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MAKING BENEFIT SHARING ARRANGEMENTS WORK FOR FOREST-DEPENDENT COMMUNITIES

OVERVIEW OF INSIGHTS FOR REDD+ INITIATIVES

Authors: **Diji Chandrasekharan Behr**

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For a full list of publications please contact:
Program on Forests (PROFOR)
1818 H Street, NW
Washington, DC 20433, USA
profor@worldbank.org
www.profor.info/profor/knowledge

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ACRONYMS

BMCT	Bwindi Mgahinga Conservation Trust, Uganda
CBNRM	Community-based natural resource management
CDM	Clean development mechanism
CFJJ	Centro de Formação Jurídica e Judiciária (Centre for Juridical and Judicial Training)
CONAFOR	Comisión Nacional Forestal National Forestry Commission
COP	Conference of Parties
DRC	Democratic Republic of Congo
FONAFIFO	Fondo Nacional de Financiamiento Forestal (National Forestry Financing Fund)
GIS	Global information system
ICMS-E	Impostos Sobre Circulação de Mercadorias e Prestação de Serviços Ecológico, Brazil (Approximately equivalent to value added tax) International Union for the Conservation of Nature
MBOMIPA	Matumizi Bora ya Malihai Idodi na Pawaga (Sustainable Use of Wildlife Resources in Idodi and Pawaga)
NGO	Non-governmental organization
PES	Payments for ecosystem services
PROFOR	Program on Forests
PSAH	Program for Hydrological Services (Mexico)
REDD+	Reduced emissions from deforestation and forest degradation, plus conservation, sustainable management of forests, and enhancement of forest carbon stocks
RFA	Redevance Forestière Annuelle or Annual Forestry Fee (Cameroon)
RPP	Readiness Proposal Plan
TfGB	Trees for Global Benefit
UNFCCC	United Nations Framework Convention on Climate Change

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1 INTRODUCTION

Efforts to mitigate climate change through forests have concentrated on reducing emissions from deforestation and forest degradation, fostering conservation, sustainable management of forests, and enhancement of forest carbon stocks (REDD+). REDD+ featured more prominently in the work programs of donors and forest institutions in 2007 as an outcome of the United Nations Framework Convention on Climate Change (UNFCC) Conferences of the Parties (COP) in Bali. In the Bali Road Map and the associated Bali Action Plan, participating nations pledged to develop policy approaches and positive incentives to achieve REDD+. Over the past five years this task has been the focus of numerous organizations and individuals working on forest issues.

The principle of REDD+ is to pay tropical countries to reduce their emissions from deforestation and degradation and to enhance their carbon stocks. Payments, or rewards based on the valuation of carbon saved, are to be the financial incentives that engender changes in behavior and policy frameworks. These incentives also are to foster development of appropriate institutional arrangements and needed technologies. They also are to motivate both national and international coordination to achieve REDD+ objectives. Donors have pledged more than USD 8 billion (PwC 2011) to this end. The challenge at hand is to use these financial resources effectively to motivate the institutional, technical, and social changes and the policy measures needed to achieve REDD+ objectives.

Benefit sharing is central to achieving the objectives of REDD+. For REDD+, benefit sharing covers how carbon revenues are to be assigned and shared among all stakeholders involved in meeting REDD+ goals. In practice, benefits need to be shared prior to receiving carbon revenues. Benefit sharing in the context of REDD+, therefore, needs to also include the provision of incentives and support to parties involved in REDD+ in order to generate carbon revenues. Financing from national funds or international financing sources will likely be the source of the benefits. Once carbon revenues are generated (independent of whether they are from a market-based or fund-based system), the benefit sharing regime will convert the carbon revenues into additional incentives and support.

Benefit sharing involves the intentional transfer of monetary and nonmonetary incentives and assistance to enable parties in the agreement to implement activities that would generate the carbon revenues. The benefits can range from policy measures (including clarity over rights) to financial payments and technical assistance (such as technology provision or skill training in improved land-use practices). Arrangements for sharing these benefits can involve mechanisms for revenue sharing or mechanisms for transferring monetary and nonmonetary assistance among the parties involved. Implementing benefit sharing requires identifying the beneficiaries and necessary benefits. Clear obligations or responsibilities that need to be met to attain the benefits are also important. There also is the need to develop systems for recording and monitoring the benefits and associated obligations as well as distributing the benefits to the beneficiaries.

1.1 SCOPE OF THIS PAPER

This overview paper positions the question of benefit sharing in the context of REDD+. It shares findings from a cursory review of a sample of Readiness Preparation Proposals (RPP) for REDD+ submitted to the Forest Carbon Partnership Facility (FCPF). It deconstructs the concept of benefit sharing. It also provides a summary of the main findings from three recent studies on benefit sharing that were financed by the Program on Forests (PROFOR).

The PROFOR financed studies include an analysis of how REDD+ beneficiaries can be identified when rights are unclear (Bruce, 2012). PwC (2012) reviews existing national and subnational benefit sharing arrangements and develops a typology of mechanisms for sharing benefits. They also developed an options assessment framework for decision makers. The options assessment tool is structured to help stakeholders identify a benefit sharing arrangements that fits their country context. It also assists stakeholders to determine the steps needed to effectively develop and implement their selected arrangements. The case studies provide practical recommendations based on both positive and negative experiences with benefit sharing. Case studies from three countries provide examples and recommendations that can help countries make informed choices and implement processes for establishing a benefit sharing structure (Chandrasekharan Behr et al. 2012).

The PROFOR studies build on existing research (for example, IUCN 2009, Costenbader 2011, World Bank 2009, World Bank 2011). They also use primary and secondary data collected from a literature review, key informant interviews, structured surveys, and case studies. The studies:

- Explore the substantive legal issues and procedural options for identifying legitimate/intended beneficiaries in situations where rights are unclear
- Provide information and tools to assist policy makers and development partners to design and develop nationally appropriate arrangements for transferring REDD+ benefits
- Provide the local partners' perspective on benefit sharing and the process involved in determining benefits and establishing arrangements for sharing the benefits

2 WHY BENEFIT SHARING IN REDD+?

Benefit sharing in REDD+ initiatives is necessary to convert the national and international donor support, private sector finances, and carbon revenues into incentives for positive change at the national and subnational level. The IUCN (2009) report *REDD-plus and Benefit Sharing* highlights two reasons why benefit sharing is important for REDD+:

> Benefits can reward individuals, communities, organizations, government agencies, and business for actions that change land use and reduce emissions. These benefits must be at least equal to or in excess of the opportunity cost of legal REDD+ activities to make it economically rational for these stakeholders to participate in the benefit sharing mechanism.
>
> Equitable benefit sharing mechanisms can build legitimacy for REDD+ programs at an international and national level by ensuring that both the people directly affected by REDD+ actions and the wider public are treated fairly and equitably.

While the language in the international agreements (for example, UNFCCC Copenhagen Accord, or Cancun Agreement) does not explicitly use the term "benefit sharing," there is consensus that REDD+ is advancing in a direction that potentially could benefit forest-dependent people. The recognition of the need for a more participatory approach and language that safeguards local livelihoods and helps local people realize benefits has created a climate of optimism. The optimism is justified given the greater emphasis on recognizing local and customary rights and traditional and community-based management systems, using an inclusive approach in REDD+ decision making; establishing transparent systems for transferring REDD+ financing to the local level; adopting effective measuring, reporting, and verification (MRV) systems; and improving how forestry legislation reflects the local context (RECOTFC 2011).

