BENEFIT SHARING IN REDD+

POLICY NOTE

This brief summarizes a longer paper. Pescett, L. 2011. Benefit sharing in REDD+: Exploring the implications for poor and vulnerable people. World Bank and REDD-net.

Cover photo by Curt Carnemark

International policies to reduce carbon emissions from deforestation and degradation (REDD+) envisage the creation of financial incentive mechanisms that reward forest protection efforts and adequately compensate those actors that face new costs. In order for REDD+ to achieve these objectives, effective benefit sharing systems will need to be implemented. While most countries acknowledge the importance of benefit sharing, they are only just beginning the process of defining how the sharing of benefits in REDD+ may work. There are numerous approaches which differ depending on the actors involved, the benefits being shared and how systems are governed. Drawing on experience from emerging REDD+ approaches and from existing benefit sharing schemes in development policy, this policy note outlines the different components of benefit sharing systems and considers their implications for poor people.

Photo by Scott Wallace

What is 'benefit sharing'?

Benefit sharing is usually used in the context of REDD+ to refer to how financial incentives transferred from international funds or carbon markets are shared between actors within recipient countries. This raises questions surrounding exactly what is being shared; which actors the benefits are being shared between; and as a cross-cutting issue, the formal and informal rules that govern benefit sharing between actors.

Types of benefits

From an economic standpoint, the main categories of revenues that could be shared in REDD+ schemes, include:

1. **Compensation of opportunity costs:** Opportunity costs are equal to the value of the next most profitable land use.
2. **Funding for productive activities:** These are the funds used to support the implementation of productive activities that store carbon.
3. **REDD+ 'rent':** This represents the difference between the cost of implementing REDD+ (opportunity cost plus the funding needed to implement policies) and the average global carbon price at which emissions reductions credits from REDD+ could be sold.

Strictly speaking, the rent is the 'benefit' in REDD+ that needs to be shared, as it represents revenue which is not tied to compensation or any productive activities. However, given that there is still considerable debate about what types of opportunity costs should be covered in REDD+ and the types of activities that could be financed, we use a broader definition of benefit sharing to refer to the allocation of revenues used to finance REDD+.

Actors

In order to understand the implications of benefit sharing systems in REDD+ it is important to understand who the actors involved are—i.e., who are the benefits shared between and who is eligible to receive benefits? It is also important to understand what role different actors play in benefit sharing systems, for example in terms of who is making decisions about how sharing occurs.

At the national level, different actors will need to perform a range of functions linked to benefit sharing. Institutions such as national funding and monitoring agencies have been proposed in various studies and are being established in some countries, which will incur costs. Governments may also be eligible for to receive financial benefits from REDD+.

Actors at the local level could include local governments, private landowners, community groups, or individuals. Depending on how REDD+ is designed, poorer or more vulnerable individuals and groups could participate in REDD+ and receive direct financial benefits. However, these actors may be less able to participate because they are purposefully excluded by more powerful actors, lack assets, have fewer rights or are unable to influence how benefits from REDD+ are distributed.

Rules

Rules govern how benefits are shared between different actors, and therefore cross-cut the two aspects of benefit sharing discussed above.

Rules can be formal or informal and they frequently overlap in countries where REDD+ will be implemented. This means that actors will have different interpretations of how benefits should be shared, which could lead to conflict. Different sets of rules may also operate at national and local levels. At the national level, existing legislation and new rules (e.g., defining revenue sharing) will probably be one of the most fundamental determinants of how benefits from REDD+ are distributed. National rules will have some influence over benefit sharing at local levels, but additional rules will determine benefit sharing within communities (e.g., village level governance structures; and customary land management systems).

Benefit sharing in evolving REDD+ approaches

While benefit sharing systems do not yet exist for most REDD+ programmes and projects, emerging systems give some insights into how benefits may reach local levels. Two main approaches can be defined, although there is considerable variation within these categories:

1. 'National' approaches with benefits devolved by national governments either to communities as a whole (often through infrastructure investments), community groups (e.g., in Nepal and Tanzania) or individuals (e.g., in Costa Rica).
2. 'Project' approaches, where benefits can also be transferred to whole communities, community groups or individuals.

