

An Approach to Designing Pro-Poor Local REDD+ Benefit Distribution Systems: Lessons from Vietnam

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Table of Contents

	Page
List of Tables, Boxes, and Figures	i
1 The Approach	1
2 Defining Beneficiaries: Who is Eligible for REDD+ Benefits?	4
3 Benefit Characteristics: Engaging the Poor, Linking Payments to Performance & Governance	6
3.1 How to engage the poor in BDS decisions	6
3.2 The role for participation incentives	9
3.3 Linking benefits to performance	10
3.4 Governance of Local Funds	13
4 Monitoring: Performance, Benefit Delivery and Local Engagement in Recourse Mechanisms	16
4.1 Monitoring performance	16
4.2 Monitoring benefit delivery	16
4.3 Locally representative recourse mechanisms	17
5 Transparency: Minimising the Risk of Corruption at the Local Level	19
6 Conclusions	22
7 References	23

List of Tables, Boxes and Figures

	Page
Table 1 Characteristics of participation and performance payments for REDD+	9
Table 2 Risks in delivering co-benefits through the BDS	13
Table 3 Corruption risks in the self-selection of REDD+ benefits	21
Box 1 Guiding principles for pro-poor BDS	1
Box 2 Cash and in-kind benefit distribution	8
Box 3 Addressing the key issue of timing: community forestry projects in Vietnam (KfW experience)	12
Box 4 Using payment coefficients for REDD+ co-benefits in Vietnam	12
Box 5 Comparison of 2 different fund modalities from 3 programs in Cambodia	15
Figure 1 Simplified four-tiered format of the BDS, including the 'local level'	2
Figure 2 The pro-poor BDS approach and links to the five key principles	3
Figure 3 A process for determining REDD+ beneficiaries (adapted from PwC 2012)	4
Figure 4 Principle steps taken by SNV in conducting a hypothetical scenario of REDD+ to illicit benefit preferences from local actors	6
Figure 5 Sum total of the value of different benefit choices	7
Figure 6 Example of the divergent impacts of proxy measures on pro-poor REDD	11
Figure 7 Principles for the design of appropriate local-level recourse mechanisms or REDD+	18
Figure 8 Steps to addressing local-level corruption risks for REDD+	20

Well designed and targeted local Benefit Distribution Systems (BDS) will be vital to the success of Reducing Emissions from Deforestation and Forest Degradation (REDD+) (Peskest 2011; Clements et al 2009, Costenbader 2011; IUCN 2009). Conversely, experience has shown that a weakly designed BDS will undermine the incentives for actors and increase the risk of non-compliance (PwC 2012).

Under a national REDD+ mechanism, funds will need to be channelled down through a number of different tiers of government, requiring a BDS system at each level (see *Figure 1*). These funds will be derived from a range of different international sources such as voluntary and compliance carbon markets, international aid and bilateral partnerships as part of broader global efforts to reduce greenhouse gas emissions associated with deforestation and forest degradation. The approach outlined in this manual is most relevant for local level BDS, though is of interest across all tiers. Local actors at this level are also broadly defined as the final beneficiary 'unit', and could include individuals, households, forest companies, national park authorities, forest management boards and others either directly, or indirectly, involved in REDD+ activities.

SNV has designed the following approach based on its experience in Vietnam. The aim is to provide lessons for the future development of effective BDS in Vietnam and for practitioners introducing REDD+ in other countries, and will be refined and improved over time as more experiences from REDD+ emerge. It is based on a number of guiding principles which are deemed crucial to the delivery of pro-poor REDD+. These have been adapted from the literature and fitted to the Vietnamese context (see *Box 1*).

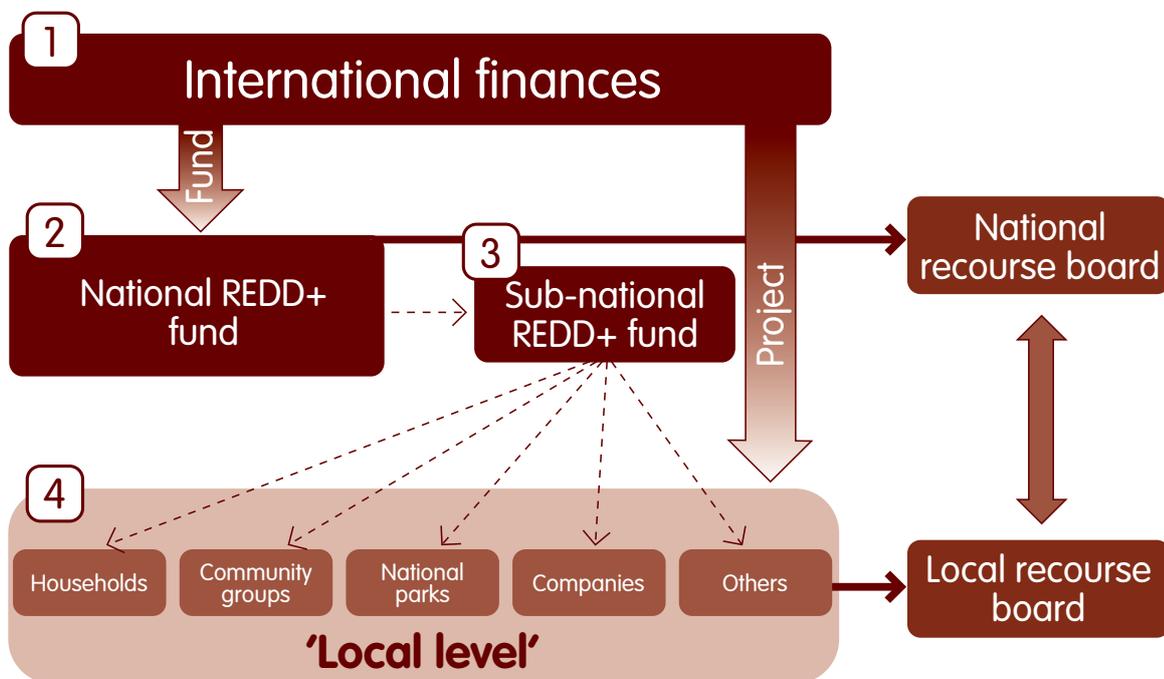
Box 1 Guiding principles for pro-poor BDS

A 'pro-poor' approach has been defined in a range of different ways in the context of REDD+, other payments for ecosystem service systems and pro-poor development (see Mohammed 2011; Pernia 2003; Lindhjem et al 2010 and Pagiola 2007). Here we consider 'pro-poor BDS' as being guided by five key principles;

1. The inclusion of stakeholders in decisions around benefit types, timing and distribution methods, recognizing their individual and collective identities.
2. Promoting cost-effective distribution methods, efficiency and transparency.
3. REDD+ has a net positive effect on poorer stakeholders involved in REDD+ activities and promotes sustainable livelihoods.
4. REDD+ benefits are shared in accordance with considerations of distributional justice, equity, equality and need.
5. Local BDS mechanisms should be compatible with existing government arrangements where appropriate.



