS

While benefit sharing for REDD+ could follow any number of models, three emerge as particularly relevant:

Payments for Services are typically private contracts between an investor/donor and a landowner or resource manager. Generally, the contract offers a defined benefit—often cash—in exchange for a defined activity or outcome. Conservation easements and payments for ecosystem services follow this model. Benefits are proportional to the level of effort/input or demonstration of results/output based on criteria such as new trees planted or standing area of forest. They typically require a beneficiary to demonstrate their right to manage a resource or land consistent with expected outcomes. Illegal logging, disputed tenure, and unclear carbon rights can complicate results. Successful arrangements have prioritized equity, transparency, and meeting up-front costs as well as long-term needs.

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1 Hite, K. (2015). "Benefit Sharing and REDD+: Considerations and Options for Effective Design and Operation." USAID-supported Forest Carbon, Markets and Communities Program. Washington, D.C., USA.

Managed Funds channel cash benefits through a central public budget or a trust fund. They can be used to purchase goods and services, invested, or distributed as cash to beneficiaries based on specific policies or criteria. Generally, trust funds allow for more targeted benefit distribution though specific allocation policies and a multi-stakeholder board that makes fund programming decisions. Experience from extractive industries suggests that benefits can be administered through public funds. However, national funds have not always achieved their intended outcomes or reached their intended beneficiaries, particularly where governance or transparency is weak. Where private sector actors distribute benefits, laws and policies can facilitate more equitable distribution to subsidiary recipients.

Collaborative Resource Management is an integrated development model where benefits flow from an external actor—including companies, investors, and subnational governments—to community or other more local partners, often with shared decision-making authority. Arrangements are based on management plans and agreements that specify how forests will be used and how resources will be allocated, often from the sale of forest products. This participatory management model has significant potential for REDD+, especially when it targets poor communities and avoids exacerbating inequalities or rewarding undesired outcomes. While arrangements may require time, enhanced capacity, and new or strengthened governance structures, a collaborative management system has potential to secure lasting REDD+ outcomes. Measures to minimize risks include enhancing transparency, integrating benefits with broader development priorities, offering a blend of household- and community-level benefits, and, where applicable, formally recognizing community tenure rights.

TABLE 1: EXAMPLES OF PAYMENT FOR SERVICES, FUNDS, AND COLLABORATIVE RESOURCE MANAGEMENT

Nicaragua: The Regional Integrated Silvipastoral Ecosystem Management Project	This subnational payment for services initiative included 138 households receiving both cash and non-cash benefits for capturing carbon, protecting water supplies and biodiversity, and stemming erosion. Eligibility depended on location, small-/medium-size landholdings, secure tenure, income derived from grazing, acceptance of external monitoring, and access to roads. Families received cash payments based on index scores for 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 partnerships.
Fund Examples in Indonesia: Forest funding past and present	Decades ago, Indonesia established a national reforestation fund financed from timber royalties. Despite generating US$6 billion, many benefits never achieved the intended reforestation objectives. Instead, logging interests captured many of the funds at the same time communities became displaced. This experience underscored the need for an independently managed fund with enhanced transparency, accountability, and equity. Indonesia is now seeing a resurgence of investments in forests thanks to REDD+. Some REDD+ initiatives are applying lessons from the earlier Reforestation Fund experience, such as the Kecamatan Development Project, which channels REDD+ funds from the central government to sub-district level and then to villages' public bank accounts. The incoming flow is in cash, but benefits are delivered at the village level primarily through 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 rest following village approval of how up-front benefits were used.
Collaborative Resource Management in Uganda: Nile Basin Reforestation Project	Uganda's National Forestry Authority has a collaborative agreement with community organizations that allows the World Bank's BioCarbon Fund to purchase carbon credits in exchange for 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.

