

ACKNOWLEDGMENTS

This study is the product of work involving a number of consultants and firms at both the national and international level. The core members of the national and international teams include John Bruce, Eileen Mairena Cunningham, George Kajembe, Gimbage Mbeyale, Nitlapan staff, Steve Nsita, Charles Oleja, Kenneth Rosenbaum, Thomas Sembres, and Chris Knight, Jim Stephenson, Helen Baker, and Jack Steege from the Sustainability & Climate Change, Forestry & Ecosystems team at Pricewaterhouse Coopers LLP.

The PROFOR task team leader was Diji Chandrasekharan Behr, Natural Resources Economist (Agriculture and Rural Development [ARD], World Bank). This work was done under the general guidance of Peter A. Dewees (PROFOR Manager and Lead Specialist, ARD) and Gerhard Dieterle (Forest Advisor, ARD), with inputs from the Sustainable Development Network Forests Team in ARD.

The team thanks the following World Bank experts for their constructive comments and guidance in the design and finalization of this work: Andre Aquino (Carbon Finance Specialist) Gernot Brodnig (Senior Social Development Specialist), Leonel Iglesias (Facility Management Team, Forest Carbon Partnership Facility), Werner Kornel (Senior Climate Change Specialist), Jonathan Lindsay (Senior Legal Counsel), Craig Meisner (Environmental Economist), and Peter Saile (Senior Carbon Finance Specialist). Flore de Préneuf (PROFOR) provided editing and publishing support.

The task team would like to thank all the communities and experts who were interviewed for this work, including members of the communities involved in the nine case studies. The team would also like to thank the peer reviewers and other World Bank colleagues who have shared information.

The team is grateful for financial support for this work from the Program on Forests (PROFOR) and the Trust Fund for Environmentally and Socially Sustainable Development (TFESSD).

PROFOR finances forest-related analysis and processes that support the following goals: improving people's livelihoods through better management of forests and trees; enhancing forest law enforcement and governance; financing sustainable forest management; and coordinating forest policy across sectors. In 2012, PROFOR's donors included the European Union, Finland, Germany, Italy, Japan, the Netherlands, Switzerland, the United Kingdom and the World Bank. Learn more at www.profor.info

INTRODUCTION

As donors pledge growing support for protecting and managing forests to address climate change, the question of how to pay tropical countries to reduce their emissions from deforestation and forest degradation assumes greater urgency. Depending on the detailed implementation of REDD+ at a national and international level, forest nations may be able to secure funding from a range of sources, including donors and multilateral funds (a funded approach) and the voluntary and compliance carbon markets (a carbon markets–based approach). These payments are supposed to act as financial incentives that will engender changes in behavior and policy frameworks, spur the development of appropriate institutional arrangements and needed technologies, and motivate both national and international coordination to achieve REDD+ objectives.

Forest-dependent communities will have to be actively involved in translating many of the proposed REDD+ activities into practice. Key custodians of the world's natural forests, these people will be expected to act as forest managers, adopters of new technology, champions for change, rule enforcers, and performance monitors. Forest dependent communities will have to subscribe to the motivation and objective of REDD+ for it to be successful and sustainable.

This is where well-designed benefit sharing mechanisms will make a difference.

A country's benefit sharing mechanism will determine who is involved in REDD+ activities and the ways in which benefits are shared. Existing evidence indicates that the establishment of a suitable benefit sharing mechanism is achievable, provided realities on the ground and a certain number of challenges are addressed effectively.

These challenges include, for example, being able to identify REDD+ beneficiaries when carbon rights are unclear, establishing a streamlined and well-monitored mechanism for transferring funds from the national (or subnational) level to the local level, working effectively with local institutions, preventing elite capture, and measuring how carbon emissions have changed compared to a predetermined baseline.

Key questions for policy makers include: Who should benefit from REDD+? What are the different benefit sharing options? Which mechanism is the most effective? What type of investments and support would facilitate an effective benefit sharing arrangement?

These pages provide a brief synthesis of four papers financed by the Program on Forests (PROFOR). All four papers are included in a CD enclosed at the end of this booklet. The papers are:

- Making Benefit Sharing Arrangements Work for Forest-Dependent People: Overview of Insights for REDD+ Initiative (Chandrasekharan Behr, 2012)
- Identifying and Working with Beneficiaries When Rights Are Unclear (Bruce, 2012)
- Assessing Options for Effective Mechanisms to Share Benefits (PwC, 2012)
- Benefit Sharing in Practice (Chandrasekharan Behr et al, 2012)

Each of the studies has a wealth of information on specific cases, including in-depth analyses of existing arrangements for sharing benefits from around the world.

WHAT DOES BENEFIT SHARING INVOLVE?

International accords associated with the United Nations Framework Convention on Climate Change often refer to “safeguarding” key social issues. While not explicitly stated, in the context of REDD+, there is growing consensus that safeguarding key social issues will require, among other things, effective benefit sharing arrangements.

A benefit can be monetary or nonmonetary and shared among individuals, groups, communities, and organizations. In the context of REDD+, the benefits can be derived from forest rent associated with the management of a forest resource and incentives that can be both monetary and non-monetary. Examples of monetary incentives include cash payments, loans, microfinance, salaries, or tax relief. Examples of nonmonetary incentives include formal land titles, goods and materials, capacity building, price guarantees, cost-sharing arrangements, improved law enforcement, improved market access, and so on.

These benefits can be shared with subnational or local level forest dependent communities in a manner that reflects either the beneficiaries’ input (e.g., share of forest asset or labor that they have provided) or the incentive required to motivate a specific set of activities (e.g., monetary incentive and technical assistance for forest restoration). In some cases, the benefits may be more a form of compensation to recipients for not carrying out certain activities, or social obligations required by law.

1

IDENTIFYING AND WORKING WITH BENEFICIARIES OF REDD+ REVENUE

The notion that benefit sharing is important for effectively achieving the objectives of REDD+ is widely accepted. What remains somewhat unclear is who should benefit from REDD+. Looking at the bigger picture, financial flows associated with REDD+ will need to support institutional and legal changes at the national and subnational level in many sectors, provide incentives for improving private investors' practices, finance needed technology, and motivate sustainable resource management and use. Where there are overlapping legal frameworks, there may be confusion regarding which ministries have a mandate over certain aspects of REDD+. Even more confusing, however, is the identification of local beneficiaries.

The sustainability of REDD+ initiatives requires an adequate determination of local as well as national beneficiaries. While REDD+ offers a unique opportunity for new benefit streams for forest dependent people, it intensify struggles for rights and control of these forest lands because it recognizes new value in remote forest lands. To prevent conflict, influential parties involved in REDD+ will need to work with complex situations at the local level and be willing to engage with a broad range of stakeholders. This work can result in significant transaction, negotiation, and enforcement costs, diminishing the benefits that reach the local level. To reduce costs, the identification of beneficiaries and efforts to work with them must be both legally correct and pragmatic.