2.1 READINESS PREPARATION PROPOSALS AND BENEFIT SHARING

As countries embark on REDD+ readiness and develop proposals specifying the steps they will take to reduce deforestation and forest degradation, they are required to draft an implementation framework that operationalizes REDD+ in a country's context. The framework should cover how issues regarding carbon rights, the distribution and delivery of REDD+ benefits to local communities, and land tenure questions will be handled (see Section 2c of 2010 FCPF-UN REDD+ RPP template).

Developing benefit sharing arrangements requires a good understanding of the drivers of deforestation and forest degradation and their prioritization, the stakeholders involved in addressing these drivers, the incentives needed to reverse deforestation and degradation trends, and suitable mechanisms for distributing benefits against agreed responsibilities and obligations. The mechanism for sharing benefits determines who is involved at all levels of the REDD+ value chain, who bears the costs, how incentives are provided, and how some key governance issues are addressed.

A quick analysis of a random sample of RPPs revealed that most countries acknowledge the importance of getting benefit sharing right. Some countries are already implementing benefit sharing and exploring the viability of applying their current systems to REDD+ initiatives (for example, Cambodia, Colombia, and Vietnam). Other countries are investing in studies and consultative processes to determine suitable benefit sharing arrangements (for example, Ghana and Vietnam). A few countries are going to extend their existing benefit sharing arrangements to deliver REDD+ benefits (for example, Costa Rica[1]). The RPP of the Democratic Republic of Congo (DRC) indicates that clarifications of rights over carbon will be a prerequisite for implementing a benefit sharing system. The DRC Government's objective is to design mechanisms that can distribute the benefits in a fair manner and build on the ongoing decentralization process in the country. As a result, the country will be piloting different arrangements for sharing benefits.

This cursory analysis confirms that while the importance of benefit sharing is recognized, additional work needs to be done at the national level with several countries engaged in REDD+. The support needed includes guidance on issues such as clarifying rights and implementing successful benefit sharing arrangements.

2.2 WHAT IS COVERED UNDER BENEFITS

There are diverse ways by which relevant stakeholders can benefit from REDD+ initiatives. Below are brief descriptions of a few of these.

2.2.1 Forest Rent[2]

Forest rent includes the revenue or rent derived from the management of a forest resource. Provision of a portion of forest rent to beneficiaries may be linked with an action implemented by the recipient, or may not require an action at all.

Action-linked forest rent benefits occur when rent is shared with subnational or local level forest rights holders according to the level of resource input provided by these rights holders. For example, if a community group owns the rights to a 30 percent share of a forest asset and provides the labor required to manage and harvest this asset, they may be entitled to approximately 30 percent of the forest rent in return.

Non-action-linked forest rent benefits occur when rent is distributed to affected stakeholders who are negatively impacted in some way by the forest management activities. These stakeholders hold forest rights but do not provide an input into the management of the forest asset. The amount of forest rent transferred may be negotiated according to the perceived economic value of the damage or loss caused to the affected stakeholder or according to a preset benefit sharing model.

1 Costa Rica will use an existing government-administered arrangement (FONAFIFO) and also have privately administered initiatives. Both of these would allow for accessing of REDD+ earnings. The FONAFIFO initiatives would each have negotiated benefit sharing arrangements. The private initiative would involve private entities negotiating private emissions reduction agreements in the market.

2 The difference between the market price for a natural product (for example, a forest product) and the costs of bringing it to market represents economic rent (Karsenty, 2000).

2.2.2 Incentives

Incentives are not directly linked to forest rent but are monetary or nonmonetary benefits to enable or motivate a particular behavior. Forest-based incentives for stakeholders may also be action or non-action linked.

2.2.2.1 Action-Linked Incentives

In cases where forestry activities have specific objectives, incentives to motivate these activities are often described as benefits.

Support for sustainable land use and livelihoods: Many forest activities are focused on forest conservation and restoration as a goal in their own right. In these cases, funds from public or donor sources can be used to provide incentives and assistance for sustainable land use and livelihoods. For example, individual landowners may be offered payments for restoring or protecting forest on their land or capacity building to establish agroforestry systems, with a view to relieving pressure on natural forest resources.

Support for forest governance and institutional development: Programs funding REDD+ initiatives can support improved forest governance and institutional development for communities, civil society, and government. The immediate objective of this support may be to ensure the smooth and effective function of the program. The resulting increase in institutional capacity and improved forest governance systems, however, can create an important long-term benefit for forest stakeholders.

2.2.2.2 Non-Action-Linked Incentives

Compensation for opportunity costs: Forest rights holders may have to provide a monetary or nonmonetary transfer to other forest stakeholders (such as local communities) to refrain from an activity or to cover a loss. For example, a government may need to provide a payment to a local community to incentivize them to refrain from their preferred economic activity, which, if carried out, would conflict with achieving the REDD+ objective.

While theory recommends that compensation cover opportunity costs, in reality it is usually a negotiated amount. The exact compensation is usually formalized through an agreement between the party interested in changing ongoing resource management and the stakeholder groups that have rights to the resource and have agreed to adjust their practices. These compensation benefits are often transferred in accordance with the terms of the contractual agreement. For example, a forest conservation project manager may incentivize a local community to stop converting natural forest to cropland by negotiating compensation payments that reflect the value of the land and any additional perceived costs from sacrificing access to the land.

3 WHAT WILL INFLUENCE BENEFIT SHARING ARRANGEMENTS FOR REDD+?

Several important policy questions that would influence benefit sharing in REDD+ remain unresolved at the country level. The questions include what the architecture of REDD+ will be at the country level, how rights to resources will be handled, what the mechanisms for linking benefits and responsibilities will be, and how benefits will be determined and distributed.

3.1 ARCHITECTURE OF REDD+

At the international level, the discussion surrounding REDD+ architecture is whether it should be market based or fund based. The outcome of this question will determine whether the carbon emission reductions will be tradable and in turn influence the revenues of countries implementing REDD+. While of pressing concern at the national level, a more pertinent question is whether REDD+ should be organized at the national or at the subnational level.

Some of the options for REDD+ include the following (Angelsen et al. 2008):

A national approach by which the state claims the carbon credits on the basis of overall national achievements. It would then be the role of the state to redistribute these benefits. Such an approach would allow pursuit of a broad set of policies to address deforestation and forest degradation, address domestic leakage, and create country ownership. In the short to medium term, however, governance requirements make a national approach viable only in a few countries. Furthermore, the suitability of a national mechanism versus a subnational mechanism will depend on the scale of the REDD+ activities and identified beneficiaries.

A subnational or project approach in which individual states or provinces, projects, or groups of projects market/fund their own credits rather than doing so through a comprehensive national system. This approach would allow for early involvement and wide participation of partners and is attractive to private investors. In such arrangements, leakage (increased emissions outside project boundaries) is a major concern, and there are challenges to effectively addressing the broader forces driving deforestation and forest degradation.

A nested approach, which is the most flexible mechanism, as it allows countries to start REDD+ efforts at the subnational level and gradually move to a national approach, or allows for the coexistence of the two approaches in a system where REDD+ credits are generated by projects and governments, thus maximizing the potential of both approaches. A major challenge with the nested approach is harmonization between the two levels.