A third and much broader category relates to the distribution of benefits and costs as a result of large-scale policy reforms (e.g., the removal of certain subsidies). These are not the focus of this paper, but will need to be considered in the design of national REDD+ schemes.

Figure 1 outlines the actors, benefit flows and rules involved in the first two categories.

REDD+ benefit sharing schemes: implications for the poor

Actors and their eligibility to access benefits

One of the main factors governing benefit flows surrounds which actors are eligible for, and able to access, REDD+ benefits. There are many different factors which govern eligibility and access:

Land tenure: The implications of land tenure security for the ability of different actors to benefit from REDD+ will vary with context, and also depend on how REDD+ is implemented. For example, considerable progress has been made on securing rights to land and forest resources for certain indigenous groups in Brazil, which could increase the potential for direct benefits from REDD+ through selling emissions reductions (as envisaged by draft regulations). Land tenure security may not be essential for the establishment of national REDD+ schemes, but benefit sharing would then rely on successful negotiation between actors at local and national

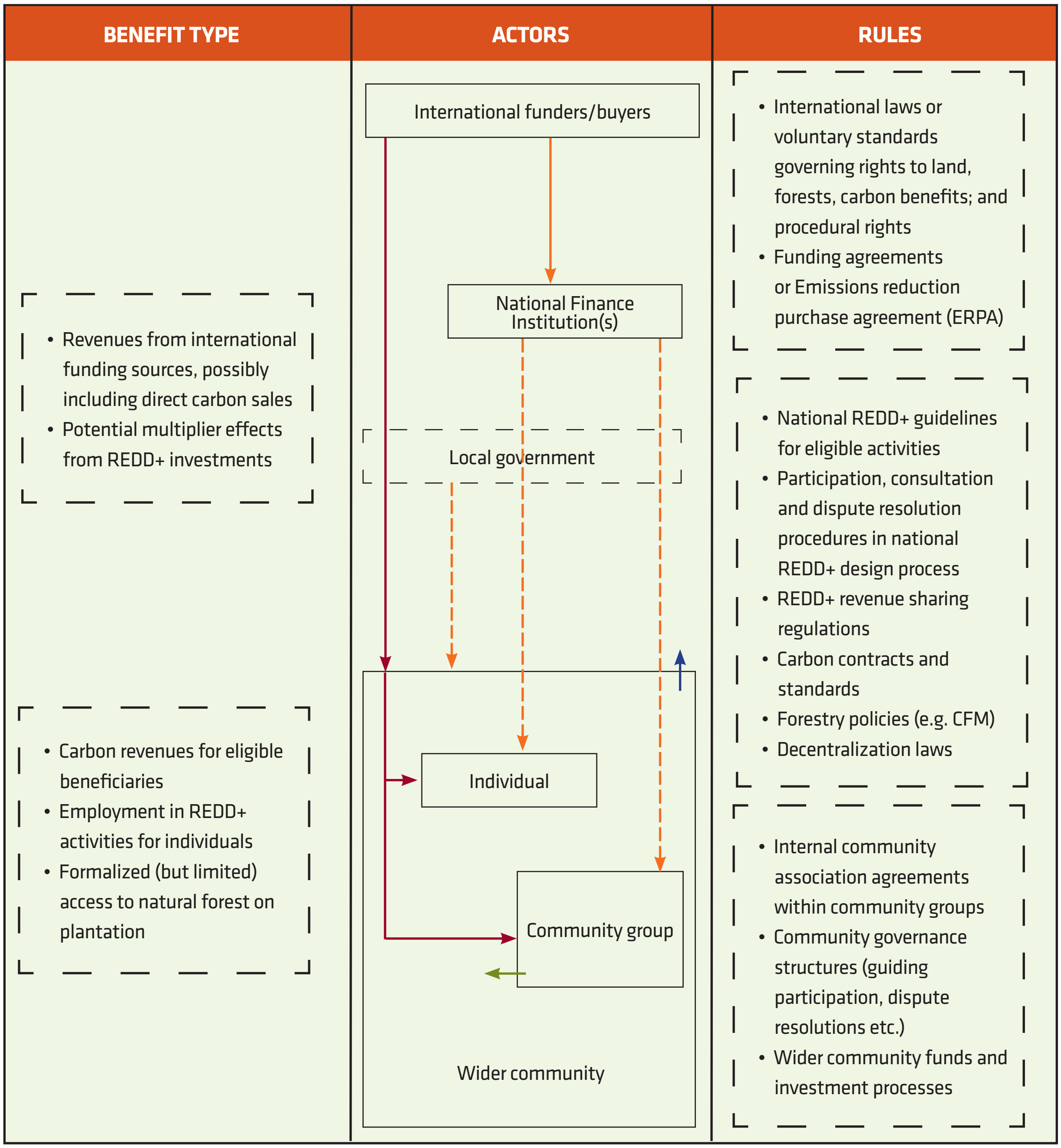

FIGURE 1: Stylized schematic diagram of benefit sharing in REDD+ systems and the relationships between types of benefits, actors and rules, based on examples of existing or evolving national and project approaches. Arrows depict (financial) benefit flows in these systems. Orange arrows represent a 'national' REDD+ system, with benefits devolved by national governments. Red arrows represent 'project' investments by international actors, which can also be made to communities, community groups or individuals. The green arrow illustrates cases where some sharing of financial benefits is made between community groups and the wider community and the blue arrow highlights the reality of the wider distribution of benefits and costs beyond communities.

levels, and adequate implementation of systems to share benefits. Considerable effort will need to be put into getting such processes right—lessons from many existing benefit sharing systems and reform processes indicate that poor and vulnerable groups are often excluded or subject to new risks due to poor design or implementation.

