FCPF Carbon Fund Methodological Framework Discussion Paper #9

Benefit Sharing

WORKING DRAFT FOR INPUT INTO AND DISCUSSION BY CARBON FUND WORKING GROUP

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About this document:

The FMT commissioned the development of this series of about a dozen topic-specific Discussion Papers (also known as "Issue Papers") to serve as a common starting point for discussion on the Methodological Framework. The Papers were circulated January-April 2013 to Carbon Fund Participants and to over 100 experts who participated in REDD+ Design Forums which channeled input into the Methodological Framework. For each topic, the corresponding Issue Paper first presents background research and major approaches, and then suggests initial thinking on how to translate that topic into the context of the Methodological Framework of the Carbon Fund.

Because each paper presents a wide range of options, developed at the very beginning of the MF development process, the original drafts do not capture the discussions during Summer 2013 or reflect the final drafts of the MF. For this reason, FMT has added an introductory chapter to each issue paper during August 2013 entitled "FMT Update." This aims to identify further approaches and considerations that emerged since the original paper, though it is not a summary of formal deliberations. Section II of each paper denotes the original Issue Paper. These Issue Papers reflect important context and options for the Carbon Fund of the FCPF and also contain useful information and considerations for policymakers and others designing REDD+ frameworks.

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I. FMT Update (October 10, 2013)

Discussion about each Issue Paper and the MF as a whole unveiled additional insights, considerations, and options to translate that topic into the Methodological Framework. These are added by the FMT, below.

1. Other topics considered in discussions on the Methodological Framework

Include criteria and indicators that are requirements for Emission Reductions Programs, and consider developing a Good Practice Guidance Annex: This option allows for voluntary best or good practices to be included in an annex, whereas required minimum standards would be included in the MF itself. Many of the Issue Papers suggest best practices or minimum standards for an issue. These are included in the attached paper on Benefit Sharing. However, the Carbon Fund Methodological Framework was further clarified to consist of criteria and indicators, but at the same time be as simple and straightforward as possible. Separating good practices from required elements assists in achieving simplicity of the MF.

"*Draft" and final Benefit Sharing Plan (BSP):* This option clarifies the process of developing a BSP within the context of the Carbon Fund to allow an advance draft of the BSP at the time of the Emission Reductions Program Document (ERPD), but with final BSP required by ERPA signing. This provides some flexibility on the writing burden on REDD countries at a given point, and an advanced draft of a BSP allows countries to focus on ERPDs prior to their final BSP.

Crosscutting issues: While Issue Papers address many topics separately, many are interrelated—especially those pertaining to social and economic benefits of an ER Program. Interrelated topics include title to emission reductions, land tenure, safeguards, sustainable program design, and non-carbon benefits. The ability of any arrangement within an ER Program to comply with relevant laws is a further crosscutting issue (though an Issue Paper specifically on legal issues was not developed).

Assessment of tenure regimes: This option stems from the interlinkage of issues (above). An assessment of tenure regimes within a program area helps to identify beneficiaries that could be part of the BSP.

Building from Readiness and SESA: The development of the BSP can leverage existing processes in the country, including the SESA process required for safeguards implementation at the World Bank as well as the FCPF Readiness process. These processes identify and consult with stakeholders, which in turn could inform the BSP and provide concrete linkage with safeguards issues.

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II. Original Discussion Paper (released 2/28/13)

1. Key questions

Key questions for developing an approach for providing guidance on benefit sharing in the Carbon Fund Methodological Framework include:

Q1. What specific benefit sharing topics or issues require guidance from the Carbon Fund?

Q2. Should the Carbon Fund use a prescriptive approach (*e.g.*, specify a detailed methodology for benefit sharing) or a more flexible approach (*e.g.*, develop high-level standards to depict good practices for benefit sharing)?

Q3. Should the Carbon Fund use a binding approach (*e.g.,* specify minimum requirements), a non-binding approach (*e.g.*, develop voluntary guidelines and tools), or a combination of both?

Q4. How can the Carbon Fund leverage or create additional incentives for making progress on land tenure and property rights, or other potential non-carbon benefits?

Q5. To what extent can the CF build on existing standards/methodologies related to benefit sharing to develop its approach?

Q6. How should the selected approach be applied throughout the various decision points in the Carbon Fund project cycle (*e.g.*, during ER-PIN review, ERPA negotiation, interim progress reporting, verification of performance and payment issuance)?

Q7. Questions related financial viability and the type of benefit itself:

- How are operational expenditures paid for, with potential recouping of up front costs of the program?
- How will sellers determine the amount of ERPA revenues going to actors implanting ERP activities and stakeholders?
- What are the other non-financial benefits?

2. Introduction

The Carbon Fund (CF) of the Forest Carbon Partnership Facility will pilot payments for verified emission reductions (ERs) from national or subnational REDD+ programs. This objective is consistent with broader global visions of REDD+ as a performance-based incentive mechanism, which will financially reward developing countries that are able to reduce emissions or increase carbon sequestration from forest-based activities. International REDD+ incentive payments could come from a variety of public or potentially private sources, including multilateral funds or carbon markets. In this context, discussions about “benefit sharing” often focus on how to distribute ER payments among domestic actors.

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However, REDD+ programs, including those being developed by REDD Country Participants (Sellers), have the potential to generate a broad range of social benefits (monetary and non-monetary) beyond ER payments. These benefits are often referred to as "co-benefits" or "non-carbon benefits". Such benefits could stem from upfront investments to prepare REDD+ programs, including efforts to clarify tenure, build local capacities, and enhance participative decision-making. Social benefits could also result from the implementation of REDD+ programs if they are explicitly designed to maximize social outcomes. Such outcomes might include enhanced provision of vital ecosystem services, new employment opportunities, and increased alternative livelihood options. In some cases, these non-carbon benefits may have greater value for local people than ER payments.

In addition, ER Payments may or may not be available to actors on the ground, since ERP payments may be required to pay for implementation costs or recoup upfront costs (for example, the cost of the MRV system). In other words, it will likely not be a 1:1 ration between the amount of the sale of the ER and the amount of funds available to then distribute as "benefits".

The ways in which the multiple potential benefits of REDD+ are prioritized and shared will play a major role in determining how domestic stakeholders perceive, engage with, and contribute to REDD+ programs over the short and long term. For this reason, benefit sharing arrangements are considered a critical element of REDD+ programs, and a topic of importance for the Carbon Fund.

A key question for the CF is how to structure guidance on benefit sharing in its Methodological Framework, which, in turn, will guide countries submitting ER Programs. According to the draft FCPF ERPA Term Sheet, the seller must develop a Benefit Sharing Plan, which explains how it will share "a significant part of the monetary or other benefits" arising from the ER Program with relevant stakeholders. Furthermore, the recommendations of the Working Group on the Methodological and Pricing Approach[1] provided initial guidance on benefit sharing (Box 1). This paper will assess various potential approaches for the CF on this topic and present a potential candidate approach.

Box 1: FCPF Participant Committee Working Group Recommendation on Benefit Sharing (March, 2012)

Programmatic Element 5: The ER Program uses clear, effective and transparent benefit-sharing mechanisms with broad community support and support from other relevant stakeholders

Rationale:

- *ER Programs should use clear and transparent benefit-sharing mechanisms*
- *The design of the benefit-sharing mechanisms should respect customary rights to land and territories and reflect broad community support, so that REDD+ incentives are used in an effective and equitable manner.*
- ***The status of rights to carbon and relevant lands should be assessed to establish a basis for successful implementation of the ER Program. Its assessment may identify potential key issues for the ER program and agree a work program to advance progress on key issues to effectively implement the benefit sharing mechanisms.***

3. Background

Over the past several years, a body of literature has emerged to analyze options for designing REDD+ benefit sharing arrangements. The literature draws a common conclusion: benefit sharing

[1] FMT Note 2012-8. June 11, 2012. Recommendations of the Working Group on the Methodological and Pricing Approach for the Carbon Fund of the FCPF.

arrangements are highly specific to country and local contexts. Nonetheless, the literature has also presented several overarching principles and practices that can inform the design of REDD+ benefit sharing arrangements in any country. In this section, we summarize key findings from recent literature that may be informative for assessing options for the Carbon Fund.