Designing benefit allocations is in part a matter of compensation for rights foregone, but other interests need to be addressed as well. It is critical to create incentives for cooperation with the REDD+ initiative. This is the key because in many countries, the government's enforcement capacity is limited. While most REDD+ initiatives will require some degree of enforcement, few will succeed without effective incentive strategies.

PROPERTY RIGHTS, INTERESTS, AND INCOME STREAMS

The creation of a market for trading property rights requires that the rights be clearly defined and not contested by anyone. In the case of forest resources, property rights are rarely clear and secure because national laws regarding these resources are often poorly formulated and enforced. Beyond issues of interpretation and gaps in law, in many countries different systems of law with different origins co-exist. For example, customary rights in forest resources may be an important reality on the ground and yet not be recognized by national law. In such cases, it may be difficult to establish which system applies. In addition, there may be interests in forest resources, which are an important source of income, that have no legal basis, and may even be illegal.

In circumstances of legal uncertainty, it will often not be possible to obtain legal reforms to address these issues effectively in a reasonable time frame. Reliance may be placed on "lower-level" legal instruments that do not require legislative approval, such as a ministerial regulations and instruction. The most effective legal instrument, however, will be contracts among the interested and affected parties. These are vitally important tools for reaching understandings and common expectations, even where they may be difficult to enforce.

IDENTIFYING BENEFICIARIES

Achieving clarity and security of rights requires time and investment. In the interim, practical steps can be taken to ensure that key stakeholders are included in benefit sharing. Furthermore, while allocation of benefits is about compensating rights foregone, benefit sharing has to also create incentives for cooperation with the REDD+ initiative. The latter will help reinforce enforcement measures taken to achieve REDD+.

Identification of beneficiaries should be done in a participatory manner involving local stakeholders, experts, and government. Key steps include:

- Assessment of the legal framework and property rights relevant to forest resources;
- Assessment of perceived rights and interests (this would include claims to land and resources that have not been made for some time). These perceptions can affect the sustainability of the REDD+ initiative, and therefore should inform benefit sharing;
- Identification of communities and other stakeholders and the benefit they derive from the natural resource.

Prior to identifying beneficiaries, it is necessary to develop a tentative understanding of what “legitimacy” means in a given context. This would provide a framework for consultations and negotiations with the various stakeholders. The notion of legitimacy should be tied to identifying people whose claims and use of natural resources should be recognized and addressed, and also people whose incentives need to be changed among the local stakeholders.

DISTINGUISHING AMONG BENEFICIARIES

Following a preliminary identification of communities and other stakeholders and the benefit they derive from the natural resource, it will be important to classify them based on the legal basis of their claims. The latter determines the extent to which certain kinds of benefits and compensation may be due by law versus benefits and compensation that need to be negotiated. Potential REDD+ beneficiaries could be classified based on whether the claims are:

- property or other legal rights (including those who have customary rights recognized by the national law)
- customary claims to such rights which are not recognized by national law
- established benefit streams from the resource

PROPERTY RIGHTS AS A BENEFIT

While benefits have typically been thought of in terms of compensation or jobs, a third approach is to provide greater security of land tenure as a benefit. Secure land tenure is a potential determinant of production of environmental services, and more secure rights over land and other resources can be used as an incentive or reward for the delivery of environmental services. Security of tenure benefits will usually take time to deliver. They should not be seen as a substitute for more immediate, highly tangible benefits, but as a supplement which can be critical for sustainability.

DEALING WITH UNCERTAINTY

Lack of clarity regarding rights and claims can be a medium-term impediment to payments for environmental services, including payments for carbon. The call for secure tenure through formal legal recognition of local rights to forest, forest land and forest products, and rights to shared benefits is justified and should be the objective. The challenge, however, is conclusively resolving the issues in a satisfactory time frame. There are some immediate term options that could contribute to the larger goal of secure rights. A legal option worth exploring is the use of regulations under the appropriate laws (e.g., forestry law). Regulations do not alter the law or nullify existing property rights, but where the law is vague, regulations can be used to clarify it or even fill gaps. Where legal changes are not feasible in a timely fashion, an option is to resort to negotiated agreements with potential beneficiaries and other entities. These agreements may be needed even where the law is not ambiguous. Agreements such as contracts allow for parties to specify their assumptions about ownership and other rights while acknowledging that the assumptions may be corrected by later events and specifying what will happen if those assumptions turn out to be wrong.

Contracts that clearly identify interests to be recognized, specify which uses may continue and what uses must be foregone, and specify the compensation (whether financial or other) provide a remarkably flexible means for addressing the issues surrounding ownership and rights with identified beneficiaries.

ELEMENTS OF A GOOD CONTRACT

A list of good practices for forest contracts fall into several broad categories:

- Ensuring that the contract is legally valid.
- Ensuring that the contract is clear, understandable, and complete.
- Ensuring that the contract addresses points that promote agreement-keeping, including practicality, verification, communication, and incentives.
- Ensuring that the contract provides ways of handling disputes short of going to court.
- Ensuring that the contract considers common issues that have led prior partnerships into disagreements.

The structure and content of contracts should be informed by the purpose of the contract. Contracts can contain a variety of approaches and ideas for establishing formal communication, grievance-resolving institutions dealing with shared risks, structuring of milestones, transparency, and other issues of general interest to forest partnerships.

Source: World Bank. 2009. Rethinking Forest Partnerships and Benefit Sharing. Insights on Factors and Context that Make Collaborative Arrangements Work for Communities and Landowners. Washington, DC: World Bank.

CREATING AND REALIZING EXPECTATIONS ON BENEFITS

A good process helps reduce risks when proceeding in a context where rights to forestland and forest carbon are uncertain and there are multiple significant and competing claims. Processes for consultation, negotiation, and capacity building at national and subnational levels can help ensure that all necessary parties and their interests are identified, that they agree on their respective rights and responsibilities, and that they have the capacity to perform their agreed obligations.

Consultation is needed and is well addressed in many REDD initiative. Actual engagement and negotiation with all concerned is often less well done. Negotiation processes help flesh out how the principles and standards that underpin the agreement will be implemented in the case at hand. The negotiation process puts flesh on those bones, but because of the discrepancies in power and knowledge among parties, the negotiations and outcomes must be held to clear standards. Negotiation processes can enhance the enforceability of the agreement of project partners and reduce risk of nonperformance and unintended consequences. Where a project brings together multiple parties with different rights, interests, levels of sophistication, and experience with legal systems, it will be important to use tools that can help organize and guide the negotiation process.

An important outcome of capacity assessment mentioned above will be processes to build the ability of key institutions to make management decisions and enforce them. Carbon projects add additional complexity to the already significant issues in capacity building because carbon projects are inherently output oriented, requiring reliable monitoring to support the concept in an environment of uncertain legal rights. Capacity building will be important in areas such as negotiation; site-specific technical areas and knowledge sharing; transparent financial systems; monitoring, legal frameworks; and organizational, management, and general business skills.