Figure 1 Simplified four-tiered format of the BDS, including the 'local level'



Where:

1. International finances could be a mix of donor support, bilateral aid, or finances from both voluntary and compliance markets.
2. A fund at the national level will be required to act as a transfer point for international finances for REDD+.
3. Sub-national funds will be necessary to administer REDD+ finances down to the point at which activities are occurring. For Vietnam, these are likely to use existing provincial level Forest Protection Development Funds.
4. Defined here as the 'local level'. At this point, finances could be transferred as different forms of 'benefits' such as in-kind benefits as well as cash.

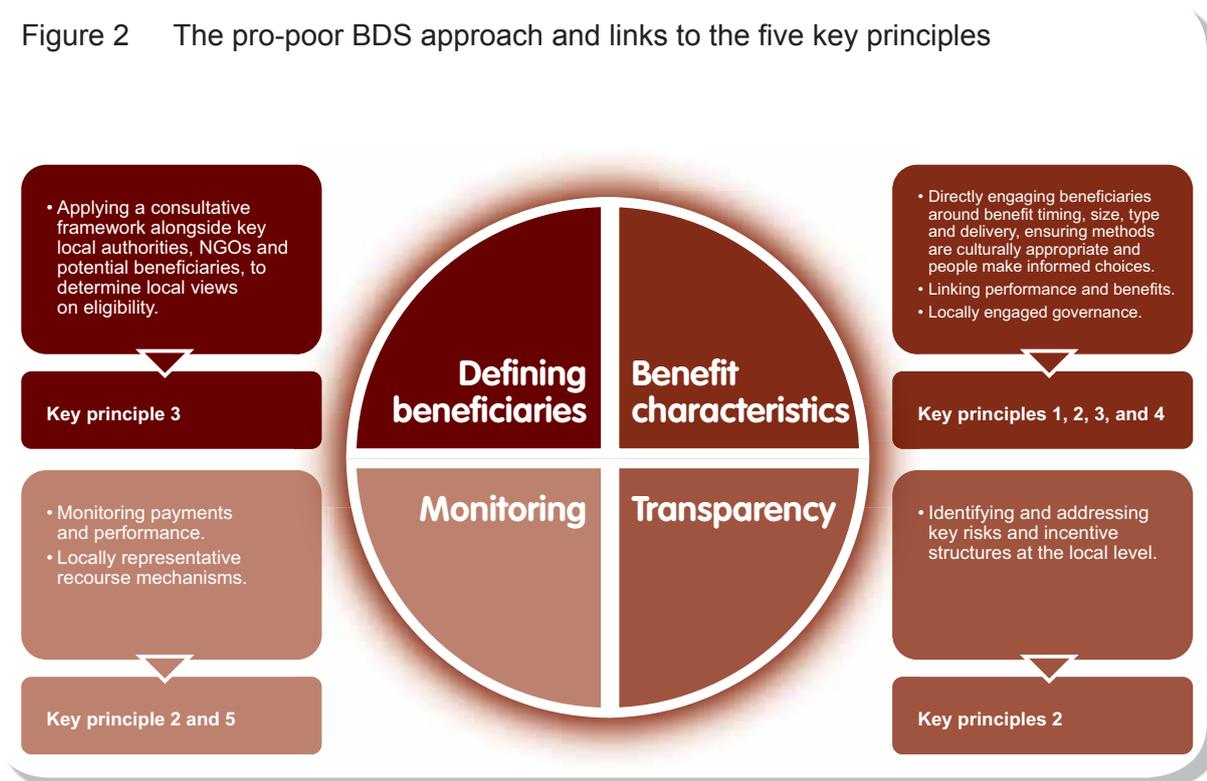
Two types of benefit flows are illustrated

- a. **Fund** approach: would see international finances pass through national and sub-national systems before being delivered as different types of benefits to local actors.
- b. **Project** approach: flows of benefits directly from international sources, straight down to the sub-national level for distribution. This flow represents REDD+ benefit flows that may occur in the interim period in which national BDS structures are being put in place, and where REDD+ activities in a country comprise a multitude of individual projects.

The approach is an iterative process that follows four basic steps, which are summarised in *Figure 2*. These steps have been designed on the basis of SNV's experiences in Vietnam, and also draw on lessons from other implementing countries. Each of these steps and their importance to the BDS is further discussed in this handbook;

1. Assessing who will be eligible to receive benefits from REDD+.
2. Engaging participants in key decisions around the BDS format, linking benefits to performance and ensuring locally representative governance frameworks.
3. Facilitating participatory monitoring and local representation on recourse mechanisms.
4. Identifying and addressing local level corruption risks.

Figure 2 The pro-poor BDS approach and links to the five key principles



Defining Beneficiaries: Who is Eligible for REDD+ Benefits?

Figure 3 A process for determining REDD+ beneficiaries (adapted from PwC 2012)

	Process		Examples from Vietnam
1	Assessing potential criteria for legitimacy	<p>Preliminary thinking on the basis on which people or groups would be considered beneficiaries under REDD+:</p> <ul style="list-style-type: none"> • Whose behaviour may need to change under REDD+? This should not imply all behaviours must change i.e. hunting or spiritual uses could still be permitted • Who currently claims access to, or uses, forest resources? <p>The definition of legitimate beneficiaries may change through consultation processes. However it is key to begin with an initial understanding of the notion of legitimacy to use as a platform for further discussions.</p>	<ul style="list-style-type: none"> • Red & green book holders. • Forest 'owners' and managers. • People living in, or neighbouring, forested lands.
2	Assessing legal frameworks	<p>What existing laws, regulations, and decisions around land tenure and property rights will affect the determination of beneficiaries? For example, forest laws, land laws, carbon rights and other property rights, legislation around indigenous tenure.</p> <ul style="list-style-type: none"> • Consider the motivations of law makers and the capacity of organisations to enforce these laws to assess how this affects the determination of beneficiaries. • How do national and sub-national laws overlap, compliment or contradict each other and/or customary law? • Assess if there have been historical disputes over the area(s) of land under REDD+. 	<ul style="list-style-type: none"> • Law on Land 2003 (No.13/2003/QH11). • Law on Forest Protection and Development 2004 (No.29/2004/QH11). • Law on Environmental Protection 2005 (Order No.52/2005/QH11). • PFES Decree No.99/2010/ND-CP. • Customary rights and regulations practiced by forest communities.
3	Assessing perceived rights and other claims	<p>Determine existing use practices and perceived rights to access.</p> <ul style="list-style-type: none"> • Assess how use rights and perceived rights could transpire as a means of defining beneficiary groups. • Assess the overlap between perceived rights and use and legal definitions (as in 2). 	<ul style="list-style-type: none"> • Perceived rights of ethnic minority groups to forest resources for exploitation and cultural significance. • Competing rights claim by different local groups.
4	Distinguishing among beneficiaries	<p>Divide identified beneficiaries into groups to best determine most appropriate benefit types, including those with:</p> <ul style="list-style-type: none"> • property rights and legal tenure – e.g. here benefits might be in the form of a stream of compensation for changed access; • customary rights not recognised by law – e.g. recognition of this right are important to shaping benefits and ensuring long term participation. Opportunities may exist for REDD+ to be a vehicle to recognise customary rights in law; • no credible right under law or customary law – e.g. illegal practices. Solutions need to be locally specific, pragmatic and consider the negative implications of not compensating. 	