Overarching objectives and principles for REDD+ benefit sharing

Three criteria have been proposed for assessing the merits of various REDD+ approaches: effectiveness, efficiency, and equity (the "3Es") (Angelsen et al, 2009). Since then, the 3Es have been widely cited as key objectives or principles for building successful REDD+ programs. With respect to benefit sharing, the 3Es can be considered as follows:

- **Effectiveness:** Effective REDD+ programs generate emission reductions. Benefit sharing is a key tool for creating positive incentives that will catalyze changes in forest use and lead to reduced emissions. Thus, the effectiveness of benefit sharing arrangements can be measured in terms of its contributions to the climate goals of REDD+.
- **Efficiency:** Efficient emission reductions are achieved at minimum cost. Thus, the efficiency of benefit sharing arrangements can be measured in terms of its ability to minimize transaction costs associated with benefit generation and delivery.
- **Equity:** An equitable distribution of costs and benefits from REDD+ will be widely perceived as fair by domestic stakeholders. Thus, benefit sharing arrangements can play a major role in shaping the perceived legitimacy of REDD+ programs.

The 3Es are useful objectives to keep in mind when designing REDD+ benefit sharing arrangements. However, definitions of these terms – and particularly of equity – are likely to be subject to different interpretations across countries and actors. In addition, there are likely to be trade-offs between the 3Es. For example, benefit sharing arrangements that target benefits based on precise calculations of household-level contributions to the REDD+ program are likely to promote greater equity. However, this approach is also likely to increase transaction costs and thereby reduce efficiency. In practice, REDD+ benefit sharing mechanisms will need to find an appropriate balance between these objectives. Fostering procedural equity in decisions about the design of benefit sharing mechanisms can contribute to determining this balance.

Key questions for designing benefit sharing arrangements

Developing a single model for benefit sharing is particularly challenging, given the wide variation in local circumstances and REDD program objectives. Recent reviews have explored the question of how to design effective, efficient and equitable REDD+ benefit sharing arrangements (IUCN, 2009; Madeira et al, 2012; Davis et al, 2012; PWC, 2012, Costenbader, 2011); a recent review by the Nature Conservancy (Madeira et al, 2012) identifies several key design parameters for benefit sharing that are likely to be relevant for all REDD+ countries:

- How to **target** benefits? This includes the primary question of the overall goal of the program and the rationale for benefit sharing, as well as clarification of the beneficiaries and conditions on which they can receive benefits.
    - Countries must prioritize key actors whose land-use behaviors will need to change in order to achieve ER goals.
    - However, they must also consider actors who may not play a major role in further reducing emissions but may be entitled to benefit on an equity basis (*e.g.*, those who

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have been historically good forest stewards). Clarifying land tenure, including carbon rights, will likely be a necessary step to identify and target these beneficiaries.

- Furthermore, under this question is a set of issues around reconciling trade-offs between effectiveness, efficiency and equity considerations within the benefit sharing system.

- How to **tailor** benefits? This includes considerations of how to tailor benefits to create incentives (or compensation) sufficient to motivate desired behaviors from each actor. This will include decisions about the appropriate form, scale, and timing of benefits.
- How to **deliver** benefits? This question refers to what kind of governance and financial structures are needed, as well as the types of rules and institutions that will underpin them.
- How to ensure overall **legitimacy** of the benefit sharing system? This question relates to how the benefit sharing system is perceived by both beneficiaries and non-beneficiaries of the program, the degree to which it is perceived to be equitable and reflecting interests and aspirations of forest users. A further question under this heading relates to how beneficiaries are involved in developing, overseeing and monitoring the performance of the benefit sharing system and the flow of benefits.

Models and lessons for benefit sharing from natural resource management

Past experience in natural resource management reveals several potential models of benefit sharing, and recent analyses attempt to draw lessons from these experiences for REDD+.

Payments for Environmental Services

Project approaches have faced challenges with regard to reconciling trade-offs between equity and effectiveness. Payments are generally conditional upon access to or ownership of land and those with larger land-holdings attracting higher payments due to the environmental services they sell. Poorer farmers may be landless and as such may receive little or no benefits from PES schemes. Furthermore, while in many countries, women are the primary producers of agricultural products, they rarely own the land, or take decisions regarding land-use changes. As such women may lose out from PES payments despite them having generated the environmental service in question.

Important innovations are occurring (particularly in Latin America) where site based projects with limited geographical impact are being replaced by jurisdictional (regional or national) level initiatives that use fiscal approaches such as national, tax-based funds and inter-governmental transfers. Alignment and integration with governmental systems and finances increases potential for sustainability as well as impact

Within the context of project-based approaches, recent efforts to address equity and efficiency have resulted in important innovations such as aggregation (bundling) of sales from small-holder farmers through community-owned institutions, simplified approaches to determining land tenure, community based models of monitoring and verification and pro-poor approaches to targeting (Porras et al, 2008)

Community Forestry

Community forestry encompasses a range of approaches from the full devolution of rights, responsibilities and returns to community level actors (community based forest management) to arrangements where rights and responsibilities are shared between local actors and state agencies over the management of state-owned forests (collaborative or joint forest management). Experience from a number of countries indicates that outcomes related to improved forest management as well

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as livelihoods is more likely to occur where communities are fully enfranchised with regards to forest management rights and responsibilities.

When considering the question of equity in the context of community forestry, it is often helpful to consider aspects of "vertical" equity as well as "horizontal" equity. Vertical equity refers to how the costs and benefits of forest management are distributed between national level actors (state agencies and forest administrations) and local actors (rural communities and forest managers). Horizontal equity refers to how benefits are distributed between actors at the local level. Failure to consider the latter may result in the widespread tendency of local "elite capture" by richer, more literate and politically connected members of the community (McDermott and Schreckenberg. 2009)

Community Development Programs

Community development programs can be designed to address a wide range of community development needs, including related to sustainable natural resource management. Such programs often provide small grants to the community level for specified eligible activities. For example, in Indonesia, the National Program for Community Empowerment (PNPM) channels block grants of $120,000 to $360,000 US per year from the national budget to the sub-district level. Villages within a sub-district compete over access to the funds by engaging in a participatory planning and decision-making process resulting in self-defined development needs and priorities. Awarded funds are managed by the village government, with a strong emphasis on transparency and broad-based participation of community members. Participation of women and poor households is particularly encouraged. Most PNPM investment has been made in local infrastructure and service provision. However, starting in 2008, a pilot "green" version of the PNPM is also being implemented focusing on investments in sustainable natural resource management, conservation, and renewable energy (World Bank, 2011).

Social agreements or contracts related to concessions

Large-scale acquisition of rights on forest lands for timber, mining, and agricultural concessions are common in many developing countries. Historically, these concessions have failed to recognize the existing rights of local communities to those lands and resources, sometimes resulting in violent conflict. To address this problem, some countries now require or recommend concessionaires to establish agreements with local communities (sometimes legally binding), in order to mitigate conflict and provide community access to benefits associated with the concession. These agreements usually involve direct community engagement with the concessionaire, although negotiations are often facilitated by an intermediary.

Community access to benefits is based on the agreement, although the concessionaire often has significant control over the type and use of benefits, typically focusing on promoting sustainable livelihoods. Benefits might include a share of the concession's revenues, job opportunities, or inputs (e.g., seedlings) and land to manage for commercial purposes. This approach has direct relevance for REDD+. In Indonesia, for example, some REDD+ project developers have applied for an Ecosystem Restoration Concession (ERC). The ERC provides management rights to the project developer, who, in turn, engages and negotiates agreements with surrounding communities (Stanley, 2009).

Within the extractive industry sector, some states have established national funds from the proceeds of mineral extraction, for use in furthering national development goals. Within the context of developing countries, Botswana is considered as demonstrating good practice in this regard. To generate government income from mining operations, the Botswana government has kept its royalty rate at an intentionally modest level, so as not to discourage production, and mandates that it receive (free of charge) equity shares in the mining operation. This enables the government to reap significant profits without relying on an income tax system. In addition, the accumulated foreign exchange reserves generate significant investment income.

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Botswana has also incorporated environmental protection into its mining policy. As part of the concession agreements, mining companies were required to implement specified mitigation measures. The primary mechanism of Botswana's revenue management is not an explicit savings fund or allocation scheme, but rather a comprehensive approach to budgeting – namely a multi-year planning process, guided by the National Development Plan (NDP) developed with aide participation of government and civil society (Fischer, 2007).

4. Approaches of major initiatives

As background work for the preparation of this paper, we undertook a rapid review of 17 major international initiatives[2] that had the potential to offer lessons for the Carbon Fund on the topic of benefit sharing. They included: (i) international funds that finance environment and development projects in developing countries; (ii) funding instruments established at national or eco-regional levels to conserve specific forest areas and capitalized through donor funding; (iii) carbon funds capitalized by pooled funding from either the compliance or voluntary markets; and (iv) standards used to validate and verify carbon, social and environmental outcomes of carbon initiatives and multi-lateral funding instruments. The initiatives were not equally relevant, and more detailed analysis was carried out only on those initiatives with the potential to provide useful insights for the Carbon Fund. We summarize key characteristics and insights from the most relevant initiatives below as well as in Annex 1.