The architecture underlying REDD+ in a country will influence who may be viewed as legitimate beneficiaries as well as the most suitable mechanism for transferring benefits. At the national level policy changes may result in certain stakeholder groups inadvertently being negatively affected by a proposed policy measure, justifying the need to compensate them for the loss suffered. In a subnational or nested approach, stakeholders may be actively engaged in delivering REDD+, requiring formal recognition of the benefits (payments or other benefits) due to them. In the latter,

the stakeholders may be readily identifiable, while in the former identification of the relevant or legitimate beneficiaries may be more complicated.

3.2 RIGHTS TO FOREST CARBON

For markets to influence behavior and motivate sequestration or reduction of emissions of carbon, it is necessary for laws to make clear who has the right to claim ownership of forest carbon. Rights to forest carbon can determine who has the authority to trade and transfer carbon sequestered or maintained within trees or forests. Some countries have laws that recognize the need to protect forests' environmental services. Few of these laws, however, make explicit mention of ownership over or rights to forest carbon.

Ownership of forest carbon is seemingly straightforward when assumed to be linked to ownership of the forest (or trees). This, however, is not the only possible ownership arrangement of forest carbon. Rosenbaum et al (2004) present several options that fall within two main categories:

- The owner of the property (whether it is land or trees) owns the potential carbon. In such situations, the right to carbon may be (i) an inseparable property right, (ii) an inseparable property right to which a covenant affecting the potential is granted, or (iii) an alienable right.
- The carbon is a public good privately owned, owned by no one, or owned by the national government.

The issue is the separation of rights over carbon from the rights to use the trees and land in which carbon is sequestered. In the above arrangements, the right to the carbon potential may convey separately or jointly with the property.

Australia, at the state level, has developed forestry carbon rights legislation. This legislative scheme presents carbon rights as a right that is separable from the land upon which it is found (Hepburn 2009). Peru's 2000 *Ley Forestal y de Fauna Silvestre* allows the government to grant concessions for ecotourism, conservation, and environmental services subject to regulations under the law (Article 10). Article 2 of the same law has a definition of environmental services that encompasses carbon. The holder of the concession, therefore, could claim credit for any carbon sequestered (Rosenbaum et al. 2004). In Costa Rica, the landowner is also the owner of the carbon right. In countries such as Lao PDR, use rights and the benefits that accrue from use rights can be transferred (these may include the right to carbon); ownership remains with the state.

In some of these same countries, although rights over forest lands and forest resources may be explicit in the constitution or laws, their ownership is contested or has de facto management, and use follows customary systems, for example, Lao PDR, Cambodia, DRC. Such situations raise questions regarding who has the right to benefit from the potential services associated with these resources if the rights are de facto inalienable from the resource. These examples also point to potential challenge to linking rights and benefits.

3.3 MECHANISMS FOR SHARING BENEFITS

The range of possible mechanisms by which benefits could be transferred is vast. Social protection arrangements, concessions in extractive industries, and reforestation funds are a small set of examples using fund and service transfer mechanisms. Several national funds such as conservation

funds, funds for payments for environmental services, and national reforestation funds are all poised to present a channel for sharing benefits and distributing payments from REDD+. The performance of these mechanisms is varied (Barr et al. 2010, Waugh 2010). Some fund transfer mechanisms have suffered from corruption problems whereas others have been effective in delivering services to large numbers of affected groups. At the subnational level, there have been various mechanisms associated with community-based natural resource management approaches, payments for environmental services, and more (Costenbader 2011).

4 IDENTIFYING BENEFICIARIES WHEN CARBON RIGHTS ARE UNCLEAR[3]

The creation of a market in property rights requires clear and secure property rights (Bruce 2012). The basic purpose of carbon ownership laws is to create property rights for carbon that allow carbon trading and to separate these rights from rights to forests and land. Such rights would also define management responsibilities and liabilities. While it is essential that REDD+ efforts address fundamental inadequacies in the legal framework for carbon and carbon bearing resources, this can require significant amounts of time. The emphasis, therefore, is placed on using instruments that allow for REDD+ initiatives to be implemented in situations of legal uncertainty while working toward addressing broader legal constraints. There are various legal instruments that can facilitate operating in an environment of legal uncertainty. One instrument is the promulgation by government of a regulation under an existing law. Another is the use of contracts that can provide the legal basis for local participation in the development of REDD+ initiatives, designation of beneficiaries, and allocation of benefits (Bruce 2012). The focus in this section is on the use of agreements and contracts.

4.1 PLURALISTIC LEGAL ENVIRONMENTS

In most countries, multiple systems of law with different origins coexist. In such legally pluralistic societies, there are a number of bodies of law of nonstate origin that operate at the same time and are often applied at the local level. Examples of these laws include international law; customary law; religious law, such as Islamic law; and project law, which occurs when a project introduces rules that it enforces within the project area.

Customary law is a part of the de facto legal framework in many developing countries. A variety of customary land tenure can coexist in an ethnically diverse country, reflecting both local culture and local land-use patterns. Many of the world's forests and other resources of importance for achieving REDD+ are affected by community claims of customary land tenure rights (for example, DRC, Liberia, Panama). Customary land tenure is most extensive in Africa, where it determines most rural land use and some urban land use. It also is found in substantial areas of Latin America, especially where indigenous peoples are present. Customary land tenure is also found in Southeast Asia, notably in Indonesia and the Philippines, and in numerous Pacific Island nations (Bruce 2012).

While these parallel systems have significant implications for how things happen in practice, many are not recognized by formal legal frameworks. This creates uncertainties with respect to rights in and authority over the resources concerned. There also is poor integration of coexisting land tenure systems, including customary land tenure systems. The often striking gap between the formal legal position and the normative reality on the ground makes effective implementation of REDD+ difficult. These uncertainties create a number of problems, three of which are of major concern:

3 This section of the overview paper draws heavily on findings by Bruce (2012).

- Difficulty in identifying those who should be involved in negotiating the design of REDD+ initiatives
- Challenges in designing benefits that will provide the incentives needed to ensure the support of local communities for REDD+ initiatives
- Conflicts in resolving control of land and forest resources, especially those between central or local government and local communities

As mentioned above, correcting the problems associated with an inadequate legal framework is necessary for achieving the objectives of REDD+.

4.2 IDENTIFYING BENEFICIARIES

The sustainability of REDD+ initiatives requires an adequate determination of local as well as national beneficiaries. This knowledge will be important to prevent conflicts and effectively work within complex situations at the local level. A starting point, however, is that benefit sharing will require engagement with a broad range of stakeholders.

The identification of beneficiaries when rights are unclear should be pragmatic. It should take into account existing property rights and deal with historic claims under custom even where these are not recognized in national law. Identification of beneficiaries should also recognize the existence of potentially illegal interests in income streams from the resource.

Key steps for identifying beneficiaries include the following:

- Developing a tentative understanding of what "legitimacy" means in a given context. The notion of legitimacy should be tied to identifying people whose claims and use of natural resources should be recognized and addressed, as well as people whose incentives need to be changed among the local stakeholders. This would provide a framework for consultations and negotiations with the various stakeholders.
- Identifying beneficiaries in a participatory approach that involves local stakeholders, experts, and government (see box 4.1). This approach would include the following:
  - 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 be made for some time)
  - Identification of communities and other stakeholders and the benefit they derive from the natural resource
- Distinguishing among beneficiaries. Classify the stakeholders and benefits they derive from forests according to 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 as follows:
  - Property or other legal rights (including those who have customary rights recognized by the national law)
  - Customary claims to such rights that are not recognized by national law
  - Established benefit streams from the resource

BOX 4.1. IDENTIFYING BENEFICIARIES

The Makira Forest Protected Area Project in Madagascar aims to avoid deforestation of state forestland. Madagascar has a pluralistic legal environment governing its land. To identify local stakeholders, project planners used information about the communities obtained from a series of socioeconomic assessments, surveys, discussions with community members, and regional workshops.