The question of who is eligible for REDD+ benefits is key to legitimising the BDS and underpins all other considerations in the BDS design (PwC 2012). Correctly defining the beneficiaries will help determine where responsibilities lie for carrying out REDD+ activities. It will also help identify those stakeholders who may be directly or indirectly affected by activities. Properly defining the individuals or groups who will receive benefits up-front also reduces the risk of future uncertainty and disputes between beneficiaries and non-beneficiaries over entitlements to benefits.

At the heart of the issue around identifying beneficiaries will be considerations of land and forest tenure. Where clear tenure rights exist and are broadly accepted they can be used to specify the parties responsible for upholding a conditional agreement. In such situations tenure rights also play important roles in avoiding a 'resource rush' and help to protect existing livelihoods and rights. Unless land tenure is clear, local people are unlikely to perform activities which ensure the protection of forest resources.

An assessment of existing tenure arrangements will be a fundamental precondition to identifying beneficiaries and, as such, a key foundation for durable conditional benefit sharing systems. Principal challenges to this process, however, are inadequate local forest management practices (i.e. even if tenure is secure local law-breakers can undermine the REDD+ agreement) and an inability to exclude external claimants on local forests even if local rights are clear and secure.

The task of identifying beneficiaries is more difficult where clear tenure rights do not exist. This is a situation common to many forested areas in tropical countries, since governments may have never issued land titles, local communities may adhere to customary arrangements different from statutory law, or different groups of local actors may assert competing demands on the forest. In such situations it may be possible to clarify land and forest rights through a mediated settlement process, thereby creating important foundations for successful pro-poor REDD+ actions. However, if handled in a top-down manner, efforts to create or clarify land rights may easily fail and even produce the very 'resource rush' that tenure rights are expected to avoid (Sikor and Tran 2007).

A suggested process for the determination of REDD+ beneficiaries has been adapted from PwC (2012) and is reflected in *Figure 3*. For each step, an example for the Vietnamese context is illustrated.



Benefit Characteristics: Engaging the Poor, Linking Payments to Performance and Governance

3.1 How to engage the poor in BDS decisions

Engaging the poor in decisions around the BDS will be fundamental to reinforcing the incentives of REDD+ and ensuring continued participation from poorer stakeholders. By engaging the beneficiaries initially identified in decisions around the benefit types, size and distribution method, the eventual BDS will be more tailored to the needs of these actors.

“Without adequate participation in benefits, non-elite community members will likely continue to convert the forest” (PWC 2012, from Blom, Sunderland, and Murdiyarso, 2010).

To facilitate this process, it is appropriate to design a culturally and socially appropriate mechanism to elicit local preferences for future benefit choices from local participants. This will involve close collaboration and consultation with local beneficiaries following their identification. Acknowledging the resource and time costs associated with such process, it could be appropriate and cost effective to conduct these discussions as part of the initial Free Prior and Informed Consent (FPIC) processes.

One method to tailor benefits to local preferences has been trialled by SNV in Vietnam on behalf of the UN-REDD Programme and follows a similar approach being applied in other countries (see IIED 2012 & IUCN 2010). Under SNV’s trial, a hypothetical game-like scenario was run alongside of a group of seven potential REDD+ beneficiaries of different ethnicities, wealth status, gender and other socio-economic factors (including the holders of statutory rights, local communities asserting customary claims and villagers living nearby forests, among others). This exercise presented representative groups with a choice between different sets of locally-derived benefits (cash and in-kind), timing options and distribution methods under a range of different conditions.

The framework used to elicit benefit choices and tailor the design of local BDS to local preferences is detailed in Sikor *et al* (2012) and a basic representation of the key steps is provided in *Figure 4*. This illustrates the steps taken by SNV to consult local actors around REDD+ and the BDS, before designing an activity aimed at eliciting different benefit choices from a suite of different stakeholder groups likely to be involved in REDD+ activities.

Figure 4 Principle steps taken by SNV in conducting a hypothetical scenario of REDD+ to illicit benefit preferences from local actors.



Figure 5 Sum total of the value of different benefit choices across 15 village groups in Vietnam showing the different types of benefits preferred. Note, the total hypothetical benefit for each group over a 5 year period was 800 million Vietnamese Dong (roughly \$40,000USD) (Sikor *et al* 2012)

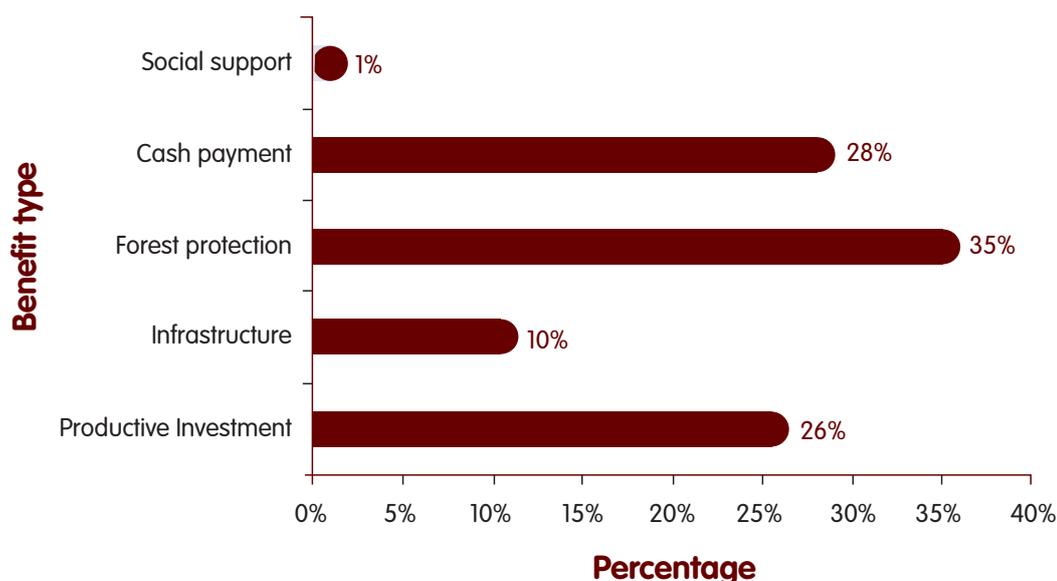


Figure 5 provides a snap-shot of results from this exercise, illustrating the different benefit types chosen over a five year time horizon for a hypothetical sum. The result reflects a scenario where communities are fully compliant with REDD+ activities and therefore receive 100 per cent of the performance payment. The results show a spread of preferences for different benefits across different groups, comprised of people with different socio-economic compositions. This range of results highlights the need to work alongside local stakeholders to determine their preferred benefit choices, timing and size to ensure REDD+ benefits are attractive to REDD+ stakeholders.