CROSS-CUTTING PRIORITIES AND OBSERVATIONS

Transparency: Transparency in benefit flows increases confidence in more equitable outcomes. Establishing and publicizing the basis for calculating payments can help manage expectations for who is receiving what benefits. Experiences with extractive industry arrangements support formal management structures such as boards and trust funds, and also funding policies for transparency and reporting measures with clear oversight. In this sense, a managed fund may more easily provide the formal structures and processes that help increase the likelihood of a successful arrangement. Nevertheless, direct payments can also be effective where the central fund-holder adheres to strict criteria and policies for disbursal. Transparency measures can also help improve governance for collaborative management arrangements. Regardless of the model, funds should be disbursed through a mechanism that both contributors and beneficiaries trust, with appropriate accountability provisions to maintain that trust over the long term.

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. Financial and technical support is needed at all levels to design and administer benefits. At the community level, women's and forest groups as well as other trusted experts can improve outcomes and long-term satisfaction. Government agencies can contribute technical expertise, particularly in land administration and adjudicating disputes. In general, greater participation requires longer lead time to develop benefit-sharing arrangements, but this delay can be justified through a sense of community ownership and priorities that integrate community needs with overall objectives, leading to more efficient decisions and effective outcomes over the long term.

EXTRACTIVE INDUSTRIES TRANSPARENCY INITIATIVE

The Extractive Industries Transparency Initiative (EITI) is a voluntary program promoting the transparency of extractive resource revenue flows, principally at the national level. 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, setting a higher bar for oil, gas, and mining revenues.

Tenure: Formally recognized tenure rights are typically a primary basis for allocating benefits and may determine who has the decision-making authority over how forest resources are used, which is key to effectively targeting beneficiaries for a benefit-sharing scheme. Insecure tenure rights may be one of the biggest barriers to effective benefit-sharing schemes for REDD+. 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. Where a government recognizes customary rights, this approach may be an effective means to reduce conflict and increase equity. Independent from tenure rights, carbon rights may also affect benefit allocations. Benefit-sharing considerations related to tenure and carbon rights depend in significant part on the scale at which REDD+ is implemented, as it may be easier to customize household-level benefits based on project results versus national or provincial baselines.

Improving outcomes: Particularly for results-based benefit-sharing schemes, it is important to build in mechanisms at the outset to manage conflicts, monitor outcomes, and enable adaptive learning. This work involves: i) identifying the type of information needed to improve operations; ii) developing a reporting and monitoring system as well as a means to identify and incorporate lessons learned; and iii) maintaining a process to address disputes that arise during implementation.

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

The following considerations may help the broad set of REDD+ actors weigh options to design effective benefit-sharing arrangements. These steps may occur sequentially or concurrently.

1. Clarify objective(s) and determine the scope of benefits.

Clarify objective(s). Forests have many different values for different actors, such as economic and social development, income derived from sustainable livelihoods, enhanced forest cover, greenhouse gas emissions reductions, improved recognition of rights, sustainable forest management, biodiversity and conservation – all of which are potentially compatible with REDD+. 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 REDD+ intervention and associated beneficiaries, strengthening links between benefit sharing and the achievement of results.

Clarify the scale. Countries are generally expected to account for emissions reductions within a large geographic area—generally at the national or at least provincial scale—while outcomes depend upon specific behavioral and activity changes on the ground. Coordination across different scales helps increase the effectiveness of REDD+ initiatives in part by integrating development and planning priorities. International REDD+ initiatives such as United Nations (UN)-REDD and the Forest Carbon Partnership Facility support national and subnational activities. As compared to the project or household level, national- or even state-level initiatives involve a larger and more diverse set of beneficiaries and their associated interests, which can increase transaction costs and complicate the administration of benefits. Community-level benefit sharing—also an ideal scale for joint-management approaches—allows for some aggregation of impact while still operating at a scale that enables customized and culturally appropriate benefits. Effective arrangements at the community level should, *inter alia*, use a community's own representative institutions, consider gender impacts, avoid elite capture and political marginalization, and prioritize those most in need of assistance. If transaction costs are low enough to enable equitable participation, household-level benefits offer a potentially powerful means to undertake a decentralized approach to REDD+, especially where tenure rights are uncontested.