Carbon rights: Carbon can be considered as a new form of property in forest ecosystems that has potential value because of the creation of new markets and funds aimed at reducing carbon emissions or enhancing removals. Determining who owns carbon as property and the responsibilities associated with the transfer of rights to carbon, is therefore crucial in terms of understanding which actors are eligible to benefit. The new financial value attached to carbon could incentivize more powerful actors (whether at national or local levels) to claim carbon rights. In most countries, carbon rights are likely to be attached to tree or land ownership, which would make it difficult for landless people to participate directly in REDD+. As a new asset, sequestered carbon in forests needs to be protected, which could also lead to greater restrictions on land use and/or higher costs for participation.

Socio-economic eligibility criteria such as means testing and self targeting could be used in REDD+ to increase the participation of poor and vulnerable groups. For example, national cash transfer programs targeting women beneficiaries have led to more equal redistribution of income and increased autonomy. However, negative outcomes such as increased workload as a result of obtaining payments or increased household conflict, need to be considered. There are also risks of exclusion errors (i.e., targeting the 'ultra poor' can result in them leapfrogging more wealthy households), and targeting being captured for political gains (e.g., by including less poor households to meet policy targets in poverty reduction).

Types of benefits

Scale of financial benefits

REDD+ finance could potentially make a significant contribution to local incomes, depending on the scale of international funds mobilized and/or future carbon prices. However, if the scale of benefits is too small it is unlikely that REDD+ will make a significant contribution to poverty reduction or growth. Opportunity costs may not represent the real costs for different actors. This could present risks for the poor, particularly if they are bound into long term contracts with those funding REDD+ activities. Participants may have little say when negotiating prices which could cause problems where people have little financial information about the activities they are engaged in. This could be particularly challenging for the forest dependent poor who may be less likely to be participants in market systems. Unforeseen costs and distributing liabilities need to be factored into design - evidence from existing carbon forestry schemes highlights unexpected costs that can arise during implementation. Determining who is liable and how these can be managed will be important in order to reduce vulnerability.