It is important to note that of the initiatives reviewed, only one (the Nepal Forest Carbon Trust Fund) includes detailed design criteria for the benefit sharing system itself – rather they provide standards for assessing them (or for informing their design) reflecting generally accepted design principles, such as disclosure, transparency, participation and consent.

Initiatives that have developed standards related to benefit sharing

In general the review found that standards for the development of benefit sharing exists at two levels – at programmatic or jurisdictional level (such as the REDD + Social and Environmental Standards (REDD+ SES) and the UN-REDD Programme Social and Environmental Criteria) or at project level (such as the Plan Vivo and CCB standards). In general, the programmatic level standards pay more direct attention to benefit sharing issues, whereas the project level criteria focus more on ensuring net positive social impacts. However, the programmatic level standards were also more general, while the project level standards provided more detailed "how to" guidance for setting up projects. A summary of key benefit sharing issues address by the different standards is presented below in Table 1.

REDD+ Social and Environmental Standards (REDD+ SES): The REDD+ SES initiative aims to support a higher level of social and environmental performance from national REDD+ programs. It includes voluntary principles, criteria, and a framework for indicators (to be further elaborated at the national level), which define key social and environmental objectives for REDD+ programs and means for measuring performance. There are seven principles, including one principle on equitable benefit sharing. Other principles relating to land tenure and livelihoods are also relevant to benefit sharing issues.

A multi-stakeholder Standards Committee oversees the REDD+ SES at the international level, and a similar multi-stakeholder approach is used to develop national interpretations of the REDD+ SES in pilot countries. The multi-stakeholder approach has proven quite effective at building broad national ownership over the standards; however, the pilot processes have also been a time and resource-intensive exercise.

[2] Clean Development Mechanism; Governors Climate and Forests Task Force; California Climate Action Reserve; American Carbon Registry; BioCarbon Fund; Global Environment Facility; Nagoya Protocol; Plan Vivo; ITTO REDDES; REDD+ Social and Environmental Standards; UN-REDD Programme; the Amazon Fund; Congo Basin Forest Fund; Climate, Community and Biodiversity Standards, Verified Carbon Standards, Nepal Forest Carbon Trust Fund

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Plan Vivo: Plan Vivo is a framework for supporting communities to manage their natural resources more sustainably. Community projects can be certified according to the Plan Vivo Standard through an independent validation and verification process. Certification makes projects eligible for PES agreements and continued technical support from the Plan Vivo Foundation. The standards define eight principles that provide detailed guidance on how to develop and implement a Plan Vivo Project. Principle 7 provides specific guidance on developing "performance-based incentives and equitable benefit sharing through a transparent PES mechanism". In addition, principle 8 provides guidance on ensuring livelihood and ecosystem benefits. (Plan Vivo Foundation, 2012)

The UN-REDD Programme Social and Environmental Principles and Criteria (SEPC) and Benefits and Risks Tool (BeRT): The UN-REDD Programme is a major multilateral initiative supporting investments in REDD+ strategy development and capacity building, current in 16 countries. They have developed two tools to support countries in address the social and environmental aspects of REDD+. The SEPC are aimed to support the design of national REDD+ strategies and help countries meet their obligations under various international agreements. The SEPC include seven principles with 24 related criteria.

However, only one criterion directly addresses benefit sharing. The complementary Benefits and Risks Tool (BeRT) is designed to help countries assess whether the SEPC principles and criteria have been met. The BeRT includes several more specific questions related to benefit sharing. A key question with regard to both of these tools is how they should be used. Since there do not appear to be any requirements or incentives to use either of tool, it remains unclear how they will be applied by the UN-REDD Programme pilot countries (UN-REDD, 2012 (b)).

The Climate, Community and Biodiversity (CCB) Standards: The CCB Standards are a voluntary certification to evaluate land-based carbon mitigation projects from the early stages of development through implementation. The CCB Standards foster the integration of best-practice and multiple-benefit approaches into project design and implementation and are designed to complement carbon accounting standards such as the Verified Carbon Standard (VCS). CCB certification is subject to a two-step independent validation and verification process. Although the standards do not explicitly address "benefit sharing" as a concept, the Gold Level Standard specifies the minimum level of benefits that must be received by communities, with special attention to low-income households, women, and other vulnerable groups. The CCB standards are now internationally recognized as the benchmark for ensuring integration of climate, community and environmental criteria into voluntary projects (CCBA and CARE International, 2012).

Forest Carbon Trust Fund, Nepal. The Forest Carbon Trust Fund (FCTF) is a four-year initiative, funded by the Norwegian government, and provides support to a group of national and regional NGOs to pilot and test and institutional mechanism for benefit sharing of REDD+ funds from community forest and watershed management initiatives. The project works with 105 community forest user groups (CFUGs) in the watersheds of Chanarwati (Dolakha district), Ludhikhola (Gorkha district) and Kayerkhola (Chitwan district). This pilot project builds upon Nepal's well-established Community Forestry model. The Forest Act of 1993 empowered District Forest Offices to hand over rights and responsibilities for managing parts of national forests to a registered community forestry user group (CFUG). In the three watershed areas, operational CFUGs are clustered together to form "REDD+ Watershed Networks."

Payments made to CFUGs are weighted according to a number of factors. 40% of the payment is based on verified reduction in deforestation (against a historical baseline) as well as increase in carbon stocks. 25% of the payment is based on the presence of Indigenous Peoples and low-caste households (dalits) as registered members of the user group. 15% of the payment is based on the presence of women members in the user group and 20% of the payment is based on recorded poverty levels in the participating community. The first pilot payment was made to all 105 user groups in 2012, totaling around $96,000.

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CFUGs may use seed grants to fund community forest management activities, livelihood improvement activities, or group-strengthening activities such as capacity building, awareness raising, and carbon monitoring. They may also decide, through consensus, to give a portion of the seed grant money to the poorest households in their community.

Although still in the process of establishing a functional MRV system, the project is developing local capacity to undertake monitoring of carbon stocks, with representation from local governments, the watershed REDD+ network, and representation from dalits and women. This committee will be responsible for monitoring and reporting on carbon data, payment distribution, and payment utilization with respect to the FCTF operational guidelines. An independent verification agency, consisting of a multi-disciplinary team of technical experts, will analyze and verify these aspects.

This demonstration project is perhaps one of the most advanced in the world in terms of generating lessons and experiences relating to the governance and management of REDD+ benefit sharing mechanisms. In particular, the project has proposed concrete governance arrangements to ensure that payment distribution is managed in a transparent, accountable, and inclusive manner. For example:

- The multi-tiered and multi-stakeholder design of the FCTF institutional structure promotes checks and balances in decision making;
- The third-party verification and audit committee promotes accountability against project performance objectives and standards; and
- The FCTF operational guidelines, including the detailed roles and responsibilities of each institution, are clear and were developed through a participatory process.

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(Source, Davis et al, 2012 (b) and ICIMOD 2011)

Table 1: Benefit sharing standards as used by different initiatives

Benefit sharing principles and criteria included within initiative	REDD+ SES	Plan Vivo	UN-REDD	CCB
Disclosure: Must have a benefit sharing plan that clearly identify how benefits will be distributed amongst stakeholders and participants	x	x		
Transparency: Details of benefit sharing plan must be shared with all stakeholders in appropriate languages	x	x	x	
Assessment: Must perform transparent assessment of predicted costs and benefits for all stakeholders	x		x	
Participation/consent: Must use FPIC or other participatory mechanisms to design and implement benefit sharing plans (or the project more generally)	x	x	x	x
Equity: Must demonstrate that benefit sharing will be equitable and will take into account existing rights	x	x		
Co-Benefits/impacts: Must deliver livelihood-enhancing co-benefits (or demonstrate net social benefits of the project more generally)	x	x		x
Tailoring: Must deliver certain types of benefits (monetary and/or non-monetary) according to certain criteria		x		
Tenure: Benefit sharing (or the project more generally) must be based on clear and secure tenure, and must not threaten participants tenure arrangements	x	x	x	x
Safeguards: Must specify corrective actions to mitigate against risks if benefits are not distributed		x		
Special groups: Must give special attention to women, indigenous peoples and other marginalized/vulnerable people in BS arrangements (or in the project more generally)	x		x	x
Legal and institutional aspects: Must establish and/or strengthen legal and institutional frameworks to support benefit sharing	x		x	
Redress: Must have ways to resolve complaints or conflicts arising from benefit sharing (or from the project more generally)	x		x	
Monitoring: Must be able to monitor the impacts of benefit sharing (or social impacts of the project more generally)	x	x	x	x

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Initiatives that have experience applying social standards (including benefit sharing standards if relevant) to finance or certify projects

In this category, we cover several international or regional initiatives that have experience applying social standards in the financing or certification of carbon-related projects. Most of the initiatives focus on projects rather than national programs. However, in some cases, the projects can be large-scale or jurisdictional. Few of these initiatives apply standards explicitly pertaining to benefit sharing. However, most of the initiatives applied broader social criteria to their investments that have relevance for benefit sharing, such as consideration of potential social impacts.