The consultation process identified three categories of village communities with different proximities to the protected area and different reliance on the forest resources. Other stakeholders included the state.

The project assessment found that within a cluster of villages, village use and stewardship of forests could vary significantly. Also, while the nonforest user communities did not bear costs resulting from the changes in land use imposed by the project, they may be stakeholders. Although there were good reasons to provide some project benefits to nonforest users, project designers wanted to be able to distinguish them from those primary actors who will be required to change their uses of the forest.

Source: Bruce 2012.

In the overall process of identifying beneficiaries there should be a focus on existing benefit streams. Importance should be given to the property rights underlying these streams when planning new benefit streams.

NGOs can play very helpful roles in scoping rights and benefit streams, in advocating for local communities, and in awareness raising and capacity building for local communities and their leadership. Such facilitation by intermediaries is in the immediate interest of the sustainability of the REDD+ activity, and the REDD+ sponsor should be ready to invest in and monitor it. A degree of caution, however, is needed; if too many intermediaries are involved, benefits for those at the community and individual level may be diluted to the point where they become ineffective.

While there is adequate guidance on the use of consultation in beneficiary identification and design of benefit streams, additional guidance is needed on other key elements. The topic of land tenure and land institutions needs greater attention, and as recent guidance has indicated, there is a need to document uses, rights and so on. There has been, in particular, a failure to advise countries of the need for serious early studies, even prior to local consultation and negotiation. The studies should cover both the legal framework for REDD+ and the nature of normative systems governing resource access and use on the ground.

5 DISTRIBUTING BENEFITS[4]

Mechanisms for sharing benefits can involve:

1. The transfer of benefits from the national or subnational level to the local level
2. The transfer of benefits to provide inputs for achieving the objectives of REDD+ or a reward for performance

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

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

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

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

When the scale of a benefit sharing mechanism is taken into consideration alongside the condition that needs to be met for disbursement of benefits, there are four types of benefit-sharing mechanisms (see box 5.1 for examples):

- National input-based arrangements
- Subnational input-based arrangements
- National performance based arrangements
- Subnational performance based arrangements

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

4 This section draws on PwC (2012).

BOX 5.1. FOUR TYPES OF BENEFIT SHARING ARRANGEMENTS

An example of a national input-based arrangement is Cameroon's Redevance Forestière Annuelle (RFA). The RFA is a fee that forestry companies pay to benefit communities throughout the country. The fee is calculated according to the land area of the concession and the amount a company bid to acquire it.

An example of a national performance-based arrangement is Socio Bosque in Ecuador. The national incentive-based conservation program aims to preserve native forests and other native ecosystems, and to increase the well-being of the forest-dependent population. Monitoring of conservation activities is done using GIS and annual field visits by local officials associated with the Ministry of Environment. The results from the monitoring exercise trigger payments.

An example of a subnational input-based arrangement is the Bwindi Mgahinga Conservation Trust (BMCT) in Uganda. This is a conservation endowment trust fund set up under the Uganda Trust Act operating with autonomy from the government. The BMCT was established to support the conservation of biodiversity in two national parks in southwest Uganda.

An example of a subnational performance-based arrangement is Imposto sobre Circulação de Mercadorias e Serviços Ecológico (ICMS-E) in Brazil. Established in Paraná state by the state government, this initiative allocates a percentage of revenue from the state's ICMS-E tax, which is similar to value-added tax, to municipalities on the basis of performance against ecological criteria.

5.1 NATIONAL INPUT-BASED ARRANGEMENTS

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

- Providing a useful mechanism to build REDD+ readiness as both the phase of readiness and capacity building (phase 1) and implementation of policies and measures phase (phase 2) 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).
- Being viable in countries with low capacity for monitoring, reporting, and verification (MRV).

5.2 NATIONAL PERFORMANCE-BASED ARRANGEMENTS

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

- Meeting the requirements for phase 2 and payment for performance phase (phase 3) 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. An additional benefit is 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.

5.3 SUBNATIONAL INPUT-BASED ARRANGEMENTS

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

- Being designed to meet different provincial or state level REDD+ readiness needs.
- Allowing provinces or states to implement demonstration projects to trial 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.

5.4 SUBNATIONAL PERFORMANCE-BASED ARRANGEMENTS

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

- 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+.

5.5 KEY STAKEHOLDERS IN BENEFIT SHARING MECHANISMS

The following stakeholders are central to the functioning of a benefit sharing mechanism:

- **Funders:** The individuals or institutions that provide funding to cover benefit sharing mechanism establishment costs, administrative costs, monitoring costs, benefit payments, and funding expansion and replication.
- **Benefit sharing mechanism beneficiaries:** The individuals or organizations that carry out the action or need to be compensated for losses or costs borne.
- **Managers or administrators:** Those who 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). They continually improve benefit sharing mechanism governance and operations based on monitoring findings; assess long-term impacts of benefit sharing mechanisms; 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 (for example, through collaborative GIS mapping), demonstrate capacity-building and training, and develop public infrastructure for the benefit sharing mechanism partners.
- **Independent verifiers:** Verify monitoring and reporting findings from the fund manager or administrator and provide potential training and capacity-building role for fund manager or administrator, should this be required.

5.6 BUILDING BLOCKS FOR MECHANISMS TO SHARE BENEFITS

Pricewaterhouse Coopers ([PwC] 2012) reviewed twelve benefit sharing mechanisms from a range of countries, including Brazil, Cambodia, Cameroon, Canada, Ecuador, Ethiopia, and Mexico. They identified four building blocks to these benefit sharing mechanisms. The building blocks are as follows:

- Adequate government, civil society, and private sector institutional capacity: This includes the level of institutional capacity across the relevant government, civil society, and private sector organizations that may be involved in the operation of the REDD+ benefit sharing mechanism. Institutional capacity is considered to include human resource capacity; the knowledge, experience levels, and technical skills of personnel within these organizations; the physical presence of these organizations; and the strength of working relationships between these organizations across sectors.
- Appropriate national or subnational legal framework relevant to REDD+: the legal framework includes, among other things, laws, policies, and regulations regarding property rights, land ownership, consultation, access to information, coordination, benefit sharing, and customary rights.
- Strong financial management capacity and experience: This includes the fund management capacity and experience of organizations in the country, anticorruption mechanisms, the strength and extent of fund distribution networks (for example, bank branch networks), existence of third parties with the ability to monitor fund management, and the presence of organizations with experience in providing long-term, risk-tolerant loan financing to rural communities.
- Strong monitoring capacity and experience (especially when implementing performance-based approaches): This includes the presence of organizations with sufficient capacity and experience to monitor national or subnational programs, a demonstrated ability of government to provide frequent and publicly available monitoring reports on environmental spending programs, the ability of government to decentralize monitoring systems to a local level, the use of third-party monitoring agencies in government spending programs, the use of monitoring data to continually improve forest programs and experience in GIS monitoring, and the confirmation of the accuracy of GIS data within the intended benefit sharing mechanism management agency.