Scheduling of Benefits

The way that benefits are shared over time also has important implications for poor people engaging in REDD+ and the sustainability of schemes. The scheduling of benefit flows (i.e., when the first benefits are allocated and how frequently) is important because REDD+ activities are likely to require upfront capital in order for actors to participate, whereas many of the financial benefits may come after emissions reductions have been verified (which could be around five years after schemes have commenced). The variability in the scale of benefits through time also needs to be considered as it could leave people vulnerable to shocks—for example, research from cash transfer schemes suggests that when transfers do not arrive when expected, households often have to take credit and lose a proportion of their transfer in debt payment when it eventually arrives. Finally, the duration over which benefits are allocated is also important, and the trade-offs between long and short timeframes will need to be considered. The long timeframe of REDD+ could be beneficial for poor people as it could reduce uncertainty, but it could also reduce flexibility to respond to long term changes. Shorter timescales may not be sufficient for providing communities with long term management incentives and raise questions about what happens when benefit flows come to an end, especially if behaviors have shifted over the period.

Rules affecting the governance of benefit sharing schemes

In addition to rules which affect the eligibility of different actors to participate in REDD+ and the scale and delivery of benefits they receive, there are rules that have a more general influence over the governance of benefit sharing systems. These have been covered in detail in recent studies so are covered only briefly here:

Participation in decision making and implementation processes: Effective participation is likely to require the recognition of principles relating to the recognition of both substantive (e.g., rights to land and forests) and procedural rights (e.g., rights to consultation). These could be promoted through an international REDD+ agreement; through links to existing international laws (e.g., on the rights of indigenous peoples); and through national procedures. At the national level, participation is generally being promoted through approaches such as the formation of national REDD+ working groups and consultation processes around REDD+. The effectiveness of these processes in practice, in terms of how well they represent the interests of the poor, has been little tested for REDD+ and in some cases appears relatively tokenistic. There are certainly many cases of benefit sharing systems failing because decision making and implementation is dominated by elites, is highly politicized or lacks accountability.

Transparency of decision making and implementation processes: Enhancing transparency will be an important aspect of ensuring that benefits from REDD+ reach poor people. At the national level, this will include processes such as enhanced citizen and parliamentary oversight, clear guidelines on expenditure and the public disclosure of external audits. At local levels, transparency can be enhanced through improving access to information about REDD+ before projects begin and throughout their lifetime.

Dispute resolution: Dispute resolution can help people to defend their rights in REDD+. Mechanisms already exist which can be applied to REDD+, such as the World Bank's Inspection Panel and Compliance Advisor Ombudsman (CAO) and the Forest Stewardship Council Dispute Resolution system. However, dispute resolution procedures can entail considerable additional costs in terms of time and finance, although the cost of taking no action might be higher in the long term. One of the key requirements for effective dispute resolution is ensuring awareness of and access to dispute resolution mechanisms, through investments in national or local legal institutions, or the provision of mechanisms by applying standards.

Assessment and evaluation procedures can help ensure appropriate and agreed levels of benefits are delivered. A number of the Readiness Preparation Proposals (RPPs) make specific reference to institutions to monitor benefit sharing systems (e.g., Madagascar) at national level, although details have not been worked out in most countries. At the local level, participatory monitoring has become an important theme in the REDD+ debate - involving local communities in monitoring and verification processes can be both effective and efficient, although if not carefully managed it can be exclusionary to poorer or more vulnerable groups. Third party verifiers that are required in existing carbon forestry projects may play a key role in assessing the social impacts of REDD+ schemes, although this could require increased resources in order to develop and implement procedures and train verifiers in such approaches.

Conclusions

Benefit sharing in REDD+ could take a wide variety of forms depending on the policies used to achieve REDD+ objectives. However, common to all approaches is the need for clear processes to determine actors' eligibility, the scale of benefits (and costs) and the governance arrangements. While many of the general concerns about benefit sharing within communities are widely referenced (e.g., elite capture), relatively less is known about how benefits are actually shared within communities and the implications in terms of economic opportunities, empowerment and vulnerability. There is also surprisingly little empirical evidence on the implications of different benefit sharing approaches for the poor in the different examples reviewed; for example, in terms of questions about whether benefits have actually compensated people adequately, helped to lift people out of poverty or deal with temporary shocks. These issues need to be much better understood within emerging REDD+ projects and programs, which in many cases have an objective to benefit those affected by REDD+ implementation.

REDD net

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