Implementation processes will be more successful to the extent that they are also participatory and involve key stakeholders. Enforcement processes will always be required and will be made easier if incentive structures for communities and households are well designed, encouraging them to participate constructively in enforcement tasks such a monitoring violation of agreements. Because disputes will always arise, conflict resolution processes need to be built into agreements. While it may not be possible to deal with legal confusions and gaps regarding rights to carbon before REDD initiatives are launched, they should be an ongoing element in creating sustainability, and will often best be accomplished incrementally, building on experience.

LESSONS LEARNED FROM EXAMPLES

Good practice examples from Madagascar, Ethiopia, and Brazil highlight the importance of:

- Adequate up-front analysis of the legal framework and both legal and customary interests in the REDD resource. Such analysis can help identify how local communities could take advantage of the formal law in order to have their customary rights recognized.
- Identifying perceived rights and interests, to create benefit packages that contribute to the legitimacy and sustainability of the REDD initiative. Consultations are important to understand these perceptions. Consultations can bring to the surface divergent interests in a group and can indicate the extent of relevant social and economic relationships at the local level.
- Negotiation of relatively simple, flexible contracts among the interested parties are perhaps the most critical step in the creation of an effective REDD initiative. These create clear expectations

and common understandings, and can fill gaps and resolve confusions in the law concerning rights in the REDD resource.

- Good practice projects benefited from significant capacity building for local communities, various government entities, and project implementers. Institution building is often a precondition for effective resource management.
- Initial implementation may be disappointingly slow; attention to the needs noted above may result in significant start-up times and transaction costs for effort, but it lays the basis for smooth implementation down the line.
- Contracts can be used to vest rights to carbon and transfer rights to carbon from the state to local groups. Contracts are flexible legal tools that allow the parties enormous freedom to adapt the terms to specific circumstances or avoid some terms altogether.

2

MECHANISMS FOR TRANSFERRING BENEFITS

In the context of REDD+, benefit sharing mechanisms can range from local level arrangements between private companies and communities to national level public payment mechanisms. When considering different mechanisms for transferring funds, there are two ways to classify them based on

- the scale of operation: national versus subnational;
- the conditions that need to be met for disbursement of benefits: input based versus performance based.

These categories of benefit sharing mechanisms are not mutually exclusive and may be implemented simultaneously within a country.

National level benefit sharing mechanisms distribute benefits from a national to subnational or local level. Benefits may either be distributed directly to the end recipient (e.g., community groups) or via a subnational organization (e.g., local government institutions). National level benefit sharing mechanisms are applicable to national approaches to REDD+.

Subnational benefit sharing mechanisms distribute benefits from a subnational to local level (e.g., from a provincial government institution to community groups) or between subnational actors (e.g., benefits disbursed from provincial to municipal government). Subnational benefit sharing mechanisms are applicable to subnational or nested approaches.

Performance-based arrangements distribute benefits on the condition that the partners receiving the benefits (e.g., community groups) have achieved a predefined, measurable, and verifiable standard of performance against a baseline (e.g., have restored or protected X hectares of forest).

In *input-based* arrangements, beneficiaries agree to carry out specified actions, or refrain from certain actions, in return for up-front monetary or non-monetary inputs. No link is provided between the distribution of benefits and future measurable performance in forest management.

POTENTIAL ACTORS

Various actors are linked to the mechanism used. The following groups are generally involved:

- *Funders*: provide funding to cover benefit sharing mechanism establishment costs, administrative costs; monitoring costs, benefit payments, and funding expansion and replication
- *Beneficiaries*: provide resource inputs, services or access rights to forests in exchange for forest rent, compensation for opportunity costs, incentives and support for sustainable land use and livelihoods, or support for forest governance and institutional development

- *Managers or administrators*: provide fund management services; administer contractual arrangements with beneficiaries; monitor, report, and possibly verify benefit sharing mechanism performance (verification may be carried out by independent party); continually improve benefit sharing mechanism governance and operations based on monitoring findings; assess long-term impacts of benefit sharing mechanism; and contract out parts of the benefit sharing mechanism management process to external providers where appropriate
- *Implementing agencies*: provide training and capacity building services; operate monitoring systems; assist with mapping and demonstrating community land rights (e.g., through collaborative GIS mapping); provide capacity building and training; and develop public infrastructure for the benefit of benefit sharing mechanism beneficiaries
- *Independent verifiers*: verify the monitoring and reporting findings from fund manager or administrator; and provide potential training and capacity building role for fund manager or administrator, should this be required

Figures 2.1 and 2.2 show how two different benefit sharing performance-based mechanisms would work. In reality it is unlikely that so many potential actors would be present in any one given mechanism.

STRENGTHS OF DIFFERENT ARRANGEMENTS

National input-based benefit sharing mechanisms can support the different phases of REDD+ programs in the following ways:

- Providing a useful mechanism to build REDD+ readiness as both Phase 1 (readiness and capacity building) and Phase 2 (implementation of policies and measures) of REDD+ can involve an upfront distribution of nonmonetary benefits. This is also an important role of subnational input-based benefit sharing mechanisms (see below).

FIGURE 2.1. FRAMEWORK OF A NATIONAL PERFORMANCE-BASED BENEFIT SHARING MECHANISM

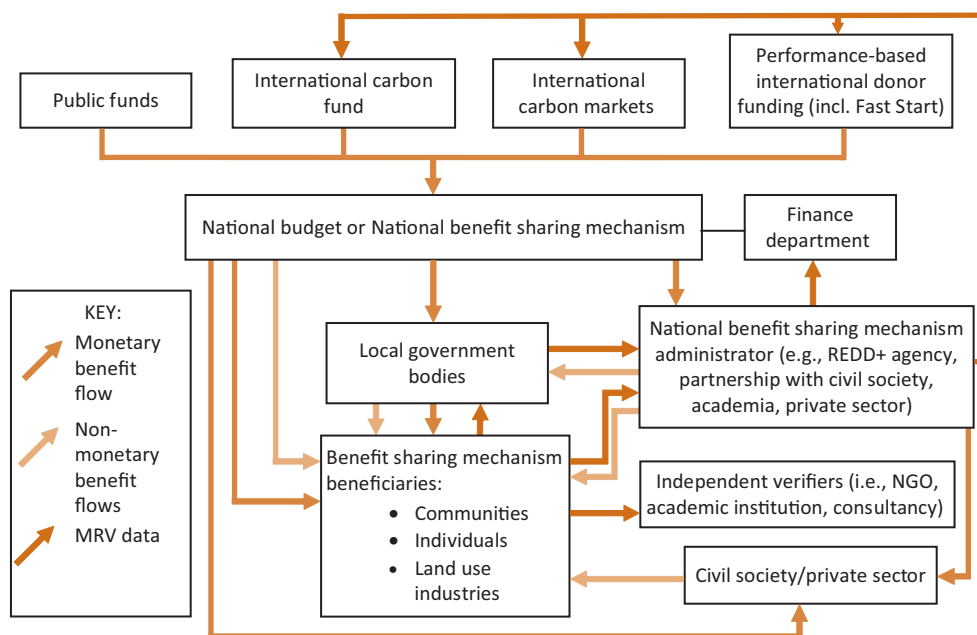
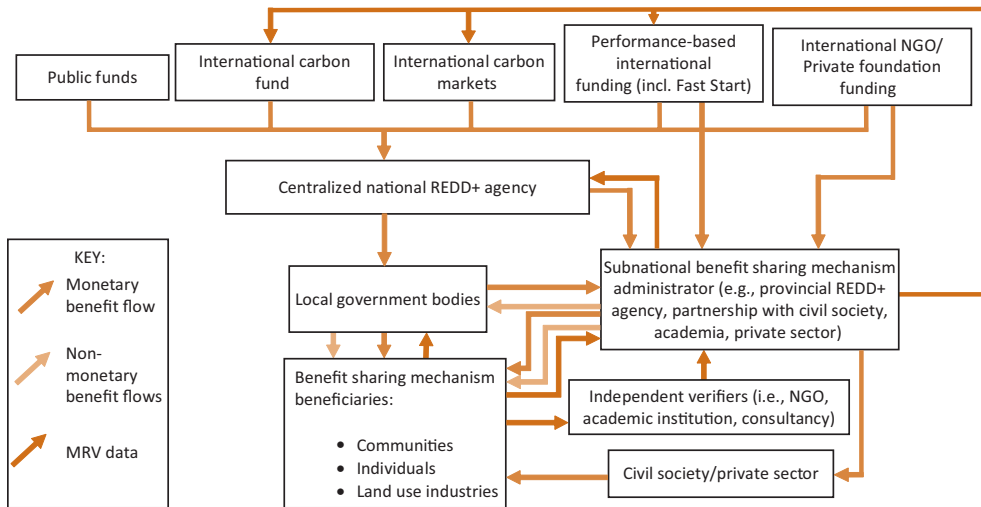