The results from such an approach should, however, be balanced with considerations of cost effectiveness and practicality. Where possible, opportunities should be explored to link the results of local preference exercises to on-going public support (i.e. micro-finance or welfare support) in order to streamline the delivery of benefits of REDD+.

Types of benefits and livelihood linkages

The choice of the benefit type should, wherever possible, be matched to activities complementary to REDD+. This will facilitate poverty reduction efforts alongside reducing pressures on forest resources. Examples could include installing biogas units, improved cropping techniques, REDD+ related employment (such as enrichment planting or forest patrols), and sustainable livestock production (Peskett *et al* 2010).

Blom *et al.* (2010) however illustrate through the experiences of Integrated Conservation and Development Projects (ICDP) that achieving such ‘win-win’ situations in REDD+ will be challenging if the right incentives are not put in place. Blom *et al.* (2010) advocate for close involvement of local communities in agreements around project activities and benefits. This will improve the effectiveness of community development benefits. It is also important that any agreed activities directly link back to emissions reductions given the performance based nature of REDD+ finance. Box 2 provides a useful illustration of this approach through the way the Bolsa Floresta initiative links different benefit types to forest protection and related activities.

Box 2 Cash and in-kind benefit distribution – the case of Bolsa Floresta (Brazil)

The Bolsa Floresta payment for ecosystem services programme has four principle payment types, illustrating a combination of both cash and in-kind benefits depending on the targeted beneficiary. Benefits are chosen in accordance with consultations with the community groups and are contingent on the delivery of contracted activities, including zero deforestation.

Payment type	Description	Size
Bolsa Floresta Income (BFI)	In-kind investments for income generating activities relating to sustainable forest management, fisheries, tourism and agroforestry.	On average, around US\$200/ family/year.
Bolsa Floresta Social (BFS)	In-kind investments made to communities for activities focused on education, health, transportation and communication services.	Equivalent to US\$200 /family/ year.
Bolsa Floresta Family (BFF)	Cash payments (paid in the form of credit on special credit cards) made to people living in protected areas for their commitment to zero deforestation, fire control and education attendance of children.	US\$25/ month/household.
Bolsa Floresta Association (BFA)	In-kind investments to local grassroots organisations to assist with local ownership and general operations of programs.	Equivalent to 10% of amount paid to all families registered per reserve.

Adapted from: Mohammed 2011 & Costenbader ed. 2009

3.2 The role for participation incentives

In the context of a pro-poor approach, participation benefits can be an effective way to encourage the involvement of local actors in REDD+. This will be pertinent in the early periods of emission reduction efforts where there will be a delay between the time the emissions reductions efforts materialise into performance benefits.

Participation benefits can take the form of a one-off benefit or a stream of benefits in the initial years of activity (see *Table 1*). Other incentives may include community development programs or agricultural support as a way to help engage local actors. Again, finding an appropriate type of benefit delivery will be best facilitated through appropriate local engagement.

It will, however, be important in this context to ensure that expectations are not raised around future payment streams. Future REDD+ funding is still unclear and many REDD+ practitioners are cautious about offering payments to engage local actors when there is such a level of uncertainty. Throughout SNV's experiences in Vietnam, considerable care has been taken when engaging local villagers in Lam Dong province to appropriately communicate the issues associated with future REDD+ payments. Although nominal participation payments have been made to stakeholders involved in preliminary activities, care is taken to ensure villagers understand the uncertainty associated with future payments and that any future payments are conditional on performance. Village leaders have often been engaged to help communicate this message prior to any field-level interventions.

The role for funding participation payments will be different to performance based payments and will likely require a need for donor or government involvement to provide upfront financing. This will be especially important where financial barriers (i.e. high upfront costs) may otherwise prevent the participation of local actors. In any case, finding the right approach for using public and private finances for supporting REDD+ benefits will have important implications for the size of benefits at the local level.

Table 1 suggests approaches to determine the appropriate size of the participation benefits. Here, tools such as opportunity costs of people's time can be used to assess the benefit size necessary to compensate the initial effort people invest in undertaking REDD+ activities. Existing local labour costs could also be determined alongside more participatory approaches such as choice experiments or focus group discussions to elicit community views of appropriate benefit sizes.

Table 1: Characteristics of participation and performance payments for REDD+

REDD+ benefit	Timing	Measures	Source of payment
Participation	Either regular or one-off at the beginning of REDD+ activities.	Labour cost (i.e. daily wages), opportunity cost of peoples time, cost of up-front investments, eliciting responses from local actors (i.e. through choice experiments).	NGOs, Government, donors.
Performance	Paid upon the determination of the size of the carbon sequestration e.g. 5-10 year intervals.	Incremental carbon sequestration gain and price of carbon, various proxy-based performance measures.	Public and private sector.

3.3 Linking benefits to performance

REDD+ rewards actors on the basis of their performance, in this case, the emissions reductions resulting from one or more of the five activities¹ under REDD+. As a 'performance-based' approach, there must be a clear link between the performance of actors and the size of the benefit received.

This link is often thought of in terms of where benefits are linked to the incremental carbon sequestration achieved over a given period². The size of these benefits will depend on the carbon price and the changes in carbon stocks which will need to be measured and validated before they are rewarded. Depending on the future financing structure of REDD+, buyers of the carbon could include a suite of both public and private buyers. This approach is exemplified by transactions of Voluntary Carbon Standard (VCS) certificates and will be closely linked to the national MRV system.

Experiences from Vietnam, however, suggest the realities of this approach can be challenging as well as costly. For example, pilot trials of Payments for Forest Ecosystem Services (PFES) have attempted to introduce performance based measures linked to different outputs for services. However, a lack of monitoring capacity has meant that payments have been instead made on a relatively arbitrary basis. PFES trials in Son La Province also illustrated how differentiated payments were not always considered socially acceptable and instead equitable payments were preferred (see *Table 2* below and UN-REDD 2010).