Clean Development Mechanism (CDM): The CDM is a mechanism under the Kyoto Protocol (KP) that allows countries with ER commitments to implement projects in developing countries and earn saleable certified ER credits. According to the KP, contributing to sustainable development is a primary objective of the CDM, considered equally important as generating ER credits. The CDM project cycle involves multiples of levels and phases of validation and independent verification before a certified ER credit is issued.

However, social standards[3] only play a small role in this process. According to KP rules, it is the host Party's prerogative to confirm whether a CDM project assists it in achieving sustainable development. Project design documents (PDDs) must include a maximum one-page description of the project's anticipated sustainable development benefits. The host Party's designated national authority (DNA) must provide confirmation of these benefits to the CDM Executive Board before a project can be registered. No further guidance or requirements are provided about how to define, assess, monitor, or validate the sustainable development benefits of a project.This relatively loose approach has been criticized by many CDM stakeholders (see for example, Spalding-Fecher et al, 2012) who have claimed that sustainable development benefits of the CDM have been minimal, or even negative.

A recent report commissioned by the high-level panel on the CDM Policy Dialogue assessed the sustainable development impacts of the CDM. The report generally found that the CDM has indeed created positive impacts, although the type and scale of benefits varied significantly between categories of countries and projects. The report also pointed to several factors that may limit the effectiveness of the CDM with respect to sustainable development objectives. These factors included clear trade-offs between the sustainable development and ER goals of a given project, as well as limited financial incentives (as reflected in the price of CERs) for demonstrating sustainable development contributions. The report proposes several measures that could enhance the sustainable development benefits of the CDM, including:

- Providing a menu of sustainable development indicators to facilitate documentation of benefits
- Revising the PDD format to provide more guidance on how to declare sustainable development contributions
- Enabling voluntary or mandatory monitoring of sustainable development benefits throughout the project cycle
- Establishing safeguards against negative impacts
- Establishing consequences for inadequate performance
- Giving preference for project types or technologies known to maximize sustainable development benefits

[3] Project proponents must demonstrate that the current land tenure situation is clear, document all stakeholder comments, assess potential socio-economic impacts, and monitor social impacts. These aspects are verified by the Designated National Authority, but they are not further validated by the Executive Board at the international level.

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California Climate Action Reserve (CCAR): The CCAR operates one of the premier carbon offset registries for the North American carbon market. It establishes standards for carbon offset projects, oversees independent third party verification bodies, and issues carbon credits generated from such projects. A draft Mexico Forest Project Protocol has been developed to apply to forest-carbon projects in the context of REDD+ in Mexico. The Protocol promotes the Cancun Agreement on safeguards, and as such requires that projects are verified under the CCB Standard or the Forest Stewardship Council standards for Mexico. Although the Protocol does not incorporate any specific criteria or guidance on benefit sharing, it does address issues related to benefit sharing in the context of assessing risk of non-permanence. The risk assessment includes indicators on the prevalence of land tenure disputes and the percentage of people living in the project area that will financially benefit. The risk assessment results inform the distribution of credits into the buffer account.

American Carbon Registry (ACR): The ACR is another carbon offset registry that develops relevant standards and methodologies for project certification. The Forest Carbon Project Standard does not involve any criteria specifically linked to benefit sharing. However, it does require social impact assessment and preparation of a mitigation plan to deal with anticipated negative impacts. The Standard suggests several external tools that can be used to assist in this process, such as the CCB Standard, but it does not mandate a specific tool.

The new Nested REDD+ Standard provides technical guidance for REDD+ projects within a jurisdictional accounting framework. This Standard requires that the project demonstrate conformity with any jurisdictional (national or sub-national) safeguards, which should be developed in alignment with the key elements of at least one of the internationally recognized framework approaches (i.e. UN-REDD SEPC, FCPF SESA/ESMF, REDD+ SES). It also requires that projects adhere to the principle of free, prior and informed consent.

Congo Basin Forest Fund (CBFF): The CBFF is an eco-regional fund capitalized by donor funding with an overall objective of reducing poverty and the rate of deforestation. It has five priority themes for funding, which include delivering benefits from an international REDD+ regime. Evaluation criteria are used to score and rank proposals made to the CBFF. The criteria are framed as questions relating to the quality and integrity of the project design. Only one of the criteria relates to the social impact of the proposed activity, and that is whether the project contributes to reduce poverty in forest communities.

The Amazon Fund: The Amazon Fund is another eco-regional fund aimed at supporting REDD+. Projects applying to the Amazon Fund can operate at project or jurisdictional levels. There are 15 minimum requirements for project eligibility, covering a range of issues such as coherence with goals of the fund and coherence with local government. Only one of these relates to social aspects, and it is a requirement for participation. Bureaucratic challenges and delays linked to the application process have been reported as a barrier for many applicants.

5. Options for the Carbon Fund

The review of initiatives undertaken as preparatory work for this paper suggest that a number of different options present themselves for use by the CF. These options are presented below in no particular order. While these are presented as distinct approaches, they are not entirely mutually exclusive, and aspects of one approach may be incorporated into another. Furthermore, and discussed later, different approaches may be applied at different stages within CF project cycle (for example, as ex-ante or ex-post).

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Define minimum standards related to benefit sharing

Under this approach, standards represent *minimum* standards, which, if met, trigger either the release of funds or the verification of credits. Minimum standards are often assessed using indicators to verify their fulfillment. If this option is pursued, it will be necessary for the CF to carefully consider three key issues:

The level of specificity of the standards. Standards may be defined at differing levels of detail or specificity, with more or less prescription with regard to indicators. Standards could be linked to detailed methodological requirements (such as specifying the exact mechanism and ratios for how benefits are shared), although our review did not find evidence of other international initiatives prescribing specific approaches to benefit sharing. Detailed methodologies are more likely to be prescribed at the national level, such as in the case of Nepal's Forest Carbon Trust Fund, which stipulates detailed criteria and procedures for distributing benefits to community forest user groups (CFUG).

The implications of non-fulfillment of standards. If countries or programs do not meet minimum standards, it has to be made extremely clear what the implications are. This is one of the criticisms of the UN-REDD Programme SEPC: the standards have been created, but it is yet to be clarified what the implications are for countries that do not meet these standards. As such, it could be argued that they lack "teeth". With regards to the REDD+ SES, these standards are voluntary and not linked to a particular funding instrument – but are meant to build local support, legitimacy and accountability for minimizing potential negative impacts and maximizing potential for positive co-benefits. This, in turn, it is hoped, will build confidence internationally and potentially attract buyers or donors to national REDD+ processes.

How compliance is assessed: An issue to clarify from an early stage, if the standards and indicator approach is adopted, will be whether compliance will be reported by Sellers (through an annex to the ER monitoring report, subsequently verified by supervision processes) or independently verified by an external agent. While the former is likely to be more popular with countries and cheaper to operate, it might be necessary to consider some form of third party verification, given sensitivities that surround this issue.

A possible third way could be envisaged, whereby compliance is assessed and verified by an in-country multi-stakeholder platform (with a strong representation from civil society). This model is being used with some success by the REDD+ SES initiative in its pilot countries.

A further challenge when assessing compliance, particularly of national-level processes, has been defining the means of verification and assessing attribution for certain criteria. For example, within the REDD+ SES, participants are required to assess whether the national REDD+ program is creating "additional and positive social impacts on the livelihoods of Indigenous Peoples and Local Communities", although no specific methodology has been developed as yet to achieve this.

Providing voluntary guidance through non-binding guidelines and tools

In this approach, REDD+ Country Participants (Sellers) are provided with non-binding guidelines, decision-trees or tools to help them develop benefit sharing arrangements. This may be specific "how to", or good practice guidance (GPG) around commonly agreed norms and principles (such as those developed jointly by UN-REDD and FCPF Guidelines on Stakeholder Engagement in REDD+ Readiness).

- In the case of the FCPF Readiness Fund, while participating countries are not directly assessed as to whether they followed specific guidelines, Readiness Preparation Proposals (R-PPs) are assessed (and peer reviewed) against a set of agreed standards and countries are requested to make modifications or improvements on initial drafts based on an iterative feedback process.