When determining the optimal type of benefit sharing mechanism and effective architecture for a particular context, decision makers should assess the presence of the components within each building block in their country. PwC (2012) developed an options assessment framework. This framework is a tool for carrying out such an assessment. The options assessment framework helps decision makers gauge the absence, partial presence or full presence of components associated with each building block. It provides a score for each building block that assists decision makers in determining which benefit sharing mechanism type they could deliver most effectively.

The framework also identifies enabling actions needed to deliver the mechanism type of choice. The framework is designed to be used as an integral component of the REDD+ decision-making and political processes in-country. The application of this framework should be nested in the participatory and consultative processes associated with REDD+ readiness and use inputs from experts drawn from different stakeholder groups both inside and outside of government (for example, civil society and community groups, donors, the private sector).

6 MAKING BENEFIT SHARING WORK[5]

Benefit sharing is found in many forest management arrangements. In national payment for environmental service schemes that promote maintenance and management of forests for hydrological and biodiversity services (for example, in Mexico and Costa Rica), participants are paid based on performance and receive technical assistance. Cameroon and Liberia have concession laws that require concessionaires to allocate a certain portion of their revenues to improving community livelihoods, and there are institutional arrangements in place for implementing this requirement. Subnational benefit sharing arrangements range from project level initiatives to efforts involving the government operating at a local or subnational level. In Brazil, for example, at the state level there is redistribution of revenue among provinces, depending on their performance with regard to generation of environmental services. At the project level, there are many community-based natural resource management and company-community arrangements that include benefit sharing. In joint forest management arrangements, the management plans detail allowed uses and distribution of revenues generated from the sale of timber and nontimber forest products. The agreements between the company and outgrowers often specify how the latter will be remunerated for their production costs and any additional nonmonetary benefits they may be provided with, for example, seeds and technical assistance.

Examining actual benefit sharing arrangements provides useful insights into necessary conditions for effective benefit sharing and potential challenges. Key lessons for effective design and implementation of benefit sharing are presented in this section of the paper.

6.1 DEVELOPING A BASELINE

In the context of REDD+, the term "baseline" is often used to describe the starting point with regard to net carbon emissions. In addition to knowing the carbon baseline, for benefit sharing it is instrumental to have a comprehensive picture of the status quo. Who (individual, community, institution) is using the resource, who is controlling the resource, who has rights to the resource, how are the resources being used, what are the threats to the resource, who has the capacity to carry out specific roles, how do different resource management practices generate the needed environmental services, and so on. Significant analytical work must underpin the development of a benefit sharing mechanism (including the case for sharing benefits). Much of this information can be obtained from ongoing or recently completed studies and consultations that are to be done in association with the broader REDD+ strategy preparation process. Where necessary information is missing, resources and efforts have to be allocated to fill the gap.

5 This section draws on the following studies: Bruce (2012), PwC (2012), Kajembe and Mbeyale (2010a), Kajembe and Mbeyale (2010b), Kajembe and Mbeyale (2010c), Kajembe and Mbeyale (2010d), Nitlapan (2010a), Nitlapan (2010b), Nitlapan (2010c), Nitlapan (2010d), Nsita (2010a), Nsita (2010b), Nsita (2010c), Nsita (2010d).

The baseline should provide a clear understanding of rights, responsibilities, objectives, costs, and potential returns. Among other things, it should help identify the challenges presented by unclear or unrecognized land rights.

Extending beyond this, the baseline should provide information on the legal and institutional context, national objectives, and economic development plans. Such information should be used to align the benefit sharing mechanism with the national strategy, especially national poverty alleviation strategy, in order to galvanize political support. Fitting a benefit sharing arrangement with national economic development plans can assist in scaling up an effective pilot scheme. A clear legal mandate/ framework should underpin benefit sharing arrangements.

6.2 USING EXISTING SYSTEMS

Where there are existing benefit transfer channels or institutional arrangements for benefit sharing, this can provide a good starting point for a new initiative. There are several advantages to building on or working with an existing system that has been tested through practice, including knowing its strengths and shortcomings, keeping transaction costs moderate, and reducing 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.

When designing and delivering new income streams, the management arrangements associated with the system must be carefully established. This requires in-depth understanding of both formal and customary local institutional arrangements and authority structures. The authorities assigned roles in the process must have the legitimacy and competence to effectively carry out the responsibilities. Elite capture of benefits intended for local communities is always a risk and should be prevented to avoid undermining the local incentives to play by the rules regarding use of the forest.

Independent of whether an existing system is considered or new one is created, decision makers should review proposed systems against the four key building blocks mentioned earlier in this overview and detailed in PwC (2012). The options assessment framework (PwC, 2012) facilitates such a review process.

6.3 WORKING WITH PARTNERS AND HAVING CLEAR ROLES

The development and implementation of an effective benefit sharing mechanism requires working with partners who have comparative advantages in key areas. NGOs and other partners can be helpful in the areas of consultation, outreach, and so on. They can be instrumental in enhancing transparency and coordination as well as smooth communication.

As benefit sharing mechanisms in REDD+ will have to involve a range of stakeholders and cover different sectors, engagement of government agencies will be important. Strong cross-ministerial oversight and clarity regarding the roles of each ministry and stakeholder help ensure that all aspects of the mechanism are given due attention (for example, during the design phase of the Socio Bosque Program in Ecuador, the Ministry of Environment and the Ministry of Finance worked together to develop clear roles and responsibilities for implementation of the program). When multiple entities are responsible for a particular aspect, it can result in variable standards and the avoidance of responsibilities.

Clear roles for different institutions (especially governmental institutions) is important to minimize confusion regarding responsibilities (Nitlapan 2010b [Belen]). A confusing institutional context can leave both the local and external partner without straightforward guidance on how benefit sharing or partnerships need to be implemented.

6.4 IMPORTANCE OF CAPACITY

The importance of adequate capacity should not be underestimated in delivering an effective benefit sharing arrangement. Coordination, engaging with diverse stakeholders, consultation, awareness raising and communication, community development, technical assistance, monitoring, financial management, auditing, data analysis, networking, and administration are some of the main areas in which adequate capacity will be indispensable. Resources need to be available to build capacity in these areas among the stakeholders.

There is widespread evidence that benefit sharing mechanisms are most successful where government and other parties working in close collaboration with local stakeholders have sufficient technical forest management, community development and planning capacity, and resources to support beneficiaries effectively. In Mexico the National Forestry Commission (CONAFOR) is the implementation agency for an internationally recognized national performance-based benefit sharing mechanism, the Program for Hydrological Environmental Services (PSAH). As part of this, CONAFOR uses satellite-based monitoring information to track increases or decreases in forest cover and applies its technical forest management capacity to support PSAH participants.

In low-governance and low-monitoring capacity environments, capacity building could be part of the initial benefits that are shared. Similarly, assistance in clarifying land tenure as an early benefit can improve governance conditions. Such benefits would help build up to performance-based benefits later.

