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ANALYSIS OF INSTITUTIONAL MECHANISMS FOR SHARING REDD+ BENEFITS

PROPERTY RIGHTS AND RESOURCE GOVERNANCE
PROJECT (PRRGP)

MARCH 2012

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

Prepared for the United States Agency for International Development, USAID Contract No. EPP-I-00-06-00008-00, Task Order 2, under the Property Rights and Resource Governance Project (PRRGP) Task 3.3, Climate Change and Tenure Policy Framework Task Order, under the Prosperity, Livelihoods and Conserving Ecosystems (PLACE) IQC.

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ACRONYMS AND ABBREVIATIONS

CBFM	Community-Based Forest Management
CDM	Clean Development Mechanism
CFM	Community Forest Management
CFUG	Community Forest User Group
CIFOR	Center for International Forestry Research
CONAFOR	<i>Comisión Nacional Forestal</i> (National Forestry Commission of Mexico)
DRC	Democratic Republic of Congo
ERC	Ecosystem Restoration Concession
FCPF	Forest Carbon Partnership Facility
FCTF	Forest Carbon Trust Fund
FIP	Forest Investment Program
ICDP	Integrated Conservation and Development Project
ICRAF	World Agroforestry Centre
NGO	Nongovernmental Organization
NORAD	Norwegian Agency for Development Cooperation
NOVACEL	<i>Nouvelle Société d'Agriculture, Culture, et Élevage</i>
ODA	Official Development Assistance
PES	Payment for Environmental Services
PFM	Participatory Forest Management
PT RMU	PT Rimba Makmur Utama
REDD/REDD+	Reducing Emissions from Deforestation and Forest Degradation
RUPES	Rewards for, Use of and shared investment in Pro-poor Environmental Services
SIDA	Swedish International Development Cooperation Agency
UNFCCC	United Nations Framework Convention on Climate Change
WMA	Wildlife Management Agency

1.0 INTRODUCTION

1.1 CONTEXT OF THE STUDY

The concept of Reducing Emissions from Deforestation and Forest Degradation, and enhancing forest carbon stocks (REDD+) has gained significant momentum in the last five years as a strategy for mitigating greenhouse gas emissions in developing countries. International rules and standards on REDD+ are emerging from a number of parallel processes. These include the Durban and Cancun Agreements under the UN Framework Convention on Climate Change (UNFCCC), the World Bank's Forest Carbon Partnership Facility (FCPF), the UN-REDD Programme, and the Forest Investment Program (FIP) of the World Bank's Climate Investment Funds. Billions of dollars of bilateral funding pledged from Norway and the United States, for example, is also setting precedents for how to create incentives for REDD+. Many developing countries have commenced initial planning and capacity building activities and are now working on REDD+ national strategies with support from one or more these sources.

USAID is also involved throughout the world in supporting REDD+ initiatives and will likely become more involved as countries finalize and implement their REDD+ national strategies in the upcoming years. How forest-dependent communities, and in particular the poorest groups among these, will be affected by REDD+ is of primary concern to USAID. The USAID Land Tenure Division, based in Washington, D.C., has requested the Property Rights and Resource Governance Project (PPRGP) to help deepen the understanding of how benefits generated by REDD+ activities might interact with land tenure and resource governance.

The extent to which Indigenous Peoples and forest-dependent communities will be able to participate in, and benefit from, REDD+ schemes is a central topic of debate and concern among policy makers and stakeholders at all levels. It is widely recognized that the objectives of REDD+ cannot be achieved without the active participation of local communities, who are the primary managers and users of a significant portion of the world's remaining forests. However, across the globe, Indigenous Peoples and forest-dependent communities have a long history of being marginalized in decision-making processes that impact forests. This trend stems from weak recognition of communities' land tenure and property rights by many governments (Sunderlin et al., 2008). Forest-dependent communities, therefore, continue to be among the poorest in the world and their options for improved livelihoods remain limited.

The success of REDD+ depends on its ability to deliver emission reductions by overcoming these historical challenges. In particular, REDD+ programs should ensure the participation of forest-dependent communities, and deliver benefits that incentivize communities to protect forests while also helping to lift them out of poverty. Issues relating to land tenure and property rights will be at the core of this process and will influence the design of institutional mechanisms for distributing REDD+ benefits domestically. Lessons from existing benefit distribution mechanisms in natural resource sectors, and the land tenure regimes that underpin them, can help to guide the institutional design questions for REDD+.