FIGURE 2.2. FRAMEWORK OF A SUBNATIONAL PERFORMANCE-BASED BENEFIT SHARING MECHANISM



- Being viable in countries with low capacity for monitoring, reporting, and verification (MRV).

National performance-based benefit sharing mechanisms can support REDD+ programs by:

- Meeting the requirements for Phases 2 and Phase 3 (payment for performance) of REDD+ for which a national-level approach is taken, regardless of whether a nonmarket- or market-based approach is applied. However, an approach that blends an input-based and performance-based benefit sharing mechanism could also work for Phase 2.
- Providing an added level of accountability and assurance that benefits disbursed are having the desired effect. Performance data can add further accuracy to the benefit sharing mechanism review process and can help improve the design and workings of the benefit sharing mechanism over time.

Subnational input-based benefit sharing mechanisms can support REDD+ programs by:

- Being designed to meet different provincial or state-level REDD+ readiness needs.
- Allowing provinces or states to implement demonstration projects to test concepts and address stakeholder concerns around REDD+: Demonstration projects play an important complementary role for REDD+ policy development. They allow trial runs for REDD+ policies and benefit sharing arrangements with different stakeholder groups. Lessons learned from these trials can be taken into account before a performance-based national or subnational REDD+ system is begun.

Subnational performance-based benefit sharing mechanisms can support REDD+ programs by:

- Linking directly with national performance-based benefit sharing mechanisms, allowing the effective implementation of the nested approach to REDD+
- Allowing states and provinces with higher MRV capacity to advance to Phase 3 of REDD+ within the subnational approach to REDD+

LESSONS LEARNED

Several lessons emerge from a detailed review of different benefit sharing arrangements drawn from examples in Brazil, Cameroon, Canada, Ecuador, Mexico, Uganda, and elsewhere:

- A clear legal mandate/framework should underpin benefit sharing arrangements.
- Use an appropriate system for allocating benefits to forest rights holders, taking into account the challenges presented by unclear or unrecognized land rights. Where rights are unclear, the initial transfer of benefits can be linked to an agreement that safeguards against misappropriation. The clarification of rights can be an important benefit.
- Using existing benefit transfer channels or institutional arrangements can help keep transaction costs moderate and reduce the need to build a new arrangement.
- Where a preexisting institutional structure does not exist for benefit sharing, a process that involves experts and representatives from key stakeholder groups should be used to design a suitable institutional arrangement.
- Having an effective mechanism to safeguard against mismanagement of funds or misappropriation is important to prevent inequitable benefit allocation.
- Local government must have sufficient technical forest management, community development, and planning capacity to support beneficiaries effectively. Resources are made available for the entity providing this support.
- In low governance and monitoring capacity environments, the most effective initial benefits may be in capacity building and land tenure assistance, building up to performance-based benefits later.
- Third-party monitoring and audit organization within a benefit sharing mechanism encourages good governance, transparency, and better financial controls.
- Effective use of partnerships with civil society organizations, nongovernmental organizations (NGOs), and extension units regarding communication, capacity building, and also to draw on local knowledge and networks can play an important role in the success of benefit sharing mechanisms.
- Alignment of the benefit sharing mechanism with national strategy, especially poverty alleviation, can help galvanize political support. Fitting a benefit sharing arrangement within national economic development plans can assist in scaling up an effective pilot scheme.
- To effectively achieve REDD+ objectives, benefits from REDD+ financial resources will need to reach relevant entities involved with research, monitoring, and enforcement in addition to the local communities.

But how will policy makers know which benefit sharing mechanism is best suited for their country? This is where the Options Assessment Framework comes in.

ASSESSING SUITABLE OPTIONS FOR BENEFIT SHARING

The Options Assessment Framework is designed to assist policy makers and development partners to make an initial assessment of the nationally appropriate mechanism or mechanisms for distributing REDD+ benefits in their country, taking the following four “building blocks” into account:

1. Government, civil society, community, and private sector institutional capacity
2. The national or subnational legal framework relevant to REDD+
3. Fund management capacity and experience
4. Monitoring capacity and experience

The Options Assessment Framework can be used in three different ways, depending on the stage that the REDD+ process has reached in the relevant country. It can be used:

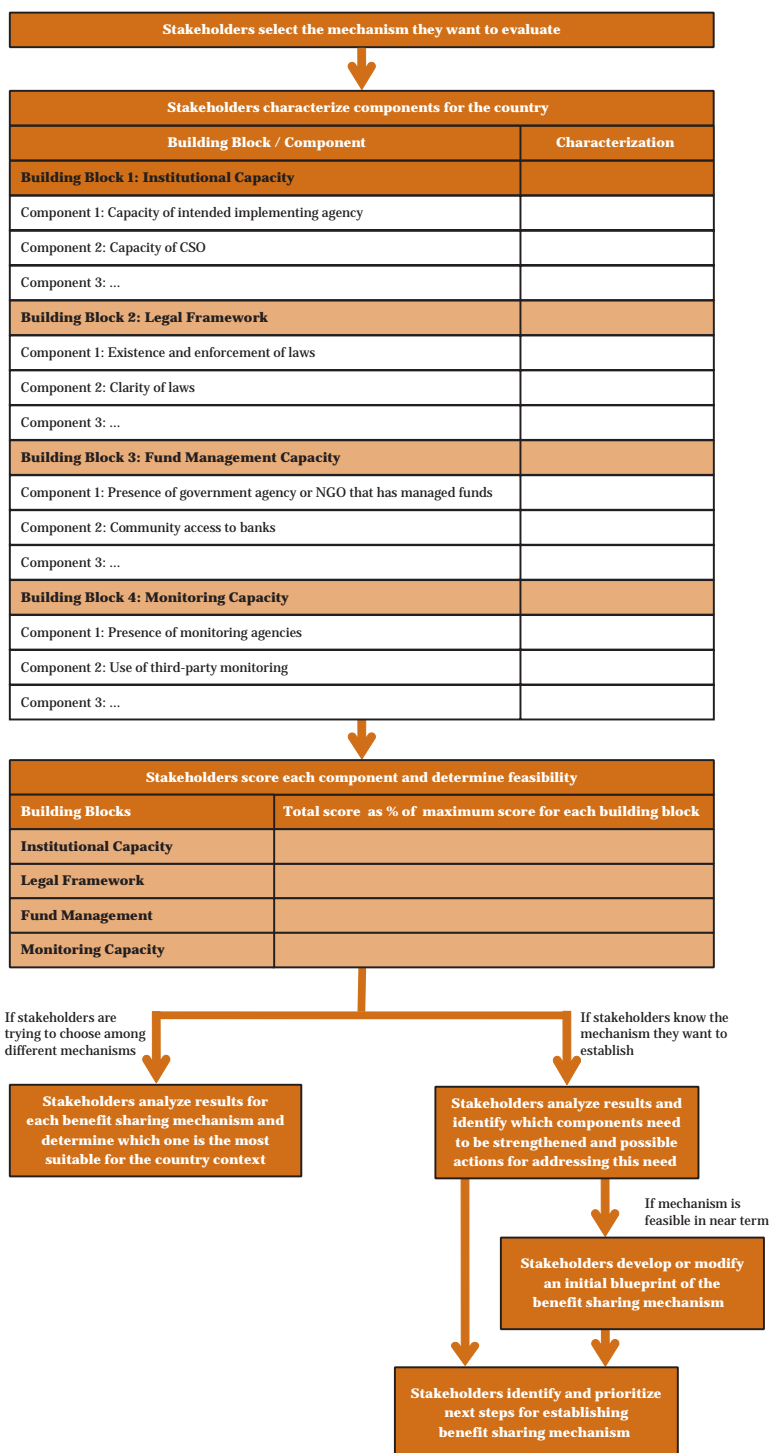
- By decision makers who need to *identify and select the most appropriate mechanism* to be applied in their country. In this case, the Options Assessment Framework helps to compare and select which benefit sharing mechanism types may be most suited to the institutional capacity, legal framework, fund management, and monitoring capacity of the country.
- By decision makers who already have a clear view of which REDD+ benefit sharing arrangement should be used in their country. Here the Options Assessment Framework helps to *identify a set of ‘enabling actions’* needed in order for a country to implement its chosen mechanism successfully.
- By development partners who wish to *ascertain the viability of the REDD+ benefit sharing mechanisms* already chosen by a partner country, and to identify areas for supporting the country in delivering this mechanism successfully.

Use of the Options Assessment Framework should involve key stakeholders in the REDD+ arena.

Figure 2.3 illustrates the uses of the Framework. It allows users to:

- Select which benefit sharing arrangement types to assess (e.g., whether it is a national performance-based arrangement or a subnational input-based arrangement).
- Assess the country’s capacity in the four critical “building block” areas mentioned above. This step involves generating a score for the country against a set of components associated with each building block. Aggregate scores provide an indication of where the country is overall with regards to each of the building blocks. Individual scores provide a sense of which components are strong and which components need to be improved in the country.
- Analyze the results. For policy makers and development partners who have a clear view of the suitable benefit sharing mechanism, the Framework would reveal enabling actions needed to strengthen components and building blocks that received a low score. For policy makers and development partners aiming to identify an appropriate mechanism, the analysis would reveal which type of mechanism is most suited for the country’s context.
- Identify next steps and prioritize among them.

FIGURE 2.3. USING THE OVERALL ASSESSMENT FRAMEWORK



While actual experience with REDD+ and related efforts is still relatively thin, benefit sharing is found in many forest management arrangements. These arrangements provide insights into necessary conditions for designing and implementing sustainable benefit sharing. PROFOR financed an in-depth review of nine benefit sharing arrangements that included surveys as well as interviews with communities, private entities, and government representatives. Below are summaries of four of these nine cases and some of the key insights they offer.

SELLING ENVIRONMENTAL SERVICES: Farmers benefit by providing water to Dar es Salaam, Tanzania

Project: Equitable Payments for Watershed Services (EPWS)

Location: Morogoro, Tanzania

Type: Payment for Ecosystem Services

External Funder: Dawasco (a utility company)

Facilitator/Implementing-Monitoring Agency: CARE Tanzania and WWF

Other Parties: Local government; university that provides training

Community Stakeholders: 144 local farmers in four villages

In the Morogoro region of Tanzania, the rugged Uluguru Mountains form part of the watershed used by Tanzania's largest city, Dar es Salaam. Slash-and-burn farming practices left swaths of unusable land, and the region experienced a doubling in the percentage of cultivated land between 1995 and 2000, at the expense of forests and woodland. The deforestation and poor land use practices caused soil erosion and siltation of waterways. To combat this ecological damage and improve water quality in the capital, CARE Tanzania and the World Wildlife Fund (WWF) initiated the Uluguru Equitable Payments for Watershed Services (EPWS) project in 2006. The project sought to establish a scheme for payment-for-ecosystem-services in which water users would pay farmers who agreed to adopt better land use practices.

THE SCHEME

The international NGOs first identified "buyers" and "sellers" who could benefit from such an arrangement. They met with the head of the environmental section of Tanzania's Vice President's Office, District Council members, and the District Executive Director, the local water office, which provided hydrology services, and members of a nearby nature reserve and a conservation fund. They

consulted village leaders, conducted interviews, held discussion groups, and carried out household surveys to find sellers. They completed a hydrological assessment, a cost-benefit analysis, and an examination of existing legal and institutional frameworks to determine which parties could benefit and how the project might work. The initial setup took 17 months.

They identified one “buyer,” a utility company called Dawasco based in Dar es Salaam, and 144 “sellers,” or farmers, from four villages. Dawasco agreed to pay the farmers \$65,000 to voluntarily adopt eco-friendly farming practices so that the company could spend less on water purification. The participating farmers agreed to build terraces using ditches and uphill mounds, to stop slash-and-burn agriculture, to plant trees and elephant grasses, and to sow two or more crops in close proximity to produce a greater yield, a process known as alley cropping. In return for changing their farming practices, farmers earned cash but also obtained other benefits, including farm supplies, animal manure, and agricultural training from a local university. CARE Tanzania facilitated the contracts and oversaw the implementation and monitoring of the project.