Using proxy measures for performance

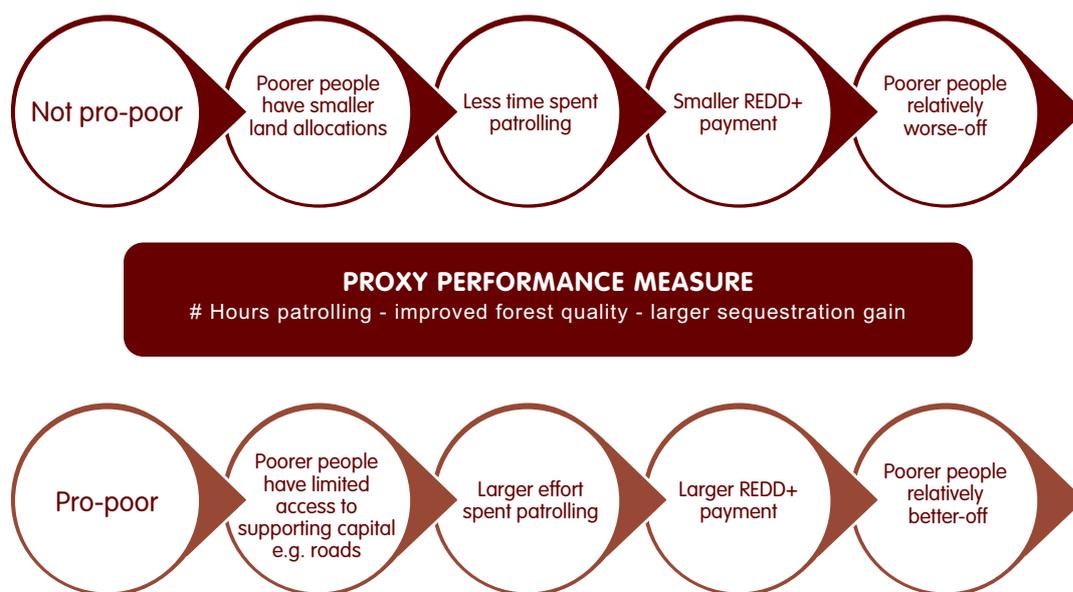
An alternative approach to link performance and benefits is to use proxy performance measures. These could include the size of the forest (i.e. hectares) or other observed changes in forest quality. Benefits could also be linked to inputs. In the case of Vietnam, for example, local consultations have suggested that the number of hours spent patrolling forested areas to protect against illegal deforestation may be an appropriate proxy measure for avoided deforestation and the resulting emissions reductions (Sikor *et al.* 2012). This approach is consistent with those under the former 661 Program which provided payments to households on the basis of forest patrol efforts.

The comparative simplicity in using these proxy measures is often considered as far less costly than one linked to validating all carbon emission reductions at a local scale. However, the relative ease of implementation and cost effectiveness needs to be balanced with the expectations of eventual buyers of the carbon who will require more robust measures of actual performance.

The effect either approach implies for pro-poor REDD+ will need to be considered in the individual context. For example, *Figure 6* illustrates the case above where the number of hours in forest patrolling is used as a measure of REDD+ performance benefits and shows the divergent implications this could have for poorer stakeholders. This example emphasises the need to design appropriate proxy measures in association with local consultations exercises. These consultations are a useful method for determining what local actors see as a fair form of compensation for measuring their efforts and also help to tailor benefits towards areas of greatest need.

1. Five activities include: reduced deforestation, reduced degradation, carbon stock enhancement, conservation of carbon stocks and sustainable management of forests.
2. Sequestration is defined here as carbon emission reductions associated with the five recognised activities under REDD+; avoided deforestation, degradation, carbon stock enhancement, conservation of carbon stocks and sustainable management of forests.

Figure 6: Example of the divergent impacts of proxy measures on pro-poor REDD



Timing & co-benefits

The issue of timing will also be closely related to the type of benefits and how they are linked to performance. To illustrate this, *Box 3* suggests an innovative approach taken in Vietnam by KfW to phase the timing of benefits to ensure that payments remain contingent on the performance of forest based activities.

A further consideration for REDD+ practitioners in linking benefits and performance is the issue of social and environmental co-benefits. The BDS, as a key component of the REDD+ architecture, could be used to help deliver social and environmental co-benefits. *Box 4* provides an interesting application of a payment co-efficient in Vietnam. The coefficient was designed with the aim of weighting performance-linked payments according to several key environmental and social criteria.

Box 3 Addressing the issue of timing: community forestry projects in Vietnam (KfW experience)

“The various reforestation projects funded by KfW in Vietnam have developed a novel mechanism to finance household plantations on a conditional basis. They initially provide free tree seedlings and fertilizer to households. They also establish savings books for the participating households at the Bank for Social Policies to compensate for their labour inputs. Households receive the savings books three months after planting if the survival rate is at least 80%. They can withdraw up to 20% of the deposited funds right away, and then an additional 15% every year up to year six. The projects reserve the rights to freeze or terminate savings books in case of household non-compliance with the required management practices. It has direct leverage on the funds remaining in the savings books, as those are released gradually to households. Yet it is likely to face difficulties demanding the repayment of withdrawn funds. The KfW projects thus achieve a limited conditionality of the provided support by staggering the grant in multiple instalments.”

(UN-REDD 2010)

Box 4 Using payment coefficients for REDD+ co-benefits in Vietnam

Recognising the opportunity to deliver co-benefits through the design of the national BDS, the UN-REDD Programme in Vietnam, in association with SNV and the Ministry of Agriculture and Rural Development (MARD), drafted the R-coefficient – a payment coefficient aimed at weighting REDD+ payments according to 7 criteria-income, ethnicity, gender, biodiversity, watershed, accessibility and protection impact.

The R-coefficient is aimed at either scaling up or down the size of the performance based payment depending on the different socio-economic demographics in the REDD+ implementation area and the ecological value of the forest.

The coefficient assigns a weight to each of the seven factors of between 1.2 and 0.8 depending on the individual criteria of the area implementing the REDD+ activities. The 7 criteria are then multiplied together and then by the total incremental carbon sequestration amount over the given period to come up with a final multiplier to determine the total carbon payment owed.

The R-coefficient is currently being trialled in Vietnam and full details can be found in the full report at snvworld.org/redd under the Publications section. A list of key risks and recommended mitigation strategies is also listed in *Table 2*.

Table 2: Risks in delivering co-benefits through the BDS

Potential risk	Example	Recommended mitigation measures
Payment formula is too complex to implement	Vietnamese experience in implementing K-coefficient ³ for PFES payments illustrated a lack of understanding around its necessity.	Simplify the payment formula to an agreed number of easily measurable and identifiable coefficients alongside local stakeholders.
Creating large discrepancies between different beneficiary groups	Pertinent in neighbouring communities where attempts to distribute payments for co-benefit delivery could be seen to unfairly discriminate against neighbouring groups.	Trials of the delivery of co-benefits should be conducted where the difference in payment sizes is marginal to being with.
Local beneficiaries do not understand the intention of the coefficient	These misunderstandings could also lead to conflict or other adverse behaviours.	Meaningful engagement with potential REDD+ beneficiaries in the design and implementation phases.
Data insufficiency or inaccuracies	May lead to inappropriate redistributions of benefits. Risk is present for both poorly classified social and environmental criteria.	Improved data systems (where appropriate use local datasets) and reliance on pre-established internationally sound criteria.
Local level resistance to differentiating payments	Early trials of the K-coefficient in Lam Dong and Son La Provinces, Vietnam suggest local people and communities often do not want to distinguish benefit sizes.	Consultations with local should elicit the preferences of participants to differentiate payments (see ' <i>How to engage the poor in BDS decisions</i> ').