1.2 OVERVIEW OF REPORT

This report, prepared by the World Resources Institute, provides an analysis of the institutional mechanisms being discussed or designed in five REDD+ countries which might be used to distribute revenues and other benefits from future REDD+ programs. It complements two other reports prepared for this project: 1) a

synthesis of international discussions on REDD+ (prepared by Tetra Tech ARD); and 2) an analysis of legal options being developed or discussed in five countries on “carbon rights,” or the entitlement to benefit from forest carbon activities (prepared by Landesa).

This report draws lessons learned from case studies in five countries: Mexico, Tanzania, Indonesia, the Democratic Republic of Congo (DRC), and Nepal. The cases highlight experiences from various institutional mechanisms that have relevance for distributing REDD+ benefits. The case studies are presented in a complementary document. Each study describes the strategies being discussed by national stakeholders for managing REDD+ revenues and related benefits. The studies then focus on one to two existing institutional mechanisms for distributing benefits from natural resource management to rural communities. These approaches are either being directly considered for channeling REDD+ benefits or have the potential to provide relevant insights for the design of new institutional mechanisms (see Table 1.1).

Research for the case studies involved a review of existing literature and two-week field visits to each of the five countries. Researchers carried out interviews with government, civil society and private sector stakeholders at the national level, in order to gain perspectives on emerging national strategies for REDD+. Interviews were also carried out with local stakeholders (i.e. local government officials, community members, and project developers) to understand how specific institutional mechanisms for benefit sharing were operating on the ground.

This report is organized into four sections. *Section 1* provides working definitions and assumptions related to the sources of REDD+ finance and the nature of REDD+ benefits. It also provides an overview of institutional mechanisms for benefit distribution that are the focus of the case studies. *Section 2* identifies key determinants of communities’ potential to access REDD+ benefits, including but not limited to cash payments, highlighting the central role of land tenure. *Section 3* reviews other practical lessons learned from the case studies regarding the institutional design of REDD+ benefit sharing mechanisms. *Section 4* summarizes the overarching conclusions from the study and related recommendations for how USAID may wish to consider supporting land tenure-related initiatives in the context of REDD+ benefit sharing systems.

TABLE 1.1: INSTITUTIONAL MECHANISMS ANALYZED IN THE COUNTRY CASE STUDIES

Name	Category of Mechanism	General Description	Scale	Source of Funding
MEXICO				
<i>Comisión Nacional Forestal</i> (National Forestry Commission of Mexico [CONAFOR])’s ProArbol system	Payment for Ecosystem Services (PES).	National, government-sponsored PES system.	National institutions entering in five-year agreements with communities and provide matching funds to sub-national PES systems.	Water-usage fees and budgetary allocations.
Carbon PES in Oaxaca	Payment for Ecosystem Services (PES).	Sale of carbon credits at fixed (non-market) price.	10 communities in Oaxaca state.	CONAFOR, carbon buyers (mostly large national companies).

Name	Category of Mechanism	General Description	Scale	Source of Funding
NEPAL				
REDD+ demonstration project	Project-level Forest Carbon Trust Fund (FCTF) serving existing community forest management regime.	Sale of carbon credits from enhanced carbon sequestration by the FCTF for benefit of Community Forest User Groups (CFUGs).	104 CFUGs (18,000 households) in three watersheds.	Four-year grant from the Norwegian Agency for Development Cooperation (NORAD) to establish the FCTF; after 2013, markets and/or donors should buy certified carbon credits from the FCTF.
INDONESIA				
Katingan REDD+ demonstration project	Ecosystem Restoration Concession (ERC) will provide the applicant 60-year permit to manage the concession and sell any resulting ecosystem services.	Sale of carbon credits by a private company, PT Rimba Makmur Utama (PT RMU), based in Jakarta.	30 communities (20,000 people) in Central Kalimantan on 220,000 ha of intact and degraded forests.	PT RMU and Clinton Climate Initiative provided the initial investment; then, expect to be financed through sale of carbon credits on voluntary or compliance market.
Rewards for, Use of and shared investment in Pro-poor Environmental Services (RUPES) / RiverCare Project	Land tenure granted to farmers conditional upon adoption of sustainable farming practices and forest protection.	Competition-based project where winning community groups gets training and a micro-hydroelectric generator as reward for sediment reductions achieved.	30 groups competed (includes approximately 7,000 farmer households). The winning group included 107 households.	World Agroforestry Center (ICRAF) and the Way Besai hydropower company that benefited from reduced erosion.
TANZANIA				
Enduimet Wildlife Management Area (WMA)	Community-based wildlife management system.	Villages create a community-based organization to manage wildlife on Village Land. In exchange for protecting wildlife, they get a share of hunting fees and can establish contracts with safari operators.	9 villages, approximately 110,000 ha of land.	Initial investment by the African Wildlife Foundation. Share of hunting fees collected by the Wildlife Division. Share of contract fees with safari companies operating on WMA land.