Implementation began in 2008, when Dawasco made an initial payment through CARE, which deposited the money into a village bank. Local councils then distributed the funds to the farmers according to specific criteria, including how much land the farmer had subjected to improved farming practices, the number of trees they planted, and the type of land management adopted (bench terraces or other). Other factors included whether the farmers had used mixed cropping or had refraining from cultivating sloped land and river banks. An additional 690 farmers from 350 households received training on tree planting, farming techniques, and the use of farm animals for manure production.

THE BENEFITS

The benefits to the villages included not just financial rewards, supplies, and training to farmers but also restored ecosystems, greater community empowerment, and the formulation of a water user association. Dawasco profited from improved water quality, availability and reliability, a reduction in water-treatment costs, and enhanced public-private relations. The government benefited by being able to implement its water resource plans and to increase its capacity and knowledge development. Additionally, there was a noticeable positive impact on the environment, including reduced soil erosion, fewer trees cut illegally, and more trees planted. The number of bush fires was reduced and the forest was no longer receding.

Farmers surveyed in two of the four villages reported that they were happy or very happy with the way the project was going, and most also reported financial gains and a greater sense of financial security, though income improvements were difficult to ascertain because payments varied greatly. Most felt that the scheme was fair and that they were justly compensated for their efforts. Most also noted that the farming network had been strengthened and that there was greater exchange of knowledge about farming practices. In general, productivity increased up to four times the pre-project levels, convincing more farmers to join the project or adopt the practices.

FACTORS LEADING TO SUCCESS

The leadership provided by the international NGOs was central to the success of EPWS and proved to be a key ingredient that helped farmers to voluntarily let go of traditional farming methods. Both CARE and WWF earned the trust of the farmers, another essential element that allowed the NGOs to preserve the integrity of the project by overseeing the payments being distributed by local governments

that farmers did not trust. The farmers were patient and persistent, laboring at difficult tasks and then waiting for rewards. Expectations were clear and understood by the parties involved, and the link between action and payment was easy to verify. Importantly, villagers discovered the non-monetary value of the project, including access to better fertilizers, markets for farm products, and training.

FUTURE VIABILITY

A permanent mechanism for paying the farmers needs to be created. The farmers received an initial payment through CARE, but the NGO is only a temporary facilitator. Land laws remain unclear, and trust between the farmers and local governments needs to be strengthened. There needs to be a better mechanism for disseminating information to farmers regarding both the project's benefits and the process for payments. More emphasis should be placed on the practicality of the activities. For instance, the new farming methods require intensive manual labor to build terraces and plant trees, as well as animal manure, which is not easy to procure for most villagers. Ensuring timely incentives would entice more farmers to adopt the practices and increase the viability of this payment for ecosystem services scheme.

SHARING BENEFITS FROM CARBON: Villagers in Uganda are paid to plant trees to offset carbon emissions

Project: Trees for Global Benefits Program (TFGB)

Country: Uganda

Type: Subnational level PES

External Funder: Carbon offset purchasers abroad, funded through Ecotrust, a national NGO

Facilitator: None

Implementing-Monitoring Agency: Ecotrust

Other Parties: World Agroforestry Center (ICRAF); the Edinburgh Center for Carbon Management

Community Stakeholders: Approximately 400 tree growers in four villages; the Carbon Community Fund



Villagers in parts of rural Uganda traditionally rely on forests for their livelihood and energy needs. Forests provide wood for poles, charcoal, and fuel, the main energy source for 90 percent of the population. To encourage forest conservation, the Environmental Conservation Trust (Ecotrust), a national NGO, initiated the Trees for Global Benefits Program, a cooperative carbon offset project that aims to reduce carbon emissions by paying villagers to plant trees in selected areas near national parks and forest reserves. The project began in 2003 with 30 villagers and has grown to include 400 villagers in four districts in southwestern and mid-western Uganda. Villagers volunteer

to plant trees and in return receive payments for the amount of carbon they sequester. The goal is to reduce global carbon emissions by providing carbon offsets to overseas buyers, while enhancing the livelihoods of villagers and reducing their reliance on wood from the forest reserves.

THE CARBON SEQUESTRATION SCHEME

The project was initiated by the Edinburgh Centre for Carbon Management, which assessed the potential for carbon schemes in Uganda. Social and environmental assessments were undertaken, as well as a biomass inventory. Ecotrust coordinated the project by finding buyers abroad who were looking to purchase carbon offsets and villagers who were willing to plant trees. The World Agroforestry Center (ICRAF) provided technical assistance, while Ecotrust offered training to tree growers and monitored the planting and growth of the trees to determine the payments due to the tree growers. CARE International provided advisory services; and DFID, USAID, and the Uganda Forestry Coordination Secretariat provided funding. The goals were to plant hardwood and fruit trees, establish forest reserve boundaries and buffers, and conserve and rehabilitate forests. Anyone in the four designated areas who owned land and was willing to plant trees qualified to participate in the scheme.

Agreements between the tree growers and Ecotrust are performance based. Each grower is paid according to the number and the species of the trees planted, the agroforestry system adopted, and the tree growth rates over a 10-year period. The tree growers are paid 30 percent of the total amount due when 50 percent of the trees are planted (assuming there is a carbon buyer and an agreement signed). Another 20 percent is paid when the remaining 50 percent is planted. If 85 percent of the trees have survived by the third year, the farmer is paid another 20 percent, and if 85 percent continue to survive by the fifth year and are growing well, the planter is paid an additional 10 percent. If the trees continue to grow well after 10 years, the final 20 percent is paid. Carbon sales payments are channeled through village banks, which distribute the proceeds to tree growers. Tree growers receive 55 percent of the total carbon income, while a Carbon Community Fund managed by Ecotrust to benefit the larger community receives 6 percent, the Plan Vivo Foundation receives 6 percent, verification costs consume 5 percent, and Ecotrust keeps 28 percent. Ecotrust inspects ledgers at village banks and asks growers how much money they have received. Buyers also visit to ensure growers are being paid.

THE BENEFITS

Tree growers benefit financially from the scheme, though later arrivals to the project have benefited more because the price of carbon offsets in the international market has gone up, while early tree growers were locked into their sales prices. The infusion of cash has helped the local economies as growers bought furniture, built homes, and opened savings accounts. Local businesses have thrived because the growers spent money and sold poles to local shops, which sold them for shade and fencing. Local banks were strengthened from increased customer savings, allowing them to extend more credit. There have also been non-monetary benefits to villagers who did not grow trees. For instance, trees planted in schoolyards are being used to teach science; some species provide medicinal herbs; and wood is now obtained from fallen branches and pruning, so women no longer have to go in search of firewood. There has been a marked rise in enrollment in secondary education because parents can afford to send their children to school. The trees are used for beekeeping and provide shade for animals, windbreaks, and help to decrease soil erosion, which has led to reduced silting of rivers. Property planted with trees has become more valuable.