Note that in many countries, many actors beyond formally recognized owners play an important role in halting deforestation. A social assessment that includes tenure considerations can be a useful tool to address socioeconomic impacts and customary rights. Considerations around equity are paramount, such as how to structure benefits for customary rights holders and what benefit-sharing opportunities might be available to regulatory actors, e.g., administrative officials combating illegal logging.

2. Identify beneficiaries

Scope. Beneficiaries are largely determined by pairing objectives with the appropriate scale of intervention and may include governments, communities, investors, landowners, forest users, and actors outside forests who impact forest cover. For example, if the objective is to reduce emissions at the provincial level, the overall suite of beneficiaries needs to be capable of reducing emissions at that scale. This may require working across the landscape with landowners and users both in and beyond forest areas, and also with regulators. The specific activities to reduce emissions would inform the benefit-sharing arrangements between public (e.g., provincial government) and private (e.g., specific forest owners or users) actors.

While generally it is best to minimize the number of intermediaries to increase the portion of benefits that arrive to end beneficiaries, if there are REDD+ interventions across multiple scales, intermediaries can facilitate benefit sharing across administrative boundaries. In that case, transparency and monitoring of benefit flows become even more important parts of a benefit-sharing scheme. For example, where a national government receives financial and other benefits for reducing a country's emissions reductions, there may be political or legal mandates that these benefits ultimately reach provincial governments, communities, households, and/or private interests.

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

Eligibility Criteria: Beneficiaries can become eligible to receive benefits in any number of ways (see box). Equity—i.e., allocating benefits in a manner all stakeholders perceive as "fair"—is important in determining eligibility criteria for beneficiaries and may mandate enhanced benefits for those with the greatest need and/or those most responsible for land use decisions.

Tradeoffs. Design of benefit-sharing arrangements should reflect the costs and tradeoffs for undertaking activities that lead to the desired outcome. Careful consideration of tradeoffs enables better targeting of beneficiaries, who could include those most essential to achieving performance-based results as well as those with the greatest need for support. This work may include balancing performance considerations with broader conservation and development priorities as well as equity. In some cases, equity may at times compete with cost efficiency – and potentially even emissions reductions.

3. Determine the structure and types of benefits

Assess benefits: Inputs, outputs, and profits required to incentivize change are just some examples of ways to assess benefits. Consider net benefits that factor in governance, transaction, and opportunity costs to beneficiaries.

Input versus results: Some benefits from REDD+ may come from the readiness process, e.g., clarifying tenure; however, many funds for benefit sharing are programmed through results-based payments for reducing deforestation or enhancing forest cover. In this context, REDD+ is similar to payments for environmental services, which reward outcomes (standing hectares, etc.) but also may reward inputs at regular intervals based on agreements to undertake activities linked to desired ecosystem outcomes. While some REDD+ benefits may not directly generate emissions reductions or removals, many results-based payments and benefits are linked to future results.

Cash and/or non-cash benefits: While it may seem more straightforward to establish a system of cash benefits, non-cash benefits may be tailored more effectively to the objectives, culture, and needs of beneficiaries. For example, where customary users lack formal recognition, legal rights to forests can be an important non-cash benefit leading to new revenue streams. One lesson from extractive industries is that cash transfers have not necessarily advanced development objectives. Depending on the objective, it may be helpful to route cash payments through a managed fund that finances projects and activities instead of providing cash payments to end beneficiaries. For example, a community development focus might support infrastructure, health, and education.

Delivery schedules: While forest carbon initiatives may gravitate toward payments that reward outputs, the optimal timing for delivering benefits may include substantial up-front distribution, especially when beneficiaries need resources for initial investments. At the same time, the more up-front payments made, the less the incentive is for longer-term conservation, which tends to benefit from longer-term commitments, e.g., 10 to 15 years. Recognizing that REDD+ initiatives may require substantial investments and ongoing management costs, consider what portions of REDD+ payments to allocate to recuperating costs and investing in future results. Other options include stabilization funds for consistent payments and insurance agreements to mitigate risk.