Name	Category of Mechanism	General Description	Scale	Source of Funding
Suledo Forest	Community-based Forest Management (CBFM) system.	Villages obtain management rights over forests on Village Land, conditional on implementation of sustainable forest management plan. They can sell timber, charcoal, graze in the forest and collect non-timber forest products.	10 villages, over 167,000 ha.	Initial investment by the Swedish International Development Cooperation Agency (SIDA), forest use fees levied on forest users, sale of forest products to outsiders (e.g., logging operator).
DEMOCRATIC REPUBLIC OF CONGO				
Ibi-Batéké project	Clean Development Mechanism (CDM).	Private firm <i>Nouvelle Société d'Agriculture, Culture, et Élevage</i> (NOVACEL), obtained full rights over land and established agro-forestry and afforestation activities. Sale of carbon credits just started.	8,000 ha, including afforestation of 4,200 ha (1,700 planted to date). Employs 35 permanent staff and 400 temporary, part-time staff.	International and bilateral agencies (World Bank, French Development Agency, United Nations Development Programme), private companies (purchase of carbon credits) and a Belgian NGO. Sale of manioc and fuel wood.
Social agreements between communities and logging companies	State regulation imposed on industrial forestry to contribute to local development.	A law requires that logging companies sign an agreement with nearby communities on the provision of social services and infrastructure.	National. At early stages of implementation.	Entirely funded by the logging company, based on fixed amount per cubic meter of harvested wood in each concession.

2.0 KEY CONCEPTS AND QUESTIONS

Reducing Emissions from Deforestation and Forest Degradation (REDD+) is still in a formative stage and the conceptual framing and terminology are being developed iteratively. High level guidelines and principles on REDD+ have emerged from the Durban and Cancun Agreements under the United Nations Framework Convention on Climate Change (UNFCCC), including with regard to the scope of eligible activities, the phases of implementation, and the safeguards that should be “address and respected.” However, concepts and approaches are largely being defined through an *ad hoc* process, whereby REDD+ investors (primarily governments, intergovernmental agencies) and REDD+ host countries strike deals on how REDD+ will operate (Davis and Daviet, 2010). Private investors and NGOs are also engaging at local levels to develop REDD+ activities around forest management units, private lands and protected areas. This trend means that the forms of REDD+ finance and the manner in which domestic institutions and procedures convert those revenues into benefits for local communities will vary significantly from deal to deal.

2.1 REDD+ FINANCE

International finance for REDD+ may come from public or private sources. Public finance currently predominates, including traditional and new sources of official development assistance (ODA) in the form of grants, concessional loans, short-term financing for specific projects, and longer-term program financing or budgetary support. Private finance—in particular from compliance or voluntary carbon markets as well as foreign direct investment—is currently limited, but remains a highly anticipated source of large-scale finance needed to achieve significant global emission reductions through REDD+.

There are several basic modalities for delivering REDD+ financing to host countries that are currently being discussed or practiced. These modalities are loosely linked to the phases of REDD+ implementation articulated in the Cancun Agreements, which involve a transition from preparation and planning, to implementation of policies and measures to reduce deforestation and forest degradation, to results-based payments for verified emission reductions. The main modalities include:

- **Up-front investments:** Finance delivered upfront to build capacity or to support the implementation of policies and measures that have been agreed upon in advance by the donor and recipient.
- **Performance-based payments for actions:** Finance is delivered in return for demonstrating successful implementation of “REDD+ actions” that are seen as necessary to the success of REDD+, such as demonstrated improvements in forest governance or establishment of a national reference emission level.
- **Performance-based payments for carbon:** Finance is delivered upon demonstration of verified emissions reductions (or proxy for emission reductions such as reduced deforestation) generated by REDD+ activities, which may or may not result in the issuance of carbon credits that can be sold on a voluntary or compliance carbon market.

Most REDD+ finance that has been delivered to date has been in the form of upfront grants or loans to government institutions at the national level. Some investments have also been channeled directly to sub-national actors, such as local governments and nongovernmental organizations (NGOs). Moving towards a system of performance-based payments for verified emission reductions, international finance will likely be received and managed at the level in which emission reductions are accounted for and credited. Ongoing

negotiations under the UNFCCC indicate that accounting and crediting will likely occur at the national level, in order to avoid “leakage” of emissions within a country’s borders (Angelsen et al., 2008). However, some countries have proposed a “nested” approach to REDD+ accounting and crediting, whereby international buyers of emission reductions could transact with the national government as well as sub-national entities. Carbon accounting methodologies and reference emission levels would be developed at both levels and harmonized in order to avoid double counting (Cortez et al., 2010).