3.4 Governance of local funds

A fourth key component to the 'benefit characteristics' quadrant in *Figure 2* concerns the governance framework to manage the local fund for distributing REDD+ benefits. An appropriate governance structure for local funds will be necessary to oversee the smooth flow of benefits to local actors. It is essential therefore that there is appropriate representation of local stakeholders in the management of this distribution. The involved stakeholders should include not only the beneficiaries identified initially but also other relevant stakeholders, such as village leaders, with influence on public decision-making and ultimately forest management.

UN-REDD (2010) provides a set of recommendations concerning the governance of local funds and emphasises the importance of local representation on management boards for local REDD+ funds in Vietnam. This approach is consistent with regulations established in 2009 for local Forest Protection Development Funds (FPDF), supported by SNV in Nghe An Province, Vietnam. Under the regulations for the FPDF, the management board is inclusive of community group representatives, including the Fatherland Front and Farmers Union. Other

3. The K-coefficient was designed under pilot trials of PFES in Vietnam. The K-coefficient was designed to adjust the size of PFES payments according to four criteria: forest type, forest quality, forest origin and human impact on the forest.

experiences in Vietnam point to varying degrees of success in achieving community ownership in the management of funds. For example, the Trust Fund for Forests (TFF)-funded community forestry project created accounts for village communities under the administrative oversight of commune People's Committees. The accounts provide village communities the opportunity to draw on finances transferred from external organisations for investments in pre-defined activities. However, community ownership over the funds is constrained by the fact that these funds remain part of the state-budgeting system (UN-REDD 2010). Other projects, such as the KfW-6 project, have opened accounts with the Bank for Social Policies for communities (UN-REDD 2010). The accounts name the head of the Village Forest Protection and Management Board as the account holder, yet also include procedural safeguards to prevent the abuse of funds (UN-REDD 2010).

To help guide the development of the local fund and an appropriately representative governance framework, PwC (2012) recommends an initial consultative round of discussions with local stakeholders to elicit responses around the most effective delivery system for local actors. This approach is consistent with the approach advocated around engaging local actors in the BDS decision making process (see earlier section).

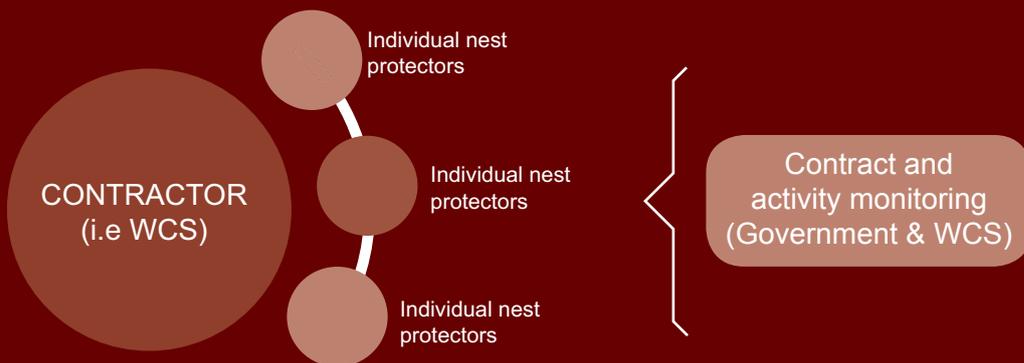
Following the initial consultative process, a review should be conducted on existing delivery mechanisms and their governance framework, and how they could be adapted for REDD+. Regardless of whether a new or pre-existing structure will be used, it is fundamental that the governance structure of the fund take on the views and preferences of local beneficiaries/stakeholders, and ensure appropriate representation of respected community groups within the management framework of local funds. As with the FPDF, opportunities should be explored to create a decentralised administrative system which is inclusive of local representative groups to ensure the views and opinions of local actors are heard (UN-REDD 2010).

To illustrate the process of local engagement in the management of funding systems, *Box 5* has been adapted from Clements *et al* (2009) and presents three different community-based distribution mechanisms from Cambodia and their involvement of local actors in the fund management.

Box 5 Comparison of two different fund modalities from three programs in Cambodia (from Clements et al 2009)

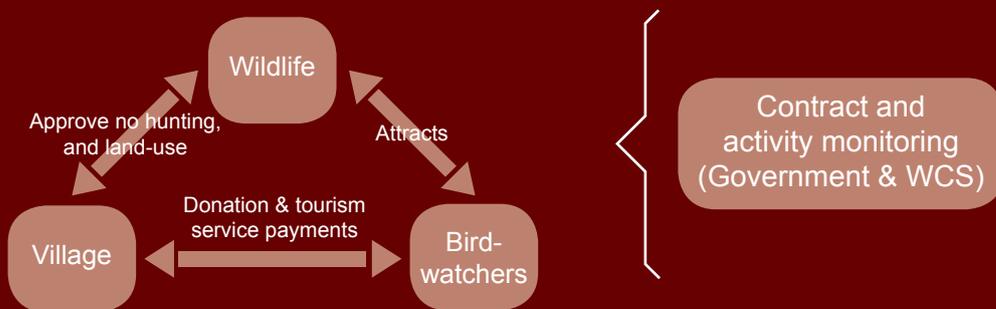
Individual payments to households

Bird Nest Payments program: Local people are offered a reward of up to US\$5 for reporting nests, and are then employed to monitor and protect the birds until the chicks fledge.

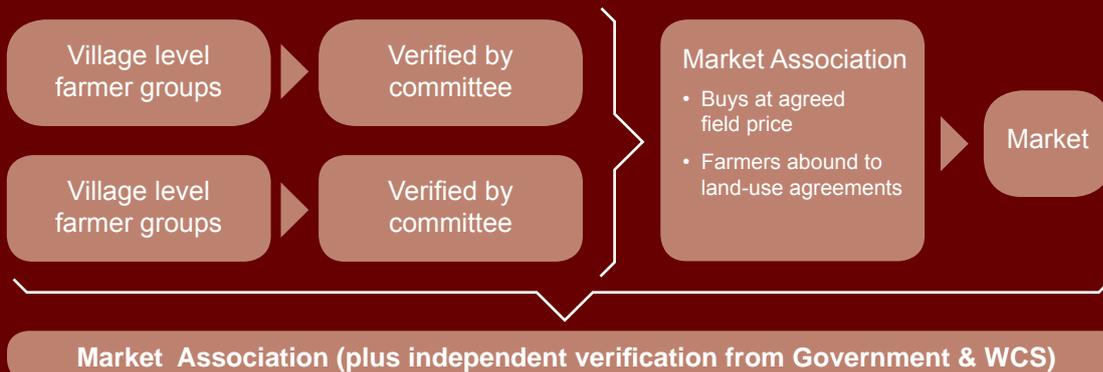


Mix of community and individual funds

Community-based ecotourism: Aims to conserve the globally threatened wildlife through establishing local village-level tourism enterprises that directly link revenue received to long-term species conservation.