Direct distribution: Considerations of equity are paramount for direct payments, which often occur through a decentralized approach in which local actors such as communities, households, and subnational authorities receive benefits from investors or donors based on input criteria and/or performance outcomes. These benefits tend to work best when tailored to the local context and directly aligned with outcomes and broader policy objectives; however, tradeoffs may be considerable, as many actors can carry higher transaction costs, thus increasing the risk that smallholders fail to benefit or that intermediaries retain more than their fair share. Participatory decision-making can mitigate this risk but may increase transaction costs and risks to communities.

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.

New or existing mechanism: Existing channels tend to work best in tandem 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. New company-managed or other trust funds are more appropriate when governance is weak, the risk of corruption is high, and/or it is impractical to use existing funds or design a new mechanism.

A payment for services model will likely require establishing a new mechanism. A collaborative management approach should be able to 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. To achieve multiple objectives or for approaches across different scales, it is important to consider a hybrid approach that combines direct payments for targeted incentives with input-based disbursals made through a managed fund, rewarding both results while structuring benefits to provide more interim payments over a longer period of time.

TABLE 2: COMPARATIVE ANALYSIS OF BENEFIT-SHARING MODELS

	Direct Payments for Services	Managed Fund	Collaborative Resource Management
Description	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 actor and community or collective
Often used for	Multi-year agreements with a number of legally recognized owners/users	Non-cash development priorities such as education, health, and infrastructure	Projects requiring long-term land use management over a large area pertaining to a specific community
Advantages	Benefits can be customized to the level of effort or result achieved; payments can be structured to incentivize results.	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.

	Direct Payments for Services	Managed Fund	Collaborative Resource Management
Risks	Transaction costs and eligibility barriers may exclude smallholders and marginalized groups; there is potential for perverse incentives depending on the benefit structure.	Weak transparency or governance can lead to misappropriated funds; budget approach has a potential disconnect between desired 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.

PUTTING IT ALL TOGETHER: RECOMMENDATIONS FOR EQUITABLE AND EFFECTIVE OUTCOMES

Drawing from the different sectors, examples, and REDD+-specific considerations, the recommendations below highlight key considerations for benefit sharing, no matter which model is followed:

Integrate with development priorities: It is not uncommon for beneficiaries to prioritize core development needs such as health, education, and infrastructure, particularly at the outset. A structured fund can enable investments that address these core needs and evolve toward building long-term capacity and supporting sustainable livelihoods. Social assessments help improve equity and integrate benefits with broader beneficiary priorities.

Enable adaptive management: Participatory monitoring and evaluation enables benefit arrangements to evolve with changing community needs. Transparency helps provide the information needed to generate lessons learned.

Dispute settlement: REDD+ brings together 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. A formal process to resolve complaints helps facilitate more equitable outcomes and minimize delays when conflicts arise.

Prioritize beneficiaries based on objectives and equity: Uniform rules for benefit distribution may ignore local context and be counterproductive to broad community participation. With no set or predictable formula to establish payments from limited benefits, developing a common understanding of what is a "fair" benefit-sharing arrangement helps build trust and keep diverse actors constructively engaged in building long-term solutions.

Enable participatory decision making: Robust involvement by benefit providers and recipients alike in the design and administration of benefits can increase long-term success, even if it takes longer to become operational.

Carefully consider rights and obligations: Consider all actors claiming statutory and customary rights as well as management and regulatory authority. They may have de facto control over forest resources. Manage conflicts proactively in a manner that gives all rights holders due consideration, even if they lack a formal title.

Structure benefits to accommodate both near-term needs and longer-term objectives: 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. To achieve multiple objectives or for approaches across different scales, consider a hybrid approach that combines direct performance incentives with input-based disbursals made through a managed fund, thereby rewarding results while structuring benefits to provide more interim payments over a longer period of time.

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