2.2 REDD+ BENEFITS

Irrespective of the source and form of REDD+ finance, or the domestic institution responsible for receiving and managing it, once financing is received it will need to be transformed into “benefits” that create appropriate incentives and rewards for domestic stakeholders and rights holders. REDD+ benefits could reach local communities in at least three forms:

- Direct cash payments;
- Direct provision of entitlements, goods, or services, such as conditional tenure, improved infrastructure, or social services; or
- Indirect benefits from REDD+ emission reductions or activities, such as any form of positive change that communities may experience through the implementation of REDD+, which could include, for example, improved local governance, increased availability of forest products or water resources.

The extent to which access to benefits is conditional upon performance will depend upon the design of the benefit distribution mechanism, including the type of benefit being delivered and the type of performance that is expected. The design of the benefit distribution mechanism, in turn, will partially depend on the existing land tenure situation in both law and practice.

2.3 INSTITUTIONAL MECHANISMS

Due to the fact that REDD+ is still a relatively new concept, the case studies developed for this report identified only one existing, operational national institutional mechanism for REDD+ benefit sharing. This mechanism is being implemented at a project (i.e. sub-national) scale in Nepal. There are, however, a number of analogous institutional mechanisms at both national and sub-national scales that are already in place that can be used as references or models for anticipating how a REDD+ benefit sharing mechanism could operate.

This report focuses on the functions that various institutions comprising a benefit sharing mechanism must perform, rather than on a single institutional entity. Moreover, it focuses on the functions that directly affect or interact with rural communities. We, therefore, use the term “institutional mechanisms” in this document.

Most of the institutional mechanisms used by countries that could be a reference for REDD+ are related to existing forest conservation and management schemes, e.g., payments for ecosystem services (PES), participatory forest management (PFM), integrated conservation and development projects (ICDP), etc. (IUCN, 2009). However, some references are taken from the management of other natural resources, such as water or wildlife.

2.4 KEY QUESTIONS

The success of REDD+ depends in large part on the ability of institutional mechanisms to distribute benefits in a way that incentivizes resource users and managers to reduce deforestation and forest degradation at a scale that generates net emission reductions over time. The chain of actions required to reach this objective will likely be long and complex, involving a large number of actors that are the agents of deforestation or

have the authority and capacity to regulate those agents. This process may include actors ranging from small-scale farmers, international logging companies, state agencies, conservation NGOs and auditing companies.

Despite the diversity of national circumstances, it is now widely accepted that any REDD+ benefit sharing mechanisms should address what the Center for International Forestry Research (CIFOR) and others have described as the “3Es”:

- **Effectiveness:** Ensuring that REDD+ benefits reach those who contribute to reduced or sequestered emissions and create the right incentives for them to continue doing so in the long term. The benefit-sharing mechanism must help address risks of leakage and ensure additionality.
- **Efficiency:** Ensuring that the benefit sharing mechanism maximizes returns on each unit of investment by minimizing transaction and implementation costs and delivering benefits in a reasonable amount of time.
- **Equity:** Ensuring that benefits are distributed among all legitimate actors who have contributed to results in a manner that is widely perceived as fair. This process may involve adherence to distributional principles and objectives such as poverty alleviation, respect for Indigenous Peoples’ rights, and consistency with social and economic development objectives.

If REDD+ revenues are to continue to flow, national and local approaches to balancing trade-offs between effectiveness, efficiency, and equity need to align with those of REDD+ donors and investors and with any international standards that may emerge.

3.0 WHAT ARE THE DETERMINANTS OF COMMUNITIES' POTENTIAL TO ACCESS REDD+ BENEFITS?

3.1 COMMUNITIES' RIGHTS TO FORESTLAND AND RESOURCES VARY SIGNIFICANTLY WITHIN AND BETWEEN COUNTRIES

In most cases, the basis for determining or asserting claims to natural resource-related benefits derives from an individual or group's statutory and/or customary rights to the land or to the natural resources associated with the land. The array of property rights associated with forests can generally be described as including the rights: (i) to *access* a forest area, (ii) to *withdraw* timber or non-timber forest resources, (iii) to *manage* forest resources by making decisions about their use, (iv) to *exclude* others from using forest resources, and (v) to sell or lease the land or any of the aforementioned rights, i.e., an *alienation* right (Almeida and Hatcher, 2011). Land ownership typically conveys this entire bundle of rights upon the owner. However, these rights can also be held separately by different forest users in a given area. For example, a person or group may be granted the right to access a forest area (e.g. for hunting) that is owned by the government and legally managed by a logging company.