6.5 DETERMINING BENEFITS

Measures to share benefits will be more equitable and more effective in creating long-term incentives if they are long-term benefit streams that continue to deliver incentives to support the REDD+ initiative (Bruce 2012). **Benefits should enhance incentives for beneficiaries** to support the REDD+ initiative and may include monetary and nonmonetary rewards such as the following:

- Rights of the affected persons and communities to use the resource are maintained where it is compatible with the REDD+ objective
- Cash, services, or in-kind compensation
- Access to new income streams related to REDD+ implementation
- Security of tenure in the resources concerned or other neighboring resources upon which the affected community rely (Bruce 2012)

Case evidence confirms the importance of working with a range of monetary and nonmonetary benefits and tailoring the benefits to the context. For example, nonmonetary benefits such as recognition of local partners' rights and provision of technical assistance and capacity building are viewed as a key benefit by many local partners. In payment for environmental services (PES) cases from Nicaragua (Nitlapan 2010a) and Tanzania (Kajembe and Mbeyale 2010b) participating households received training in tree planting and farming techniques in addition to monetary payments against

performance. In a benefit sharing arrangement associated with wildlife conservation in Tanzania and a wood bank in Nicaragua, preferential employment opportunities were viewed as benefits. Nonmonetary benefits that create positive options for the future are highly valued by the local partner. Often, the nonmonetary benefits are the justification for why local partners stay engaged in community-based natural resource management (CBNRM) and PES activities when they have low financial gains (Nitlapan 2010a, Kajembe and Mbeyale 2010b, Nsita 2010b).

Providing the appropriate financial benefit can be a challenge. The monetary benefits involved in CBNRM can suffer from two shortcomings: (i) financial benefits did not always cover all the costs, and (ii) disbursements were not always equitable. An illustrative example of the importance of equitable disbursements is a wildlife conservation effort in Tanzania in which communities are involved in protecting wildlife and reducing illegal activities in the protected area (Kajembe and Mbeyale, 2010c). All participating villages receive the same payment from the concession permits issued by their association of villages. Some households, however, are subject to more wildlife damage than others, both within a village and among villages. A notable shortcoming of this mechanism is that the uniform benefit does not compensate for these different levels of damage (Kajembe and Mbeyale 2010c).

The basis for determining appropriate benefits can be wide ranging. Opportunity cost of land (Nitlapan 2010b) or adoption of a land-use practice (Kajembe and Mbeyale 2010b), the marginal cost for changing land use at the farm level (Nitlapan 2010a), the price of wood (Nitlapan 2010c), and the opportunity cost of not using a resource (Kajembe and Mbeyale 2010a) can form the basis for financial payments and other benefits. The basis for the nonmonetary benefits are often not self-evident (Chandrasekharan Behr et al. 2012). Most of the nonmonetary benefits were necessary inputs for implementing the changes in resource management that justified sharing of benefits. Many of these benefits also fostered interest among the local participants and motivated compliance with agreements, as the financial remunerations often occurred after a period of time or were, on occasion, delayed.

Similar to the nonmonetary benefits, it is important to provide payments or access to financing to cover the costs of the upfront investments associated land use changes for a PES scheme. There are examples where money is provided in the form of a baseline payment or payment made upon signature of the contract (Nsita 2010c).

When agreeing to a specific set of benefits the participants (especially the external party) need to carefully assess whether the partnership can sustain the level of agreed benefits if it were to grow in scale and the number of participants were to increase. Often external partners provide considerable benefits when an initiative is first launched. This entices households and communities to get involved. As the popularity of an initiative grows and more households enroll in the initiative, the external partner is unable to maintain the benefits that were provided to the first set of participants. This can create discontent and social tensions due to a certain group of local partners obtaining more benefits than another (Kajembe and Mbeyale 2010b).

Distributional equations for benefit sharing enhance transparency and helps manage expectations (Kajembe and Mbeyale 2010a). The distribution of benefits among stakeholders should be developed jointly with representatives of the beneficiary groups. Equally important are the timing of payments, the measures against which payments are made, and the transparency measures in the process of making the payment. Having criteria against which payments or benefits are provided helps households considering to engage in the initiative make informed decisions. This information also helps manage expectations and allows potential participants to assess the risks associated with the initiative. Furthermore, as a stream of benefits is superior to single payment, the timetable and

actions against which the benefits will be disbursed will help in ensuring compliance with changes in land use that require time to generate net revenues (Nitlapa 2010a, Nsita 2010c).

6.6 USE OF LEGAL AGREEMENTS

Legislation on carbon rights is a legitimate longer term objective. If, however, the formulation of such legislation is not informed by a body of experience implementing REDD+ programs, it can produce awkward results. Major legislation should be viewed as an outcome of pilot work rather than a precondition for such work. A more viable option is initial use of regulations, which are relatively easily revised, to provide direction. It may also be helpful, where appropriate, to take advantage of existing legal frameworks for forestry activities, such as those for CBNRM.

In situations where rights are unclear, the main tool for creating and realizing expectations with regard to benefits is a carefully negotiated and thoroughly understood agreement among the parties involved in REDD+ (see box 6.1 and box 6.2). These agreements are often needed, even in cases in which the law is clear, in order to create a clear shared expectation about process and benefits among the parties (Bruce 2012).

The agreement should be practical and flexible. A number of such agreements may be needed, and transparency is important to prevent later misunderstandings. The principal objective of the agreement is to do the following:

- Identify the resource
- Record the basic intention and fundamental understandings reached
- Record the parties' understanding of the legal position
- Develop a process for handling a situation in which the actual legal position is different from the one recorded

BOX 6.1. USING MULTIPLE LINKED AGREEMENTS

In Ethiopia, the Humbo Community-Managed Natural Regeneration Project (CDM project) aims to reforest state-owned communal forestland. The project is structured around a series of negotiated contracts. The government devolved authority to manage and use the forest resources to community cooperatives. The parties agreed that the cooperatives owned the rights to the sequestered carbon—a position that was consistent with the legal analysis conducted and expressly agreed to by government officials and a government lawyer.

As part of this project, the cooperatives contracted with the project manager, World Vision Ethiopia, to sell World Vision the emission reductions. World Vision, in turn, entered an Emission Reduction Purchase Agreement with the World Bank. The parties also reached agreement that World Vision Ethiopia would transfer its rights and obligations regarding the sale of carbon to a local trust in 2013.

Source: Bruce 2012.

BOX 6.2. WORKING WITH UNCLEAR CARBON RIGHTS

Lack of clear carbon rights did not prevent Ecotrust, a national NGO, from forming a partnership with local communities to sequester carbon. Trees for Global Benefit (TfGB), is a subnational-level PES scheme in Uganda in which households receive payment for carbon sequestered. TfGB is implemented by Ecotrust. In Uganda, the Forests Act defines forest produce as ". . . anything which occurs or grows in a forest . . .," but it does not specify carbon among the items included under the section *forest produce*. Recognizing this, TfGB required that participating households own the land on which they would plant trees in order to participate in the scheme. The terms of the agreement were detailed in a contract.

Source: Nsita 2010b.

Contracts can clearly identify interests to be recognized, specify which uses may continue and what uses must be discontinued, and specify the compensation (whether financial or other) (Bruce 2012). Such contracts can provide a remarkably flexible approach to addressing the issues around legitimate beneficiaries. Contracts can frame incentives for the affected communities in REDD+ initiatives and make enforcement of use restrictions more manageable.

Contracts cannot change the law and must comply with it. Contracts only affect the parties that sign them. Thus, including all interested stakeholder groups in contract negotiation and signing is important. The level of detail and formality may, however, be quite different.

Capacity-building processes for negotiation of benefits must happen very early in the overall process. Capacity building is best delivered by NGOs with a strong commitment to rural livelihoods. Without adequate capacity, local governments and communities may lose control over natural resources, project development, and project outcomes and benefits (Bruce 2012). Sometimes capacity building requires the establishment of a new organizational structure to respond to the capacity gap and strengthen existing institutions (see box 6.3). In other cases, engaging in the negotiation can help build their capacity for future engagement.