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- In the case of the REDD+ SES, support is built outside government (specifically within civil society that reflect the interests of forest-dependent communities) with a view to building demands on government for the use of country-specific guidelines that increase participation, transparency and legitimacy.
- Guidelines and tools may also be used within the context of a criteria and indicator approach in that they provide more detailed information on how to assess, measure, and (voluntarily) report on the achievement of specific indicators.

"Positive list" approaches

The positive list approach is to some degree the reverse of the minimum standards approach discussed above. Rather than applying sanctions and penalties for non-compliance, the positive list approach provides a menu of opportunities open to financing support. In some cases (as with the Amazon and Congo Basin Forest Funds), the positive list may be used to competitively solicit funding from a broad pool of applicants – with funding going to those whose application best meets the criteria, goals or activities specified in the positive list.

- In the context of the CF, one option might be to ER Programs that have most rigorously addressed issues such as transparent and equitable benefit sharing mechanisms in their design.
- Alternatively, positive lists may be used to increase the size of individual payments made by national level funds, as illustrated in the case of the Nepal Forest Carbon Trust Fund, described above.

Adoption of equivalent standards or methodologies used by other existing initiatives

In this approach, CF could adopt benefit sharing procedures used by other initiatives or funding instruments pursing similar goals. Indeed, there has been considerable discussion recently between FCPF and other potential delivery partners (such as United Nations Development Program and the Inter-American Development Bank) regarding the question of "equivalence" in safeguard procedures and requirements and the development of a "Common Approach" in the assessment and monitoring of social and environmental safeguards. Within the somewhat narrower context of benefit sharing this option is somewhat challenging as the review of different initiatives presented above found very little specific guidance or requirements related to benefit sharing per se.

One potential system that might provide a possible fit for the CF is the REDD+ SES, which does have specific provisions for benefit sharing within the context of national REDD+ processes.[4]

- However, problems may occur as there is a substantial overlap between the safeguard requirements under World Bank Operational Policies and Procedures (manifested through the SESA and ESMF) and other principles and procedures within REDD+ SES (which reflect wider UNFCCC decisions on safeguards).
- As such, wholesale adoption of the REDD+ SES may be problematic, and a more selective adoption of specific standards may be more workable, if duplication of effort is to be avoided.
- Furthermore, while the adoption of the REDD+ SES principles, criteria and indicators may create incentives for the widespread adoption of this system, it may also go against its demand-driven and country-led basis.

[4] Principle 2 (of the 7 presented within the REDD+ SES) states "the benefits of REDD+ programs are shared equitably among all relevant rights holders and stakeholders". Under this principle, there are two standards through which achievement of this principle can be assessed.

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Risk assessments

The final option that has been used by some initiatives is that of risk assessments. Within the context of UN-REDD, the BeRT is framed as set of questions that can be used to identify risks and opportunities in the development and implementation of national REDD+ programs. For each primary question, a small set of guiding questions help to arrive at the answer to the primary question and provide a more comprehensive basis for identifying risks and opportunities. Where risks are identified, users are encouraged to identify actions to mitigate them, based on national context.

- The tool links to best practice guidance and other resources on approaches for mitigating risks.
- As discussed previously, it is unclear what penalties (if any) would accrue to Sellers who either failed to use this tool, or who identified risks and then failed to develop mitigating actions.

Other initiatives that use risk assessment more directly are CCAR and VCS, which are discussed briefly below. Although VCS does not address benefit sharing directly, non-permanence is identified as a potential risk. Projects are required to conduct a "non-permanence risk analysis" to determine an overall "risk rating". Risk ratings are based on an assessment of risk factors, which are classified as internal, external or natural risks. Within external risks, aspects such as community engagement, land tenure and resource access are assessed. Where risks are identified that have the potential to undermine permanence, project developers are obliged to deposit credits into a pooled "buffer account", to cover unforeseen loses in carbon stocks, with the number of deposits required depending on the assessed degree of risk. The draft Mexico Forest Project Protocol under the California Climate Action Reserve follows a similar arrangement.

- The advantage of such schemes is that it is in the project developer's interest to ensure that all reasonable measures are taken to assure permanence and militate against possible non-permanence risks in advance of, and during implementation.
- Within the context of the CF, a risk assessment tool could be developed for the purpose of militating against potential risks during the design, establishment or implementation of a benefit sharing system.
- Risks that have been identified, such as elite capture, lack of transparency and limited consultation during design could be offset or mitigated through a simple risk assessment tool which would trigger an alert and propose mitigating action. Where Sellers fail to take specific action to mitigate risks some form of penalisation could be envisaged within the context of the CF.

A summary of the different options is presented below in Table 2 and their potential advantages and disadvantages are listed.

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Table 2: Summary of key approaches and their respective advantages and disadvantages

Approach	Advantages	Disadvantages
Minimum standards	- Robust method with clear verification. - Can be used to specify process for developing benefit sharing system without prescribing outcomes, thereby providing flexibility and local adaptation - Can allow for wider stakeholder participation and oversight (if specified)	- Local adaptation limited - May be resisted by participating countries due to sovereignty issues - Independent verification (if adopted) results in higher transaction costs - Means of verification for non-quantifiable issues can be difficult and subjective
Non-binding guidance & tools	- Allows local adaptation and flexibility, which can enhance country ownership - Likely to be well received by participating countries / programs - Can enable iterative process of feedback and improvement	- May lead to inequitable outcomes in countries that do not adhere to guidelines - Less likely to be open to broad-based stakeholder inputs and participation unless this is required - Likely to be perceived as less rigorous by international community
Positive list	- Allows for ranking of different programs and introduces element of competition (which may in turn increase standards) - Creates positive incentives for higher performance on social aspects	- May be more effective in delivering prescribed outcomes rather than defined processes - Less likely to be open to broad-based stakeholder inputs and participation during the design of mechanism
Using existing standards	- Using standards that have been developed through robust processes could enhance credibility of CF MF - Reduces proliferation of multiple approaches (which increases transaction costs for participating countries)	- May create duplication on other safeguard aspects - Existing standards may not be adequate for the needs of the CF
Risk assessment	- Creates positive incentives for higher performance on social aspects - May reduce likelihood of negative impacts from benefit sharing arrangements	- Incurs additional costs (and skills) in terms of performing risk assessment

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Options related to timing

Another important dimension in this discussion is the question of at which stage during the project cycle specific measures related to benefit sharing are addressed. For example, should guidance or minimum requirements be provided during the first stages of submission of the ER-PIN, or should it come later, such as during the negotiation and signing of the ERPA? Table 3 sets out possible options regarding the different expected stages of the CF negotiations at country / program level.

Table 3: Summary of options regarding timing of potential actions by stakeholder group

Stage	Options	Potential roles of key actors
ER-PIN (Submission, Review, LOI)	1) Benefit sharing good practice guidance to aid development of ER-PINs 2) Benefit sharing "positive list" for competitive selection of ER-PINs	**Seller:** Draft an ER-PIN, including ideas and options for benefit sharing arrangement (based on ER-PIN template) **Buyer:** Assess ER-PINs against (basic) benefit sharing criteria to inform initial selection of ER-PINs
Due diligence and approval of ER Program Document	1) Benefit sharing good practice guidance to aid development of benefit sharing plan 2) Benefit sharing minimum standards to approve benefit sharing plan	**Seller:** Draft an ER Program Document, including first thoughts / ideas on benefit sharing plan **Buyer:** Expert review and feedback on benefit sharing plan; assessment of final benefit sharing plan informs approval of ER Program Document
Readiness assessment (endorsement of R-Package)	1) Benefit sharing good practice guidance on what to include in R-Package 2) Benefit sharing "positive list" for readiness 3) Benefit sharing minimum standards for readiness	**Seller:** Submit R-Package including assessment of readiness for benefit sharing and associated risks/opportunities **Buyer:** Assess R-Package against benefit sharing criteria; benefit sharing readiness assessment informs decision to advance to ERPA negotiations
ERPA negotiation and signing	Refer to ERPA term-sheet, and evolving general conditions	
Implementation, verification and payment	Refer to ERPA term-sheet, and evolving general conditions	

6. Potential candidate approach for the Carbon Fund

Based on the above options analysis, we present recommendations to the CF on how to address benefit sharing issues in its Methodological Framework. Below we suggest an overall approach for providing guidance on benefit sharing, followed by a more detailed discussion of specific standards and indicators that could be used.