None of the countries studied have developed separate legal rights to the carbon associated with trees, although some countries (e.g. Mexico and Indonesia) have created legal rights to sell and benefit from ecosystem services more broadly. It can be anticipated that any REDD+ benefit distribution mechanism would need to take into account existing rights associated with the forests at stake. In many cases, the rights associated with a particular piece of land will be claimed by multiple actors. For example, in most countries studied, underground resources belong to the state regardless of who owns the land or possesses rights to the aboveground resources. Some rights may also be overlapping or in conflict. Conflicts may result when “informal” resource users (i.e. those who lack statutory rights) or customary resource users come into contact with statutory rights holders. They may also result from inconsistencies between regulatory frameworks governing land and natural resource rights across different sectors (e.g. mining, forestry, agriculture).

The extent to which the property rights of communities are recognized in law and in practice varies greatly within and between countries. In Mexico, for example, the law recognizes communal land ownership. However, in the other countries studied, the government owns the land and only limited access or use rights are granted to communities. For example, in DRC, communities can be granted the right to extract forest resources for subsistence use but not for commercial purposes. In Nepal, communities are granted broad rights to manage forests, extract and sell forest products and exclude outsiders. Communities surrounding national parks in Nepal enjoy a related forest tenure regime, which confers a similar bundle of rights but

imposes additional restrictions on the types and quantities of resources that can be withdrawn. In Indonesia, several different legal mechanisms exist for recognizing community and customary rights. However, the implementation of these mechanisms has been extremely limited and the vast majority of communities continue to practice customary or other land tenure systems without formal recognition or protection by their government. Nonetheless, their *de facto* use of the land and forest tends to be broadly acknowledged in practice.

3.2 THE MAGNITUDE OF BENEFITS THAT COMMUNITIES RECEIVE FROM NATURAL RESOURCE MANAGEMENT IS RELATED TO TENURE REGIMES

The magnitude of benefits that rural communities will receive under REDD+ programs could be determined by many factors. From the perspective of economic efficiency and the effectiveness of incentives, calculating an appropriate level of benefits will require estimations and balancing of various costs, including implementation costs, transaction costs, and opportunity costs. Concerns about equity might bring additional factors to the equation, such as indicators of relative poverty or gender equality.

In addition to technical calculations, it is likely that the level of benefits accessed by communities will be influenced by the type of community forest tenure regimes and benefit sharing arrangements that are already in place. The ability of communities to exert influence over their share of REDD+ benefits will depend, in part, on the power and authority they possess over the land and forest resources that are generating the emission reductions.

The five case studies indicate that the type of tenure regime in place is often linked to determinations of *whether* and *how much* communities can access benefits generated from the management of natural resources. This situation is true whether benefits are directly generated by the community or by another entity (e.g. a logging concession or REDD+ project developer). The case of Mexico illustrates that communities with secure and unambiguous ownership rights have more bargaining power and receive (whether by law or through negotiations with project developers) a higher share of the total value generated from natural resource management.

In the other four countries studied, where rights are shared between communities and the state, benefit sharing arrangements are generally defined by national laws that tend to limit the share of revenues received by communities. Community shares of revenues were found to be closely linked with the strength and breadth of rights to the land and forests. For example, under Tanzania's community-based forest management system, communities are entitled to 100 percent of revenues generated through the management of their forests and they can freely decide how to use these revenues. However, under Tanzania's system of community-based wildlife management, communities can access, at best, 65 percent of fees received by the district, and they are restricted by regulation as to how these revenues can be spent. In Nepal, there are three main models of participatory forest management, Community Forestry, Collaborative Forest Management, and Buffer Zone Management, each with different rules regarding the distribution and use of revenues. Depending on the model, the community's share of revenues could range from 100 percent with wide discretion over spending to less than 25 percent.