FACTORS LEADING TO SUCCESS

The scheme benefited from trust established between the growers and Ecotrust, which allayed early fears among growers that the government would take their land once the trees were planted, and dispelled skepticism that foreign buyers would purchase carbon, a “commodity” that they couldn’t see or use. This was important since many growers didn’t understand the carbon market. Continued engagement has also been ensured by having the agreements signed by village chairmen. This has helped override concerns among buyers and Ecotrust that growers, once paid, would migrate, sell their land, or cut the trees for timber.

Other factors leading to success included the legal validity of the agreements. Additionally, the agreements were voluntary, the market for carbon has remained strong, and the project was practical because growers were provided with the tools and the training to successfully grow trees. Compliance was verifiable and 85 percent of growers said they thought the scheme was fair. Growers showed the patience and perseverance needed to succeed because profits were not immediate but instead are being distributed over a 10-year period.

FUTURE VIABILITY

The future viability of the project depends heavily on Ecotrust’s ability to continue to find international buyers, which are scarce. While the number of growers has steadily increased, many of them complained that they were not able to fully bargain the terms of the contract, including the carbon price negotiated between Ecotrust and the buyer and that there was limited flexibility in the terms of the contract. Communication and access to information has become difficult as the number of participants increases and because participants have to walk to town to access the Internet and many are not familiar with computers. Growers also worried that the long-term nature of the scheme might mean that they would not reap the benefits of years of work should the agreement with Ecotrust end or the carbon market dry up. The growers also complained that payments were sometimes delayed because of the large number of participating growers and the fact that they were scattered, which made it difficult for Ecotrust to carry out the required monitoring and verification prior to payment. Exchange rates fluctuate, resulting in varied pay for growers, who are compensated in U.S. dollars. Seedlings are considered to be expensive. Sometimes they were stolen and planted elsewhere, and some trees were destroyed by fire. Initial payments did not cover the cost of planting the trees, requiring a high degree of initial labor without monetary reward. However, many growers say they are willing to take the risk because they hope eventually to sell the trees they have planted as timber.

SHARING REVENUES FROM TIMBER: **Lessons from the Tasibaiki Wood Bank in Nicaragua**

Project: Tasibaiki Wood Bank

Country: Nicaragua

Type: Subnational community-company partnership

External Partner: GTZ and small- and medium-scale furniture manufacturers

Facilitator/Implementing-Monitoring Agency: JAGWOOD+ and Masangni (a local NGO)

Community Stakeholders: Three indigenous community forestry cooperatives



Nicaragua has one of the largest tropical rainforests north of Amazonia. Hardwoods such as mahogany and royal cedar are found in these forests which also serve as habitat for tapir, jaguar and other cat species, monkeys, and varieties of birds. Logging operations in Nicaragua's Atlantic coast, where much of Nicaragua's remaining natural forests are found, have resulted in unsustainable use of the forest resources and limited benefits for the region's indigenous communities. Responding to the developing crisis, in the late 1990s, the government imposed a ban on logging precious hardwoods, but weak enforcement had the unintended consequence of stimulating illegal logging activities. Also, indigenous communities that historically had managed the area were marginalized

as the government treated the land as government property. Currently, the country loses between 70,000 and 100,000 hectares of forest each year.

Following the ban and rampant illegal logging, the German development agency (GTZ) in partnership with the Nicaraguan government launched a project to create certified wood banks. The aim was to promote sustainable forest management. Prior to this time, JAGWOOD+—a regional Forest Trade Network—became active in Nicaragua and worked to aggregate community-run forest enterprises, service providers, and small to medium wood product manufacturers. Both these initiatives aimed to reduce poverty and marginalization of indigenous rural communities by creating opportunities for them to benefit from a niche market for certified wood. They promoted small- and medium-sized forestry and wood processing enterprises by integrating them into a value chain for certified products, and ensuring concrete benefits and fair prices along the value chain.

THE WOOD BANK ARRANGEMENT

The Tasbaiki Wood Bank scheme began in 2009 following negotiations between GTZ, members of JAGWOOD+ (specifically furniture makers), and community forestry cooperatives. The scheme involved local cooperatives supplying certifiable timber to the wood bank and furniture makers purchasing certified wood from the wood bank. Six partners—three local forestry cooperatives and three small furniture manufacturers—bought investment shares in the Tasbaiki Wood Bank, created as part of a GTZ project, to provide certified wood so that participating timber harvesters could sell to this niche market. JAGWOOD+ and Masangni (a local NGO) facilitated the project, provided technical support, and linked the timber producers to the furniture makers. Approximately 700 people are associated with the three community forestry cooperatives and 150 furniture makers have joined the partnership.

Three or four contractors from each community cooperative take turns harvesting the timber under one-year contracts. Timber harvesting lasts from 15 to 65 days each year; the rest of the time community members earn a living through subsistence farming, fishing, and mining. Each cooperative has a president who represents the cooperative on the Wood Bank Board. A few selected individuals from each cooperative also manage the resources and transfer proceeds from the sale of timber into local banks. The cooperatives receive a 30 percent prepayment for their timber, and the remainder when the timber is sold. Each shareholder receives a portion of the Wood Bank's profits.

THE BENEFITS

The benefits accrued to loggers and villages have not been easy to quantify because the scheme is only a year old and the community cooperatives were already investing in improving the quality of life of indigenous communities prior to implementation of the scheme. Participants reported that the partnership had not yet led to any obvious increase in community investments. One anticipated benefit was job creation, but many respondents reported that they had felt little economic impact from the arrangement. The respondents also indicated that the expected improvements in environmental conditions had not materialized. Only 17 percent of participants in the scheme expressed high levels of satisfaction at the individual level, and 13 percent said they were satisfied at the aggregate level; only 9 percent were satisfied at both levels.

EARLY CHALLENGES

The Wood Bank faced challenges early on because of disagreements between the cooperatives and furniture manufacturers regarding pricing and product classification. Cooperative members felt they were selling at a low price and many said they were not paid equally in practice, even though each partner is supposed to receive the same payment for each share in the Wood Bank. They took issue with how profits from the sale of timber are distributed and felt the scheme benefited only a subset of each community by providing a small number of households with temporary work extracting timber. The distance between the local and external partners and distance to banks were major hindrances to quick transfer of financial resources from wood sales to local communities.

At the village level, the dissatisfaction with the partnership stemmed from a lack of tangible benefits. Villagers reported few new schools or roads attributed to the scheme. Prior to the scheme, village cooperatives were already providing benefits to the community, including solar panels for electricity, scholarship for students, and financial support to widows. At the donor level, the project was not viewed positively because the communities had not benefited from expected investments in social infrastructure. Women were more dissatisfied than men because they had limited opportunities through the scheme and, unlike men, could not supplement their incomes with fishing, hunting, cattle ranching, and subsistence farming.