Overall approach for addressing benefit sharing in the Methodological Framework

Attempts to prescribe a specific methodology or approach for REDD+ benefit sharing is unlikely to be effective, specifically on the questions of how target, tailor, and deliver benefits. Sellers are likely to employ unique approaches based on their particular circumstances, such as the main drivers of deforestation being addressed by the REDD+ program and the existing land tenure arrangements in program areas. This assessment recommends that instead, practical good practice guidance be provided to countries that assist them to address these questions in order to develop locally suitable benefit sharing arrangements.

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- This guidance can draw on existing experience and related literature, such as that highlighted in the background section of this paper.
- The guidance can be developed and refined through an iterative process incorporating emerging experience from the Carbon Fund and similar initiatives.
- Uptake of guidance can be reinforced, where needed, with regional training exercises, information sharing and other support services provided by the Buyer.

This assessment recommends the development of minimum standards for determining the adequacy of the proposed benefit sharing plan. Great care must be taken to avoid over-burdening Participating Countries, and consequently a limited set of standards should be deployed constituted by foundational aspects only (which if not implemented, are likely to result in the collapse or serious malfunction of any benefit sharing system).

- Effectiveness of the minimum standards can be maximized through simple assessment procedures, including an unambiguous means of verification.
- The achievement of minimum standards for benefit sharing can be tied to two major decision points: the approval of the ER Program Document and the issuance of ER payments.

This assessment recommends the development of a "positive list" of non-binding standards to incentivize good practice in the development and implementation of benefit sharing plans. To develop these standards, the Carbon Fund can draw on existing social and environmental standards, prioritizing those that have been developed and piloted through an inclusive multi-stakeholder process (such as the REDD+ SES).

- Informal assessments of whether an ER Program has adopted and adhered to non-binding standards should explicitly be considered during two key decision points: the selection of ER-PINs and the ERPA negotiations.
- With respect to the selection of ER-PINs, the positive list will help to prioritize the allocation of resources to those countries or programs that have most rigorously considered potential benefit sharing ideas and options.
- With respect to the ERPA negotiations, the positive list can incentivize the mitigation of risks by influencing decisions about pricing and conditions for advance or final payment. I
- If certain non-binding standards are agreed by the prospective buyer and seller as conditions for payments, then they may become binding standards for which compliance must be assessed at time of payment.
- An ongoing question is whether financial solvency should also be added to a "list" of standards—mainly to ensure the sustainability of the Program.

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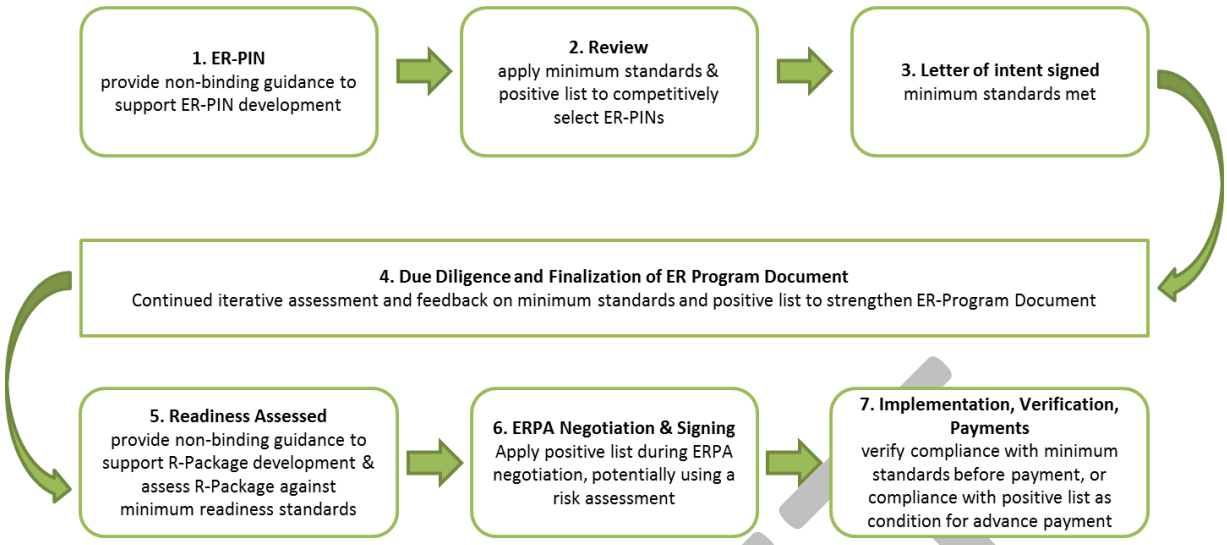
Figure 1: Proposed incorporation of criteria and indicators into the CF program cycle



Specific standards and indicators

The development of social and environmental standards – including related indicators – is best developed with the input of CF participants and stakeholders. Ideally this would occur through a broader process addressing benefit sharing as well as other relevant issues. We propose standards and indicators below as a starting point. In some cases they are direct copies of existing standards developed under other established systems, and others build on considered best practice and risk mitigation measures developed elsewhere for similar programs.

The standards and indicators below include those that elaborate good processes for developing and implementing benefit sharing systems (*e.g.,* participation of stakeholders), good qualities of a well-designed system (*e.g.,* the system targets those responsible for deforestation as wells good forest stewards), and good outcomes from effectively implementing benefit sharing systems (*e.g.,* net social benefits for local communities). However, we have stopped short of recommending or prescribing detailed design aspects of benefit sharing systems per se (e.g. how benefits are shared, to which stakeholder groups and in which amounts).

- For each standard, we propose a number of indicators (phrased as questions). If these are to be adopted, specific verifiers will be needed, which would be assessed at the ER-Plan stage.
- We recommend that no more than 3-5 of these criteria would be selected as minimum standards while others could be selected for inclusion within a "positive list" approach.

Standard 1: The benefit sharing system was designed with the participation and consent of all relevant stakeholders

- Was a transparent and participatory process used to identify potential beneficiaries and their interests as well as actors whose behaviors need to change to address drivers of deforestation?
- Is there a transparent and participatory assessment of predicted and actual benefits, costs, and risks of the REDD+ program for relevant rights holder and stakeholder groups at all levels, with special attention to women and marginalized and/or vulnerable people?[5].

[5] adopted from the REDD+ SES

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- Are the criteria for distribution of benefits developed through a transparent and participatory process that takes into account the following factors: customary rights to lands and forests; the full range of costs, (not just opportunity costs), and the trade-offs between the "3Es"?
- Is the final design of the benefit sharing system (including how costs and benefits are shared) undertaken with free, prior, informed consultation leading to broad community support and with the full participation of all relevant stakeholders and actors?

Standard 2: The benefit sharing system clearly defines the basis for distributing costs and benefits and pays particular attention to the needs of marginalized groups

- Does the benefit sharing system clearly define the criteria and rationale for targeting specific beneficiaries, including criteria related to land tenure and property rights (including carbon rights)?
- Does the benefit sharing system prioritize those actors directly responsible for deforestation and forest degradation?
- Does the benefit sharing system find ways to reward or incentivize those who have historically been good forest stewards or who currently live in low-deforestation areas (such as the "stock and flow" approach)?
- Does the benefit sharing system give special consideration to marginalized groups (such as women, indigenous peoples)?

Standard 3: The operations of the benefit sharing system are transparent, legitimate and monitored by relevant stakeholders

- Are the operations of the benefit delivery mechanism (i.e. financial and institutional structure) overseen by a multi-stakeholder management body representing key stakeholders involved in REDD+?
- Are financial statements and other routine monitoring reports (including compliance with standards) fully disclosed in the public domain?
- Are the operations of the benefit delivery mechanism subject to an external and independent audit, the findings of which are publicly disclosed?
- Is an independent redress mechanism established and operational to serve stakeholders with an interest in the benefit sharing system?
- Are the results and impacts of benefit sharing, including the actual distribution of benefits, routinely monitoring in a participatory manner?

7. Topics on which further analysis is needed / issues to be considered

In this document, we have presented a general framework for how criteria and indicators can be adopted as a tool to ensure minimum social and environmental standards are included within the design of a benefit sharing system. By undertaking a thorough review of existing initiatives and mechanisms working with forests and climate change we have aimed to capture current experience and best practice. As such, we have proposed a mixed approach that combines the adoption of minimum standards with a positive list. This, we anticipate, will address concerns of maintaining a minimum level of social and environmental benefits, while creating incentives for the adoption of standards designed to reduce risk and maximize positive outcomes.

As indicated, there is a clear trade-off to be made between over-prescription on one hand (leading to an over-burdening of programs and high costs) and exposure to social or environmental risks on the other (caused by non-adherence to minimum standards or safeguards). Exactly where and how

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this line is drawn, is ultimately a political and not a technical decision, and one that will have to be taken by the Buyer in collaboration with in-country partners, civil society and financing. As such, further consultation will be needed to ensure that this fine line is reached in ways that are both politically expedient and programmatically robust.