Communities lacking statutory rights may still be able to access benefits, particularly if their customary or *de facto* use of the forest is widely recognized in practice. However, their access to benefits tends to be based on negotiations with the statutory rights holder(s) rather than law, and typically the community is the less powerful actor in the negotiating relationship. This paradigm is illustrated by the Ibi-Batéké Clean Development Mechanism (CDM) project in the DRC, where a private company (NOVACEL) rents land that is privately owned by an individual but is inhabited and used by rural communities. In the absence of any legal foundation for communities' rights, NOVACEL has negotiated benefit sharing arrangements with the community on a voluntary basis. In situations such as this, the motivation for benefit sharing tends to be based on a practical (rather than legal) recognition of a community's role in managing the forest, as well as a

desire to avoid conflict. On the other hand, communities in Mexico that practice customary tenure but do not possess statutory rights have been unable to benefit from government sponsored natural resource management programs. In some cases, negotiated benefit sharing arrangements may also be regulated by law or by the safeguards policies of international financing institutions. This trend is demonstrated in the case of the “social agreements” established under the 2002 Forest Code in the DRC, which regulates benefit sharing arrangements negotiated between holders of logging concessions and adjacent communities. A similar legal provision exists in Indonesia, which is known as *kemitraan* (partnership).

Overall, the case studies suggest that the type of institutional mechanism in place for natural resources management (e.g. PES, PFM) is less important in determining the magnitude of benefits received by communities than the clarity, security, and breadth of statutory or customary rights held by the community.

3.3 TENURE REGIMES ARE ALSO RELATED TO THE COMMUNITIES’ POWER TO SHAPE BENEFIT SHARING RULES AND ARRANGEMENTS

Forest tenure regimes are also likely to be linked to the amount of power communities can exert over the design of REDD+ benefit sharing arrangements. The rules governing these arrangements will define the types of benefits communities can receive (e.g. cash versus in-kind), the modalities for delivering benefits, and the ways in which communities are allowed to use or invest the benefits they receive. Benefit sharing rules are likely to be developed at a sub-national or project level by local government, project developers, or other “intermediaries” between communities and the larger REDD+ system. Overarching rules, guidelines, and safeguards may also be developed at the national level by the central government in consultation with relevant stakeholders.

The case studies suggest that when communities have clear statutory or customary claims to the land or resources at stake in a natural resource management project, their buy-in is often considered vital to the project’s success. If their rights are broadly recognized in either law or practice, they are more likely to negotiate directly with the project proponent (e.g. a company, NGO, or state agency) to determine benefit sharing arrangements. Although external support by intermediaries is often necessary or useful to ensure that communities are familiar with their rights and have skills to negotiate agreements, the negotiating party is usually the community and not the intermediary. Moreover, there is typically an expectation that communities will become autonomous from intermediaries after a few years of experience, as illustrated in the case of Suledo Forest in Tanzania and the community forestry groups of Sumberjaya in Indonesia. Communities with clear rights also tend to retain greater decision-making power over how benefits are allocated and used within the community. In Mexico, for example, all organizations interviewed (CONAFOR, Servicios Ambientales Oaxaca, Pronatura) clearly stated that they do not get involved in any way in how communities use the money.

On the other hand, project proponents have fewer incentives to directly engage communities that lack clear and secure property rights. When the community depends on the natural resource for their livelihood, the project proponent may still choose to share some benefits of the project. However, the proponent will typically be able to frame the terms of the negotiation, unless a national law or safeguard system imposes a negotiation framework (e.g. the DRC’s law on social agreements). In either case, communities tend to have more limited power to decide what type of benefit they can get or how they can be used.

Communities lacking recognized property rights also tend to rely more on support from intermediaries. In almost any kind of community-based natural resource management program, including emerging REDD+ programs, intermediaries tend to play an important role in enabling community participation. For example, communities often rely on intermediaries to go through required administrative procedures to obtain statutory rights (e.g. registration as a community, creation of community-based institutions required, elaboration of a resource management plan, etc.). Intermediaries are often non-governmental organizations or companies (with a focus on conservation or development), but can also be local government agencies or

consulting companies paid by governments or bilateral donors (e.g. a consulting company called ORGUT helped set up the Suledo community forest in Tanzania). The case studies showed that there is often more than one intermediary. They may specialize in different areas (such as carbon accounting, social development, or training in agro-forestry), or they may play different roles along the chain of actions required for communities to participate in the program.

In principle, intermediaries should exist to support communities to access benefits and not make decisions for them over how benefits are allocated and used. Indeed, intermediaries often frame their role in these terms. However, in practice intermediaries have more technical skills than communities and more connections with other actors along the chain (e.g. government agencies, donors, private sector). This arrangement gives them considerable power to influence communities and shape the bargaining space. This power balance is important to recognize because the interests of intermediaries can be substantively different from the interests of communities.