If a negotiation process reaches an impasse, the parties involved have to be amenable to adopt a new approach to resolve the problem. Illustrating this point, a watershed protection project in

BOX 6.3. BUILDING CAPACITY THROUGH NEW ORGANIZATIONAL STRUCTURES

The federated system of community forest management groups created in Madagascar's Makira project set up a structure for receipt of general capacity building and site-specific technical assistance while also establishing a knowledge-sharing system among group representatives that allowed for larger scale planning. The project was designed to utilize local government offices for forest use planning and enforcement, helping to integrate the structures and build capacity within the local government for natural resources management.

Source: Wildlife Conservation Society 2008 (as cited by Bruce 2012).

Bolivia that required cooperation of upstream and downstream communities was unable to create the trust between parties through the negotiation process. In order to reach an agreement, the implementing NGO, Fundacion Natura, became a party to the contracts and purchaser of the environmental services (Greiber 2009 as cited by Bruce 2012; Robertson and Wunder 2005 as cited by Bruce 2012). Sticking points could also be addressed with provisions that assign risk in certain circumstances or have the topic relegated to a committee without compromising achievement of a general agreement.

Legal support with contracts and negotiation is needed to help communities identify options for handling potential risks and protect against inequitable agreements. Such legal support (through capacity building and increased information) is best delivered through an established arrangement. In Mozambique, FAO supported the development of the Centro de Formação Jurídica e Judiciária (Centre for Juridical and Judicial Training, CFJJ) within the Ministry of Justice, which actively engages in capacity-building activities, including providing legal assistance to communities exercising their rights to delimit and develop customary land (Tanner 2008 as cited by Bruce 2012).

Agreements can reflect a community's willingness to agree to compromise its own rights in return for certain benefits. In cases in which there are legal uncertainties about ownership of the land or resource of concern, a contract can provide for a fall-back solution. In such cases, the contract documents the parties' assumptions about ownership and other rights. It also acknowledges that the assumptions may be clarified as other events transpire. Should the assumptions turn out to be wrong, the contract specifies what measures will be taken (Bruce 2012).

While agreements can help establish benefit sharing with local partners whose rights are not fully defined, it can result in parties that are not part of the contract challenging the powers granted to the local partner. In such cases, nested contracts may be helpful. This can create a web of agreements. To avoid confusion, clarity regarding the responsibilities and rights of each of the parties is important.

Local participation in the development of the agreement and local perception of the agreement as legitimate is, in some cases, more important than its legal elegance. Having buy-in from the local level can facilitate the enforceability of the contract (World Bank 2009).

6.7 THE IMPORTANCE OF PROCESS

The case studies from Nicaragua, Tanzania, and Uganda revealed that process elements[6] play an important role in the establishment and effective implementation of benefit sharing arrangements. Process elements need to be taken into account independent of the partnership objective, the country context, and the characteristics of the external investor and local partner. These factors are important for a range of reasons:

- Recording the obligations and rights of the parties involved in some formal, comprehensible, and legally enforceable way helps ensure that the arrangement was considered legally valid.

6 World Bank (2009) drew on the literature of negotiation, dispute resolution, and expert opinion, and identified twelve key process elements. These include having an agreement that is legally valid; making sure that the terms of the arrangement are fully bargained; the partners demonstrating mutual respect; the partners having common expectation; the partners having similar understanding about what is expected of them; the partners joining freely, exercising self-determination; the partners trusting one another; having a practical arrangement; having a means to verify efforts to meet partnership obligations; the partners maintaining good communication; the arrangement addressing any past history of conflict between the partners; the arrangement providing incentives to the parties involved; having leadership and conflict resolution.

- Facilitating negotiation among the stakeholders helps all the actors involved fully understand what each group expects. It also ensures that the agreement reflects obligations and rights with which all parties involved are comfortable and agreeable. A fully bargained arrangement can be extremely important when the local participants feel they do not have an influential voice.
- Verifying compliance with an agreement can provide reassurances to a value investor who is interested in making a return on the investment, independent of whether the partnership involved performance-based or input-based payments.
- Fostering trust, mutual respect,[7] and shared expectations[8] can generate support among local stakeholders who have few alternatives to the proposed arrangement.
- Communicating in an effective manner by using appropriate channels can increase awareness and public engagement in the process.
- Having leadership present at the local level to inform local partners and assist them in understanding the proposed arrangement can stimulate local involvement especially when power dynamics within the community and among the community and external partners is uneven.
- Ensuring flexibility in the benefit sharing mechanism and transparency in how financial matters are handled can help respond to local needs.
- Exploring the different interest and objectives of the local and external parties involved in benefit sharing can reinforce trust.
- Carefully defining the concept of success, especially when the preconditions for partnerships with private investors are not good[9] can help integrate different perspectives regarding a successful arrangement. It may be necessary for the external partner to accept a notion of success that is more than an abstract concept of profitability.

No single process element or set of process elements can be identified as both necessary and sufficient for a lasting and effective benefit sharing arrangement. Partnerships with benefit sharing arrangements that were locally perceived as successful were those that undertook processes that emphasized process elements the local partner considered to be important. When important process elements were disregarded, the resulting partnership and benefit sharing arrangement were susceptible to not delivering the intended objective, whether an environmental outcome, sustainable development, or something else.

An external partner should presume at the outset that any of the process elements could prove critical to the success of the partnership. The partner should also set in place an appropriate mechanism to track performance against these elements that includes inputs from the local partner. This will help reduce the risk of potential process failures.

Good process also helps reduce risks inherent in proceeding in a legal environment where rights to forest lands and forest carbon are uncertain and multiple stakeholders have significant and

7 Mutual respect refers to the sides being able to deal with each other respectfully and considering no side inferior to another or under the control of another (World Bank 2009).

8 Shared expectations of the project entails each side knowing what is required from all parties in the agreement (World Bank 2009).

9 That is the local partners have been involved in arrangements with private investors that have not resulted in the promised development gains and sustainable resource use.

often competing interests. The processes of creating, supporting, and enforcing the relationships necessary to implement REDD+ strategies and programs will help create a foundation of certainty and predictability. Process elements that underpin 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 (Bruce 2012).

6.8 MINIMIZING TRANSACTION COST

Working with local partners that are well organized can facilitate establishing effective benefit sharing arrangements. High levels of organization can often mean that the local partners have institutional arrangements that the external partner should work with. The degree to which the local partner is organized can also assist in generating trust and shared expectations regarding the partnerships (Nitlapan 2010a). In the central region of Nicaragua, an effort to introduce sustainable agrosilvopastoral systems through payment for biodiversity and carbon services formed an important alliance with local groups (both local faith-based and political groups). These networks assisted the implementing entity to build farmers' confidence in the scheme and to take the risk associated with modifying their land use practice (Nitlapan 2010a). The local organizations, however, should not reinforce existing inequities or lead to elite capture.

There also are ways to minimize financial transaction costs in benefit sharing arrangements. An example is for the provider of financial benefits to have the ability to directly transfer funds directly to the beneficiaries' accounts. This reduces misappropriations and costs. For example, the administration team of the Socio Bosque program in Ecuador made an agreement with a national bank to streamline the process for establishing beneficiary bank accounts. The scheme enabled participants to establish a bank account in the community's name upon presentation of legal documents, without the usual requirement of an up-front deposit and with reduced transaction costs incurred on incoming performance-based payments. In such situations information and communication technology (ICT) can help enhance transparency and accountability (see box 6.4).