One area that will require further work is the development of guidelines such as good practice guidance (GPG) that can be used by Sellers in the development of their own benefit sharing mechanisms. Specific areas that GPG could potentially support are presented below:

- how to choose the right benefit sharing approach (including rationale and basis for benefit sharing)
- how to conduct stakeholder analysis to target and prioritize beneficiaries
- how to engage stakeholders, including marginalized groups and women, in order to tailor benefits appropriately
- benefit sharing system design, including institutional arrangements and distribution criteria/mechanisms
- how to monitor benefit sharing implementation
- how to ensure transparency and disclosure
- how to make sure that benefit sharing arrangements are sustainable over time and do not comprise the overall financial viability of the program. Would government or other support be required?

Potential resources:

- PROFOR initiative on "Making Benefit Sharing Arrangements Work for Forest-Dependent Communities -- Insights for REDD Initiatives" including interactive tool for assessing options for benefit sharing. http://www.profor.info/knowledge/making-benefit-sharing-arrangements-work-forest-dependent-communities
- Forest Trends Community Engagement Guidance for Building Forest Carbon Projects http://www.forest-trends.org/publication_details.php?publicationID=2865
- USAID institutional assessment tool for REDD+ benefit sharing: http://usaidlandtenure.net/tools/institutional-assessment-tool
- USAID carbon guidebook for framing legal rights to carbon benefits generated under REDD+: http://usaidlandtenure.net/tools/forest-carbon-rights-guidebook

Further information and resources can be found in the references listed below.

In addition, the topic of benefit sharing is closely linked to other topics such as safeguards, land tenure, non-carbon benefits, and grievance mechanisms. Although these topics are being addressed in separate issue papers, the options and approaches that will be considered are likely to be quite similar. Ultimately, the Buyer will likely want to encourage a consistent approach to dealing with social issues in the Methodological Framework. Thus, it would be beneficial to view this set of Issue Papers a whole, identify cross-cutting issues, and develop common approaches.

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ANNEX 1: Approaches of major other climate initiatives on this topic

REDD+ Social and Environmental Standards
Budget: Not a fund mechanism so no specific budget for implementation
Objective: To assess and monitor the positive and negative social and environmental risks associated with national REDD+ programs. The standards provide countries with a tool to address the REDD+ safeguards listed in Annex 1 of the Cancun Agreement. The standards are voluntary and not independently verified. As such they are essentially a tool to be used by in-country stakeholders to identify and assess how safeguards are being addressed before, during and after implementation of REDD activities.
Operational level: National or sub-national (jurisdictional) (for example – Tanzania, Nepal and Ecuador – (National); state of Acre and Amazonas (Brazil), Province of Kalimantan, Indonesia.
Specific characteristics: "Principles", "standards" and "indicators" are presented for assessing social and environmental impacts and risks associated with government-led programs of policies and measures implemented at national or state, provincial, or other level. Principle 2 (of 7) states "the benefits of REDD+ programs are shared equitably among all relevant rights holders and stakeholders". Under this principle, there are two standards through which achievement of this principle can be assessed. These are: • There is transparent and participatory assessment of predicted and actual benefits, costs, and risks of the REDD+ program for relevant rights holder and stakeholder groups at all levels, with special attention to women and marginalized and/or vulnerable people • Transparent, participatory, effective and efficient mechanisms are established for equitable sharing of benefits of the REDD+ program among and within relevant rights holder and stakeholder groups taking into account socially differentiated30 benefits, costs and risks.

UN-REDD
Budget: US$ 119 million. Principle donors: Denmark, Japan, Norway and Sweden
Objective: To promote the elaboration and implementation of National REDD+ Strategies to achieve REDD+ readiness, including the transformation of land use and sustainable forest management and performance-based payments
Operational level: National (currently supporting 16 countries in Africa, Asia and LAC)
Specific Characteristics: <u>Social and Environmental Principles and Criteria (SEPC) and the Benefits and Risk Tool (BeRT)</u> SEPC is a list of principles and criteria relating to the design and implementation of national REDD+ programmes and are meant to be used during the development of national REDD Readiness strategies as well as helping countries to meet their obligations under international agreements such as UNFCC, UNDRIP, NLBI, CBD and others. It is not clear whether SEPC are binding, or voluntary, particularly given that most countries accessed funding, prior to the publication of the SEPC in March 2012. Principle 3 of the SEPC is to "*promote sustainable livelihoods and poverty reduction*", and the accompanying criterion 12 is defined as "*Ensure equitable, non-discriminatory and transparent benefit sharing among relevant stakeholders with special attention to the most vulnerable and marginalized groups*." In order to assess whether this criterion has been reached, or achieved, the Benefit and Risks Tool (BeRT) lists key questions that can be asked, namely: • Are there existing national laws and policies that affect benefit sharing at local levels? To what extent are these effective? • Are there existing institutions at local levels that govern the distribution of benefits within communities, such as forest user groups? Are these formalised and are they effective? • Are the projected costs, potential revenues and other benefits and associated risks of the REDD+ program analyzed for relevant stakeholders? Has an appropriate methodology been used in this analysis? To what extent are the outcomes reliable?

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- Does the REDD+ programme use an inclusive and transparent process that requires Indigenous Peoples and local communities, including the marginalized and/or vulnerable people among them, to determine the form benefits will take and how they will improve their long-term livelihood security and well-being?
- Has the programme used a rigorous and participatory process to identify the most vulnerable and marginalised groups and people within these groups?
- Have procedures been considered for targeting vulnerable groups, for example through means testing, and for reducing risks to such groups, for example through insurance systems, the timing and scheduling of benefit delivery, contracting arrangements that support sellers' interests etc.
- Does the REDD+ programme plan to use an inclusive and transparent process that requires Indigenous Peoples and local communities, including the marginalized and/or vulnerable people among them, to determine how benefits are delivered?
- Are there procedures for clear information dissemination about the type, scale, timing and scheduling of benefits and how these balance with costs?
- Does the benefit-sharing process include a transparent and accessible procedure for submitting and resolving complaints?
- Can relevant rights holders and stakeholders, including representatives of the marginalized and/or vulnerable groups, participate effectively in monitoring and reporting of the implementation of the agreed benefit-sharing process at national and local levels?

Forest Carbon Trust Fund (FCTF), Nepal

Budget: Approximately US$ 96,000 per year, which is paid out to 105 community forest user groups managing forests in the watersheds of Chanarwati (Dolakha district), Ludhikhola (Gorkha district) and Kayerkhola (Chitwan district)

Objectives:
The FCTF was established as part of a pilot project designed to demonstrate the feasibility of equitable and pro-poor REDD in Nepal. The project is implemented by ICIMOD and FECOFUN. The objectives of the pilot project are to:

- Strengthen the capacity of civil society actors in Nepal to ensure their active engagement in the planning and preparation of national REDD-strategies.
- Facilitate the establishment a Forest Carbon Trust Fund that is sustainable, equitable and creditable in the long run.
- Contribute to the development of REDD strategies that can effectively and efficiently monitor carbon flux in community managed forests.
- Provide a high degree of replicability and applicability and act as a model-"paving the way for new practices" not only for the Hindu Kush Himalaya region (ICIMOD members countries) but globally wherever CFM is practiced.

Operational level: The fund is administered at national level, and funds local level forest managers at community level. It is established as a pilot fund, using donor funding from the Norwegian government, rather than carbon credits from the voluntary market. Funds flow to communities in three watersheds in the middle hills region of central Nepal.

Specific Characteristics: Payments made to community forestry user groups are weighted according to a number of factors. 40% of the payment is based on verified reduction in deforestation (against a historical baseline) as well as increase in carbon stocks. 25% of the payment is based on the presence of Indigenous Peoples and low-caste households (Dalits) as registered members of the user group. 15% of the payment is based on the presence of women members in the user group and 20% of the payment is based on recorded poverty levels in the participating community.

There are currently only 105 CFUGs from the three watersheds that can access NORAD seed grants through the FCTF, a process that involves a number of steps as outlined below:

- CFUGs fill in claim forms as indicated in FCTF Operational Guidelines.
- Each watershed's REDD network collects claim forms for submission to the District Advisory Committee (DAC).
- The DAC reviews submissions and forwards them to the Central Advisory Committee (CAC), which has the right to accept or reject the compiled claims or call for more data or field verifications conducted by an independent agency, if necessary.