4.0 OTHER PRACTICAL LESSONS LEARNED FOR REDD+ INSTITUTIONAL MECHANISMS

4.1 HOW CAN REDD+ BENEFIT-SHARING MECHANISMS BE DESIGNED TO ENSURE THE PERMANENCE OF EMISSION REDUCTIONS?

Many REDD+ proponents and critics are concerned with ensuring that REDD+ benefits create or reinforce incentives that will lead to reductions in deforestation and forest degradation that can be maintained over the long term. This concern about the “permanence” of emission reductions has driven discussions about how REDD+ benefits, once received by communities, should be used. If cash or in-kind benefits go to meet the community’s immediate needs or preferences, they may not necessarily foster the development of alternative livelihoods that will reduce their dependence on forest products or cleared land. Furthermore, while cash payments would provide the community with greater flexibility, they are also more vulnerable to elite capture and corruption.

These types of concerns are not new in the context of natural resource-based benefit sharing arrangements, and many of the schemes reviewed in the case studies do impose restrictions on how benefits can be used by communities (e.g. in the case of buffer zone management in Nepal and the Ibi-Bateke project in DRC).

Arguments for setting conditions on how REDD+ benefits can be used and invested by communities include:

- The need to instill confidence in REDD+ donors and investors that emissions reductions will be “permanent” over time;
- The need to provide communities with viable models for investment in alternative livelihoods and sustainable forest management that they can replicate and improve over time;
- The value of creating partnerships between REDD+ investors and host countries that facilitate the exchange of technical and planning capacity, which can be transferred to local communities to support sustainable forest management; and
- The need to minimize risks of elite capture and corruption.

However, imposing heavy handed conditions on how REDD+ benefits should be used could also pose a number of risks, including:

- Top down, one-size-fits-all approaches that are not shaped and owned by local communities;

- Marginalization of community institutions by taking away their authority to manage their own development priorities, which could further weaken local accountability mechanisms in the long term; and
- Rejection of REDD+ programs by local communities in favor of more flexible forms of natural resource derived revenues.

If the delivery of benefits to local communities is highly conditional upon performance that is measured in terms of emission reductions or a related proxy, this approach may in effect constrain the options that local communities have in investing REDD+ revenues, since payments will only continue to flow if emissions are demonstrably reduced. These performance-related incentives may, therefore, be sufficient and preferable in most circumstances for incentivizing communities to invest REDD+ benefits in ways that are consistent with the long-term maintenance of forest carbon stocks, rather than seeking to prescribe with any specificity how benefits should be used.

4.2 SHOULD BENEFIT-SHARING MECHANISMS BE DESIGNED WITH THE OBJECTIVE OF MINIMIZING TRANSACTION AND IMPLEMENTATION COSTS?

In the five countries studied for this work, experts highlighted concerns that REDD+ could bring limited benefits to communities due to the high transaction and implementation costs necessary to support community participation. It is often suggested that transaction and implementation costs are inflated by the number of intermediary institutions involved in delivering benefits to the community level (IUCN 2009). In addition, larger numbers of intermediaries can create inefficiencies that slow benefit delivery and bureaucracy that increases opportunities for corruption.

The five case studies did not provide evidence that one type of benefit-sharing mechanism performs better than the others with respect to minimizing transaction costs. However, it does appear that efforts to minimize transaction costs must be balanced with other costs and benefits associated with a particular institutional design. Several key lessons emerge, including:

- Project-based mechanisms that can transact directly with international investors or markets are often seen as preferable from the perspective of minimizing transaction costs. Such mechanisms are assumed to bypass national and local government administration and reach communities directly—therefore maximizing local benefits. However, while project-based mechanisms may bring advantages in terms of efficiency and legitimacy from a market perspective, they also raise certain challenges. In particular, project-based mechanisms tend to place intermediaries in a dominant situation relative to communities, allowing them to capture a larger share of benefits. This result has been illustrated in CDM projects such as Ibi-Batéké in the DRC. In addition, research suggests that bypassing local government institutions contributes to undermine their legitimacy in the long-term, and to weaken existing accountability mechanisms (Angelsen et al., 2009);
- Benefit sharing mechanisms that operate through various levels of government administration (e.g. from national, to district, to village) are often associated with a different set of challenges. For example, commonly cited challenges include lack of downward accountability (e.g. in the case of Tanzania’s Wildlife Management Areas), weak capacity of local administration (e.g. in Nepal and DRC), corruption and inefficiency. However, there is also evidence that these challenges can be mitigated through robust institutional design (as illustrated by the case of the Suledo Forest in Tanzania), strengthened community-level institutions (e.g. Mexico’s *ejidos*), and accumulated experience with a given system (e.g. Nepal’s community forestry regime). These cases provide an argument for investing in strengthening the governance of existing institutions and the years or decades of experience that they bring.