Agri-environment payments: Farmers that keep to the land-use plan and no-hunting rules are allowed to sell their rice through the village committee responsible for management of the land-use plan to a marketing association.



Monitoring: Performance, Benefit Delivery and Local Engagement in Recourse Mechanisms

Monitoring in the context of local level pro-poor BDS design is discussed here in three parts; the monitoring of performance, the delivery of benefits, and the need for appropriately represented recourse mechanisms to handle disputes.

4.1 Monitoring performance

Monitoring performance in the context of the REDD+ BDS is a key step in the process of linking the performance of local actors to the payments received. There are two principle bodies of thought on this issue.

The first is to use output base carbon emissions as the measure of performance. This process will be a highly technical component of the REDD+ architecture and must meet the requirements of Monitoring, Reporting and Verification (MRV) standards under the UNFCCC (UN-REDD 2010). In this case, it is likely that national level technical support will be deployed to assist with the establishment of Reference Emission Levels (RELs) and subsequent measures of changes in carbon stocks. This process will need to involve high levels of engagement with national and sub-national government, and the support of international donors to establish. However, there could also be an important role here for locally engaged support in the monitoring process. For example, Sikor et al. (2012) illustrate how participatory forest monitoring (PFM) in Vietnam could be used to help engage local REDD+ actors in the monitoring the provision of different forest services, including carbon. This could help to provide local actors with an important source of information relating to their performance, and act as a useful 'self-check' against the payments that are delivered to them.

There is also growing international interest in using non-carbon related performance measures, or a broader suite of measures including social and governance indicators for performance measurement (Hermann et al. 2012). In Vietnam, lessons learnt from Phase 1 of the UNREDD Programme have revealed a preference amongst key national stakeholders for alternative, non-carbon measures of performance (Vickers and Hang 2012). This process would need to involve the identification of metrics and criteria for which performance is measured against, and a process of applying the standards, norms and procedures to the allocation of benefits (UN-REDD 2010).

4.2 Monitoring benefit delivery

Any benefit distribution system must be underpinned by a monitoring system to ensure benefits are delivered in the most transparent manner practical and to limit opportunities for perverse behaviour such as elite capture (Mohammed 2011 and Peskett *et al.* 2011). This is especially true in the case when beneficiaries are poor and arguably at a higher risk of being exploited due to power imbalances in negotiating benefit distribution, or a lack of understanding and experience of distribution processes.

The process of monitoring the delivery of benefits will likely follow a typical auditing process driven from the national level (UN-REDD 2010). This role will need to be undertaken by a national monitoring board, consisting of an independent auditing firm, national government representatives and civil society representation. Sub-national representation may also be appropriate. However, as UN-REDD (2010) for in the context of Vietnam, representation

below this level may increase the transaction costs associated with monitoring above a reasonable level.

Nonetheless, it should be recognised at the local level that there is still a strong role for the participation of local REDD+ stakeholders who will need support from outside to take on an effective role. The support could come from NGOs and other civil society organisations, which could facilitate important voices from the ground and will be able to keep checks on the actual level of benefit delivery filtering down to local actors. Supporting structures such as local level recourse mechanisms will also facilitate this process.

4.3 Locally representative recourse mechanisms

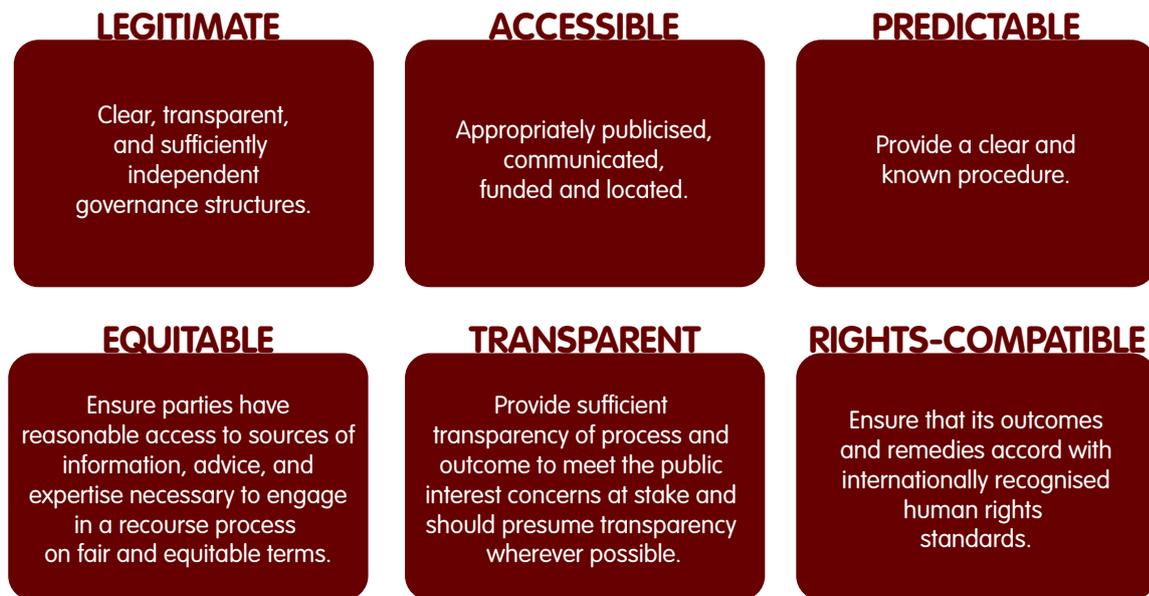
No matter how open and transparent the BDS, an appropriately represented recourse mechanism is necessary to address complaints and resolve disputes (PwC 2012).