Lack of clear channels of communications left communities with limited knowledge and suspicions that the cooperatives' board members were using the partnership for their personal gain. The scheme was criticized for giving a limited voice to the broader community. They cited poor communication among the six partners, a lack of clarity regarding the role of each, limited social ownership within the community, and a lack of interaction among community members and the Wood Bank Board. Community members were concerned about how the board works, and some were unhappy about their representation on the board. The Wood Bank's Board excluded traditional leaders, creating discontent among the local community. Local partners were concerned about mismanagement of their natural resources. Ecologically, the participants cited poor water quality, loss of biodiversity, and the removal of an important resource.

FUTURE VIABILITY

Participants cited key elements necessary to a successful partnership, including mutual respect, leadership, and trust, but said these elements were not always present. Details of the partnership were unclear and distance between the partners compounded the problem. The partnership didn't result out of self-determination, and there was a lack of trust and transparency in the process.

Future viability of the scheme depends on whether the communities benefit from the sale of their timber directly through job opportunities and indirectly in the form of new roads and schools. Timber providers need to feel fairly compensated for the wood they sell. Communication between the village cooperatives and the timber providers needs to improve, and the leaders of the cooperatives should be selected in a way that respects the customs of the indigenous people. Furniture makers suggested that representatives of the timber providers should have negotiating skills and a business perspective. The partnership also must take into consideration the prior illegal activities that occurred in the region and be able to outweigh those illegal interests.

SHARING REVENUES FROM CONSERVATION: Villagers trade crop harvest for share in park proceeds in Zanzibar, Tanzania

Project: Jozani Chwaka Bay National Park

Location: Zanzibar, Tanzania

Type: Sub-national level CBNRM

External Partners: Government of Zanzibar through DCCFF

Facilitator/Implementing-Monitoring Agency: Originally, CARE International; now none

Other Parties: Farmers' and village councils, farmers' association, and Community Development Fund

Community Stakeholders: 9 local villages (about 14,000 villagers) and 99 farmers



The Jozani Chwaka Bay National Park (JCBNP) in Zanzibar, Tanzania, is rich in flora and fauna, including the Red Colobus monkey, and is a lucrative source of tourism. The Park includes forests, mangroves, and private farm plots. For years, nearby villagers' use of wood fuel and charcoal depleted the forest, and farmers killed monkeys that ate their crops. To control these practices, CARE International facilitated an arrangement between the government of Tanzania and nine villages closest to the Park whereby the villagers and farmers would agree to refrain from killing monkeys

and collecting wood illegally in return for rights to use natural resources and a share of the profits made from entrance fees paid by tourists visiting the Park. The goal was to provide villagers with alternate sources of income and compensate farmers for not being able to farm in some areas.

CONSERVING THE LAND AND SHARING PROFITS

In 1995, the government of Tanzania created the Jozani-Chwaka Bay Conservation Project to preserve the forest and lay the foundations of a future park. The government agreed to give the village councils enhanced control of resources in designated “buffer zones” around the area demarcated to become the park in exchange for halting farming and wood-gathering in the designated “core zones.” CARE International engaged the local communities in the project, identifying nine councils whose inhabitants could benefit from joining a profit-sharing scheme, and helping them create Village Conservation Committees (VCCs). CARE also engaged the Department of Commercial Crops, Fruits and Forestry (DCCFF) and Park officials to lay the groundwork for a profit-sharing scheme, put in place in 2000, whereby the villages and farmers were allotted a portion of the money collected from an \$8 Park entrance fee. The money was funneled through an NGO called JECA, created by the VCCs to represent their interests and determine which village projects to fund with the proceeds from the Park fees. The JECA also linked the VCCs and village councils to external partners to support projects through a specific community development fund and to generate alternative methods of income, such as beekeeping and micro-credits.

From 2000 to 2008, the beneficiaries split the Park proceeds so that the Park and the DCCFF each received about one-third of the proceeds from entrance fees. The treasury got 14 percent, and the farmers and the development association split the remaining 22 percent, with 65 percent of that amount going to the farmers and 35 percent allocated to the Community Development Fund. The JECA kept 10 percent of the community development fund’s share to cover overhead. One of the villages, called Pete, which owned a boardwalk that attracted tourists, received 40 percent of the boardwalk entrance fees and the farmers received 30 percent; the remaining 30 percent of boardwalk fees went to the JECA and the government authority for conservation and management of the Park—DCCFF. CARE’s involvement ended in 2003 and the Park was declared a national reserve in 2004. That same year, the farmers formed an association and bargained for a greater share of the profits. In 2008, the treasury stopped receiving a share, and the money went instead to the farmers.

THE BENEFITS

Benefits have been both monetary and nonmonetary, including a first installment of TZS 4.6 million given to the villages in 2000. The JECA and the farmers’ association both opened bank accounts. The farmers’ association transferred money to farmers, while the JECA allocated proceeds to the Community Development Fund, Pete, and the VCCs. The Fund used the money to build schools, mosques, and water and electricity projects. The villages also accrued intangible benefits, including the right to manage their land and issue permits for land use through the VCCs. VCC members received training on conservation issues as well as employment in the Park and the gift shops (particularly women). The villagers benefited from the formation of the JECA as an advocacy organization and the farmers benefited from their association, which successfully represented their needs. Microfinance projects initiated by CARE through JECA provided alternative household income.

Of the 90 households that were surveyed in three villages, a majority of households reported they were happy or very happy with the partnership because it had improved their quality of life, even

though not all respondents reported higher income. Most respondents acknowledged that the old ways would have eventually had significant ecological consequences.

FACTORS LEADING TO SUCCESS

Transparency in the project, delivered through oversight mechanisms, was important. More specifically, the project was monitored and audited by the JECA, and VCC leaders had to show how they spent previous allocations of money before they could receive new allocations. A Park officer and a member of the community were always present whenever Park fees were paid. These factors helped ensure that the money was collected and spent properly, which in turned enhanced the villagers' perceptions that the profit-sharing scheme was fair.

Other factors that led to success included the successful bargaining power of the farmers, though many of them reported they were not satisfied with the payment arrangement, either because they were left out or because they felt payment levels should reflect the level of individual effort. Additionally, all the parties reported that they understood what was expected of each of them as per the agreement and how the profit-sharing would work. The parties generally trusted each other and communicated well, factors that helped dispel old feelings of animosity between the government and the farmers. The project was practical in its ability to compensate farmers for lost income and generate new areas of employment, and it was flexible in its ability to reconfigure the profit-sharing scheme to better reflect the needs of the farmers.

FUTURE VIABILITY

Several factors challenge the future viability of the project. Village boundaries were mapped, but were never recognized, which has generated some conflict. Some villagers complained about a lack of easy access to firewood, and noted that illegal harvesting of wood continues. Additionally, questions about transparency have arisen because not everyone pays Park fees at the entrance gate. For example, tour groups use vouchers, leading farmers to suspect skimming. There also is no mechanism for formal financial auditing of the JECA and the Community Development Fund, and the farmers' association distributes benefits without formal accounting procedures. The government has asked parties to appoint someone to monitor the flow of revenues, but partners responded that they do not have the money to do so.