- A third alternative that is being widely considered for REDD+ is to create new institutions to manage benefit sharing, whether led by the government or independent from it. For example, the creation of semi-independent REDD+ national trust funds is perceived as a solution that combines the advantages of a public institution (e.g. institutionalized accountability mechanisms, national coherence in terms of financing procedures, carbon accounting methods, possibility to rely on existing local government institutions) with efficiency considerations particular to REDD+. However, these funds could actually increase transaction costs by creating an additional layer of intermediaries that will need time to acquire technical capacity and will need to coordinate with existing institutional structures. In countries with a history of corruption, some doubt that a trust fund would be protected from a pervasive culture of public finance mismanagement. Finally, experience shows that it takes time for people to find and use accountability mechanisms with any new institution.

4.3 SHOULD BENEFIT-SHARING MECHANISMS BE DESIGNED WITH THE OBJECTIVE OF MAXIMIZING ADDITIONALITY?

From an efficiency and effectiveness perspective, REDD+ should not pay communities for continuing to do what they were already doing in the past (e.g. continue protecting trees they were already protecting). In principle, REDD+ benefits should only reward additional emission reductions or carbon sequestration.

On the other hand, the five case studies suggest that REDD+ projects are more likely to succeed with communities in the short and long term if they have existing incentives in place to protect or sustainably manage their forests. These incentives may be provided by existing policies or projects with objectives that are aligned with REDD+ (e.g. community forestry in Nepal) or by the co-benefits associated with forest conservation that are valuable to communities (e.g. with Mexico PES system in Oaxaca State, increased availability in water for agriculture and wildlife for hunting or tourism). In fact, in several of the cases (Mexico, Nepal and Tanzania) interviewed community members stated that potential REDD+ payments would be “icing on the cake,” or an additional benefit on top of many other benefits that communities are already receiving from sustainable forest management.

Although the additionality of REDD+ payments or benefits may be less clear in these situations, and the level of benefits received by communities may exceed their opportunity costs (suggesting inefficiency), the likelihood of successful and sustained outcomes is greater. Therefore, REDD+ benefit sharing mechanisms that are designed in ways that augment existing incentive systems, including indirect incentives created by finding opportunities to maximize co-benefits, are likely to be more sustainable. This type of approach could also be helpful in situations where transaction and/or opportunity costs of REDD+ implementation are high relative to the potential for carbon payments (e.g. in low carbon value forests).

5.0 CONCLUSIONS AND RECOMMENDATIONS FOR USAID

Communities with clear and secure property rights are more likely to access natural resources and REDD+ benefits than those with unrecognized or highly limited rights. Clarity and security of rights is also related to the power communities have to directly negotiate the terms of benefit sharing arrangements with external agents, rather than relying on intermediaries.

- *USAID can increase the likelihood that communities retain a fair share of REDD+ benefits by promoting general improvements in forest tenure rather than by supporting a specific approach to resource management and benefit sharing, such as payments for ecosystem services or participatory forest management.*

Imposing rules on the type of benefits communities should get, or on how they should invest or spend the benefits they receive, is not necessary and may even be counter-productive to ensure that REDD+ benefits result in long-term land-use changes. A more effective strategy to reach REDD+ objectives is to work with communities before the start of a REDD+ project and lay out the investment choices that they will face.

- *USAID can improve the likelihood that communities will adopt sustainable land use practices that support REDD+ objectives by considering projects that focus on the social development aspects of REDD+. USAID could also consider efforts to increase transparency of the role played by intermediaries by allocating funds to intermediaries based on their primary institutional interests and technical skills.*

Solutions to reduce transaction and implementation costs should not be favored at the expense of longer-term governance improvements. Building on existing local government and community institutions, even if they are not entirely operational or accountable, will more likely empower communities in the medium and longer term. Investments in strengthening community institutions that are weak or dysfunctional will not only support social development objectives, but also serve the objectives of all initiatives that aim to more sustainably manage natural resources.

- *USAID should assess opportunities to support and strengthen existing institutions before deciding to create new ones, since new institutions inevitably require time to build capacity – of the institution itself and of the stakeholders who will interact with it and hold it accountable.*

REDD+ interventions at the community level that complement or expand on existing forestry and natural resource management schemes may generate additional co-benefits and are more likely to be successful in both the short and long term. Although this approach may create challenges with respect to additionality, it will be beneficial from the perspective of overcoming opportunity and transaction costs faced by communities.

- *USAID should assess opportunities to expand upon existing forestry and natural resource programs that are complementary to REDD+ when supporting the development of institutional mechanisms specific to REDD+, and to seek opportunities to maximize co-benefits.*

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