Recourse mechanisms allow local beneficiaries and other stakeholders to have their concerns in benefit distribution processes addressed. Relevant concerns include those of stakeholders not identified as beneficiaries initially, consequently excluded from benefits but asserting legitimate claims of inclusion as well as of the identified beneficiaries about the delivery of benefits. In practice, this mechanism needs to be established at both national and sub-national levels (see *Figure 1*) and represented by a broad collection of well trusted individuals from a range of different representative groups. This is important in terms of being seen by stakeholders as a group of non-biased and independent individuals that can be openly approached, and will carry-through a resolution in respect of the individual or groups confidentiality. The mechanism must also have enforcement powers to remedy conflicts through appropriate means (i.e. compensation, injunction, and restitution) (UN-REDD 2010). An appeals process is also important to reinforce the level of confidence in the mechanism to carry out fair resolutions to disputes (UN-REDD 2010). Further, the mechanism should be easily accessible to local actors. In the Vietnamese context, this can be facilitated by integrating the disputes process into existing local meetings and gatherings so that local actors are able to voice concerns in a comfortable and familiar environment. Alternatively, communication systems may assist in relaying complaints, with a central email or hotline process being options which have been used for other activities in Vietnam. Again, there could be an important role for locally engaged NGOs to support the development of these processes and where possible, efforts made to reduce the costs by integrating into existing local processes.

UN-REDD (2010) provided a set of principles for which the design of an appropriate recourse mechanism should be developed for Vietnam. These principles have been adapted in *Figure 7* to guide the development of guidelines for local-level recourse mechanisms for REDD+.



Figure 7 Principles for the design of appropriate local-level recourse mechanisms for REDD+ (Adapted from UN-REDD 2010)



Transparency: Minimising the Risk of Corruption at the Local Level

5

If REDD+ is to deliver real benefits to the poor, the design of local level benefit sharing systems must involve steps to mitigate the risks of corruption at the local level BDS (UNDP 2010). To assist with this process *Figure 8* has been designed to illustrate the broad set of steps that can help guide the process of addressing local level corruption in the BDS. The process begins with identifying the different phases of the BDS process and the stakeholders involved in each process that may have an incentive to be involved in corrupt activities.

“High levels of corruption and low transparency and accountability are likely to deter investors in REDD, reducing income and growth potential. They will also reduce potential benefits and increase risks for the poor, due to likely higher levels of elite capture and rent seeking behaviour.” (Peskest et al. 2008)

Depending on the assessment of the types and size of risks for different stakeholders, appropriate risk mitigation measures will be needed. In the design of the mitigation measures consideration should be given to retrofitting existing systems that are already in place to address corruption.

Similarly, if new systems need to be created to address local corruption risks, an assessment of local capacity to perform new roles will need to occur, in addition to an assessment of the costs involved in reducing or eliminating the corruption risk. To lessen the associated costs with any new system or structures, complementarity to other national processes and programs should be considered to share the associated costs.

Step 5 of *Figure 8* highlights the implementation stage. This will need to include the lengthy process of training, and potentially drafting new regulations and procedures. Again, cost sharing arrangements with relevant and complementary activities should be explored. Alternatively, financial assistance from the readiness phase or donor support could be considered for the establishment costs of such structures. Finally, Step 6 illustrates the need for a review point to be included in the design of anti-corruption measures.



Figure 8 Steps to addressing local-level corruption risks for REDD+



from: Sikor *et al.* 2012

Table 3 Corruption risks in the self-selection of REDD+ benefits

BDS self-selection process	Corruption risk and incentive structures behind the risk	Corruption type
Design of self-selection activities	<ul style="list-style-type: none"> • Manipulation of benefit choices in the self-selection activities by powerful local figures. This may occur where, for example, a village head may threaten participants to choose a benefit type that would more directly benefit themselves or a particular group in the village. • Money may be stolen from participation payments for stakeholders involved in the self-selection activity. • Lower level officials being pressured to make decisions which would favour officials of higher rank. 	<p>Cronyism, clientelism, nepotism</p> <p>Petty corruption</p> <p>Patronage, loyalty, nepotism</p>
Recording mechanism	<ul style="list-style-type: none"> • Authorities who will verify the benefit choices of local participants can be coerced into manipulating the benefit choices. This presents a risk of bribery towards the representative(s) to change benefit choices in favour of certain people in the village in return for payment. 	Bribery
Monitoring progress	<ul style="list-style-type: none"> • Monitoring efforts of local stakeholders could be influenced in a way that would reduce the payments flowing to local people or those monitoring and instead being embezzled by higher levels of authority. • Payments for monitoring efforts could be withheld from local participants 	<p>Petty corruption, fraud</p> <p>Petty corruption</p>
Monitoring equity in payments	<ul style="list-style-type: none"> • Agency responsible for monitoring payments over time being open to payments to reduce payment flows to local actors or turn a 'blind-eye' to payment irregularities. 	Bribery

Adapted from Sikor *et al.* 2012

The appropriate design of the local level benefit distribution system (BDS) will be fundamental to the success of pro-poor REDD+.

Through its experiences in Vietnam, and drawing on the lessons of other activities internationally, SNV have developed this iterative approach to the design of the local level pro-poor BDS with the intention of guiding decision makers for effective BDS design. This approach is intended to be flexible and adaptable over time as experiences in REDD+ BDS develop. The document identifies general principles and steps because there cannot be one single template for pro-poor local BDS. Instead, the BDS requires flexibility in its design and needs to be adaptable to the local context and adjusted over time in an iterative process.

The approach advocates several key messages which aim to help shape a BDS that is consistent with the five key principles used to define the pro-poor approach;

- **The pro-poor local BDS is not simply about paying cash to poor stakeholders.** The design process needs to begin with identifying eligible beneficiaries through a consultative process with potential local beneficiary groups. This needs to consider existing land tenure arrangements and customary entitlements to land and resources.
- **An assessment of existing land tenure arrangements will be a fundamental precondition to identifying beneficiaries.** This process needs to involve a close assessment of eligibility, related laws and how customary laws or other entitlements to land are perceived. On this basis, an assessment can be made of the different eligible beneficiaries and the appropriate type of benefits.
- **Involving all stakeholders, including marginalised and the poorest groups, in decisions around the types, timing, size and delivery of benefits will be fundamental to incentivising REDD+.** This process can be facilitated by activities that directly engage identified beneficiaries in choices around benefits. Where possible, the type of benefits should be complementary to REDD+ activities.
- **Monitoring performance and payments is critical.** Performance payments may be delivered based on actual emissions reductions or some proxy measure reflecting the efforts made through REDD+. Participation payments may also have an important role in providing initial incentives for poorer stakeholders to participate. Governance arrangements to oversee the smooth flow of benefits need also to involve meaningful participation of local actors.
- **Recourse mechanisms play an important role in any BDS.** At the local level, the recourse mechanism will be improved by including the representation of a mix of government, local representatives and civil society organisations. The local recourse mechanisms should be linked to a similar sub-national or national recourse mechanism body.
- **Local level corruption is a key risk undermining the delivery of benefits to poorer stakeholders.** Identifying local level corruption risks and implementing mitigation strategies to limit the opportunities for corrupt behaviour will be vital. This will require the involvement of NGOs or other civil society representatives in the step-wise approach to implementing transparency measures.

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