Adoption of a practical mechanism for transferring financial benefits is as important as minimizing the number of intermediaries. In Nicaragua, the Tasbaiki Wood Bank is a partnership between private furniture makers and communities managing forests. The communities provide certified timber to the wood bank, which is accessed by registered buyers. The communities receive payment for the timber and a share of the wood bank's revenues. In this case, the communities needed to travel a notable distance to obtain their payments and had to provide information that forced them to return to the community without the payments. The resultant delays in obtaining payments negatively affected the operation and weakened the effectiveness of the benefit sharing mechanism (Nitlapan 2010c).

6.9 MONITORING BENEFIT SHARING

For performance-based benefit sharing mechanisms, a clear and strong link between monitoring and payment is important. Equally important are clear criteria against which payments are made and the consequence when there is infringement of the conditions of a program. Simplicity in determining performance (i.e., criteria for payment), monitoring, and making benefit transfers helps with public understanding of the mechanism.

BOX 6.4. EXAMPLES OF TECHNOLOGICAL CHANGES THAT CAN MAKE BENEFIT SHARING MORE EFFICIENT

All benefits sharing systems need to be cost-efficient, transparent, and promote accountability. One way to meet these objectives is to use modern information and communication technologies (ICT). In recent years, mobile phones have become almost ubiquitous also in rural settings. In addition, Internet access has improved exponentially and costs have come down. This has happened same time with improved availability of earth observation, remote sensing and other geo-referenced information. All this allow for building applications that help building affordable, efficient, and easy-to-use ICT applications for benefit sharing.

Once carbon payments are shared with beneficiaries the transactions costs need to be minimized. It is likely that individual payments will be small and therefore it is essential that transfer mechanisms are efficient. Mobile banking systems, like M-Pesa in Kenya, can be used as an example of delivery mechanism. It is a platform for making small value electronic payments using mobile phones. Although M-Pesa customers earn no interest on the balances in their accounts, many use them to build small amounts of savings. Since its inception in March 2007, M-Pesa has attracted 9.5 million customers—over 40 percent of Kenya's adult population. The service is meeting the need for secure, low-cost money transfer.

Exponential increase in access to technology has made it feasible to design ICT applications for REDD+ benefits sharing. At the same time, it is of vital importance to ensure that the systems are adapted to local conditions and accessible to all stakeholders. For example, this may require developing different language versions or applications that cater for illiterate clientele. This often requires that multiple platforms be used to disseminate information (e.g., using also community radio) and that both government officials and civil society organizations facilitate the use of technology.

Sources: Castrén and Pillai 2011.

Monitoring associated with PES systems that involve changes in land-use management can range from considering which specific land-use practice is adopted and extent of adoption to measuring the area under recommended land-use practices. The payment associated with the change can range from a simple opportunity cost of land to estimating actual cost of adopting new practices. There are trade-offs between a sophisticated and a simple basis for determining payment. Incentive to engage is often greater in the sophisticated system, but there are greater costs associated with monitoring. In the simple system, monitoring is straightforward, but participants will often fulfill the minimum requirement to receive payment (Nitlapan 2010a, Nitlapan 2010b).

In relatively sophisticated monitoring systems, the engagement of a trusted third party, such as an NGO, can be important (Nitlapan 2010a, Kajembe and Mbeyale 2010b). The third party helps with transparency by overseeing the system. In Tanzania, a payment for water services scheme in the Uluguru mountains required NGO involvement in overseeing the distribution of financial benefits per the agreement between the local parties and external partners (Kajembe and Mbeyale 2010b).

An approach to monitoring performance that is implementable and accessible to the partners is will enhance effectiveness (see box 6.5). If, however, the simplicity of the system is not able to assess

BOX 6.5. USING ICT TO DEVELOP A TRUSTED MONITORING SYSTEM

Participatory mapping and REDD+ monitoring allow for efficient data collection and carbon monitoring. These systems can be very cost efficient and engage with local forest users in a way previous centrally controlled systems could not. Participatory mapping systems like Moabi developed by WWF and used in DRC allow people to combine their own data collection with remote sensing data. Complied data is then made available online in map applications. Data collection can also be done by using simple cell phone applications as has been done in Kenya for social services. There are also examples from Kenya and Ethiopia where farmers can report tree growth in their farms by using cell phones.

Source: Castrén and Pillai 2011.

leakage, it will be important to have an associated monitoring system that can capture any leakage that is occurring. The monitoring system should help identify how modification in either the existing arrangement or creation of a new arrangement may be needed to minimize the leakage.

Another aspect of monitoring is to safeguard against mismanagement of funds or misappropriation to prevent inequitable benefit allocation. Using a public or private third-party fund manager to manage the financial resources can provide confidence to financiers of the fund that it will be well managed and financially sustainable. Use of third-party monitoring and an audit organization can encourage good governance, transparency, and better financial controls.

Social audits also are important to ensure that benefit sharing arrangements are not being captured by the more powerful members of the local partner group. Social audits should be applied to all types of benefit sharing mechanisms.

7 CONCLUSION

Benefit sharing translates REDD+ strategies and carbon revenue into broader development gains. Benefit sharing determines who gains, who bears costs, and how the incentives are distributed among actors involved in REDD+ initiatives. Engagement of all key beneficiaries in the design of the benefit sharing mechanism and appropriate and effective distribution of benefits will mitigate any potential conflicts over resources.

Benefit sharing arrangements must take into account the realities on the ground that can add unanticipated challenges to sharing benefits. Some key considerations to delivering such an arrangement include the following:

- Understanding who should benefit from REDD+ initiatives when rights to carbon are unclear
- Establishing a streamlined and well-monitored mechanism for transferring funds that are received at the national (or subnational) level to the local level
- Working with well-functioning local institutions
- Preventing elite capture
- Measuring how carbon emissions have changed compared to the baseline

This paper summarizes practical guidance for developing and implementing a benefit sharing arrangement that internalizes national and local realities. Some of the measures are short-term fixes (for example, using contracts to work in situations where rights are unclear or inequities are pronounced) while others require significant investment (for example, building the capacity of stakeholders to monitor actions that trigger benefits). These measures, however, should not obscure the need to achieve longer term objectives of clear and secure rights and a permanent approach to including vulnerable forest-dependent communities into REDD+ efforts. Achieving the longer term goals will improving broader governance in a country.

As the actual experience with REDD+ and related efforts is still relatively thin, it is difficult to generalize regarding the adequate approaches to beneficiary identification and optimal mechanisms for determining and sharing benefits. The guidance provided in this overview paper and the associated studies (Bruce 2012, PwC 2012, Chandrasekharan Behr et al. 2012) should be used with complete understanding that getting benefit sharing right will require learning. It will also require investing in a political process as much as developing the technical basis sharing benefits. Navigating the political economy of a country and adapting benefit sharing arrangements over time will be important in developing and implementing effective benefit sharing. Development partners should promote the careful monitoring of patterns of beneficiary identification, benefit allocation, and management of benefits, and the impacts of the various approaches employed on the effectiveness and sustainability of various REDD+ efforts.

REDD+ initiatives are bound to create new opportunities and benefits. They, however, will also have indirect and less-tangible economic and sociopolitical implications. Benefit sharing enables stakeholders to capitalize on the opportunities created by REDD+. Whether in forest-rich countries or countries with heavily degraded forests, getting benefit sharing right will underpin the permanence of REDD+ efforts.

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