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- After claim forms are reviewed and accepted, the CAC determines the amount to be disbursed in each of the watersheds as seed grants based on criteria outlined in FCTF Guidelines like annual forest carbon stock growth and the number of right holders in each CFUG, including the number of members from indigenous, Dalit, women, and marginalized groups.
- As per the decisions of the CAC, the Project Management Unit (PMU) disburses seed grants to each watershed's REDD Network, which distributes the grant money to CFUGs.

CFUGs may use seed grants to fund community forest management activities, livelihood improvement activities, or group-strengthening activities such as capacity building, awareness raising, and carbon monitoring. It may also decide, through consensus, to give a portion of the seed grant money to the poorest households in their community.

Clean Development Mechanism

Budget: The total investment in registered or soon-to-be registered CDM projects as of June 2012 is estimated at USD 215.4 billion. The average investment per project is approximately USD 45 million.

Objective: Allows countries with ER commitments under the Kyoto Protocol (KP) to implement projects in developing countries and earn saleable certified emission reduction (CER) credits, which can be counted towards their targets. Developing countries are expected to benefit from technology transfer and investments in sustainable development (SD) that are additional to existing financial flows.

Operational level: Large-scale and small-scale projects. Small-scale projects can be "bundled". To qualify as a small-scale afforestation/reforestation project, expected GHG removals must be <8 kilotonnes CO2 per year and project must be developed or implemented by low income communities/individuals as determined by the host country.

Specific Characteristics:

Sustainable development requirements: Requirements relating to SD are loose. According to the KP, it is the host country's prerogative to confirm whether a CDM project assists it in achieving its SD goals. The KP does not define SD, provide guidance on how SD should be assessed, or require SD impacts to be monitored. The only requirement is that the Project Development Document (PDD) must contain a description of the project's contributions to SD (one page max). There have been many calls for additional international guidance to support countries to define, assess, and monitor SD criteria. A 2012 review[6] of over 2,000 PDDs documents their SD commitments with respect to 10 indicators. There has also been a fair amount of independent research on the SD impacts of CDM projects, generally finding limited positive impact and, in some cases, negative impact. There is also a large body of case study research on lessons from benefit sharing arrangements in specific CDM projects.

Other social requirements: The PDD must: (1) describe the current land tenure situation and how this might affect CERs, (2) document all stakeholder comments, (3) assess major socio-economic impacts, and (4) develop a monitoring plan that includes the tenure and socio-economic aspects. A Designated Operational Entity (DOE) must validate the PDD and subsequent monitoring reports, including with respect to the social requirements. At the international level, the Executive Board approves validation reports submitted by the DOE following a "completeness check" but does not perform any additional verification of the social requirements.

Plan Vivo

Budget: N/A

Objective: The Plan Vivo Standard is a certification framework for projects supporting rural smallholders and community groups with improved natural resource management, including PES. It is specifically designed to support community based projects where activities are undertaken directly by smallholders and community groups, who receive staged incentives and support from a 'project

[6] http://cdm.unfccc.int/about/dev_ben/ABC_2012.pdf

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coordinator'. The Plan Vivo Standard is supported by step-by-step guidance and procedures for project development.

Operational level: Project level.
Plan Vivo Certificates issued: 1,391,674
Smallholders and groups involved: 9891
Area under management: 26,210 ha plus >200km boundary planting

Specific Characteristics: The latest version of the draft Plan Vivo Standard includes standards relating to benefit sharing, including:

- PES agreements with participants must specify:
  - The quantity of climate services transacted including any risk buffer
  - The plan vivo the PES agreement relates to and its date of approval and implementation
  - Performance targets and details of payments and/or other benefits to be received by participants when performance targets are met
  - Corrective actions that will take place if performance targets are not met including any withholding of payments or benefits
  - The PES period (period over which monitoring and payments will take place) and overall duration of commitment to the plan vivo
  - Any impacts of the agreement on rights to harvest food, fuel, timber or other products
- Participants must enter into PES agreements voluntarily according to the principle of free, prior, and informed consent, where sufficient information, in an appropriate format and language, is available to potential participants to enable them to make informed decisions about whether or not to enter into a PES agreement.
- PES agreements must not remove, diminish, or threaten participants land tenure.
- A benefit sharing mechanism must be defined describing how project benefits, including funding from selling Plan Vivo Certificates, will be distributed among participants and other stakeholders, including the project coordinator.
- Details of the benefit-sharing mechanism must be made available to participants in an appropriate format and language
- Benefits provided to participants may be a combination of direct benefits (e.g., payments and equipment) and indirect benefits (e.g., improving local access to education, healthy, water, and energy). The benefit sharing mechanism must include the staged provision of direct payments unless justification is provided that the provision of payments is not locally appropriate, or other forms of benefits are more likely to incentivize activities, and this is agreed with participants as part of the participatory project design process.
- The benefit sharing mechanism must be equitable i.e. represent a fair and locally appropriate distribution of benefits, taking into consideration the rights and resource inputs of different stakeholders over the PES period.

California Climate Action Reserve

Budget: Non-profit organization created by state legislation. Annual budget of $3.7 million from grants and registration fees. Has registered nearly 25 million "climate reserve tonnes" (CRTs) but does not sell/trade CRTs.

Objective: The Climate Action Reserve operates the premier carbon offset registry for the North American carbon market. The CAR works to ensure environmental benefit, integrity and transparency in market-based solutions that GHG emissions. It establishes high quality standards for carbon offset projects, oversees independent third-party verification bodies, issues carbon credits generated from such projects and tracks the transaction of credits over time in a transparent, publicly-accessible system. By facilitating and encouraging the creation of GHG emission reduction projects, the CAR program promotes immediate environmental and health benefits to local communities, allows project developers access to additional revenues and brings credibility and value to the carbon market.

Operational level: Nearly 500 projects registered in 45 US states. Currently developing protocols to register projects in Canada and Mexico.

Specific Characteristics:

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Social and environmental criteria: Positive social and environmental impacts are not quantified in the Reserve protocols. However, these positive "co-benefits" are considered during the protocol scoping process. The Reserve strives to develop protocols for project types which have the potential to improve not only the climate system, but other environmental issues as well. The Reserve's protocols do not require additional social or environmental benefits from a project, but steps are taken to ensure that GHG projects do not exacerbate or cause other environmental problems, or conflict with existing environmental regulations. All project protocols contain provisions for verifying that projects registered with the Reserve comply with all local, state, and national environmental regulations. Individual protocols may also encourage GHG project developers to consider and report on potential environmental co-benefits of GHG projects, such as reductions in other air pollutants, improvements in water quality, enhancement of wildlife habitat, etc. As of September 2012, the Reserve published a memo on "environmental and social safeguards policy". The memo does not stipulate the scope for evaluating environmental and social effects or appropriate criteria for evaluating regulatory requirements, but it does clarify under what circumstances environmental and social harms associated with an offset project may affect the project's eligibility and/or ability to receive credits.

The Forest Project Protocol: does not include any requirements related to benefit sharing or social safeguards. It does require clear proof of land tenure and property rights.

The draft Mexico Forest Project Protocol: credits will be issued directly to projects, which must have a clear "forest owner", either individual or collective legal person (ejido or communal land), who has "complete control of the trees in the project area, either through outright ownership of the trees, or through rights afforded from a state or federal agency" and is responsible for undertaking the project. The Protocol promotes the Cancun Agreement safeguards and as such projects must be verified under the CCB Standard or the Forest Stewardship Council standards for Mexico. In the context of ensuring permanence, the project owner must carry out a risk assessment, including land tenure risk, social risk, and governance risk (including benefit sharing). The risk assessment affects the distribution of credits.

Table 11.3. Land Tenure Risk 3
Applies to all types of projects.

Identification of Risk	Contribution to Reversal Risk Rating
Are there disputes over land tenure or ownership?	
No	0
Yes	80%

11.2.4.1.3 Social Risk

Social risks are based on the likelihood that policies developed within the governance of a Project Area will change to the detriment of forest stocks. This risk applies only to Project Areas that have multiple stakeholders living within the Project Area, such as communities and *ejidos*. Risks of policy change are expected to be proportionally lower where a greater proportion of the population living within the Project Aarea benefit from the project.

Table 11.4. Social Risk

Identification of Risk	Contribution to Reversal Risk Rating
Non-communal land	**0%**
What percentage of the total population living within the project area will benefit financially from the project?	
0 – 20%	30%
21 – 40%	15%
41 – 60%	6%
61 – 80%	1%
81%>	0

11.2.4.1.4 Governance Risk

Governance risk is the risk of inconsistent application of policies related to land use and benefit-sharing. This risk applies only to communally-owned lands, such as communities and *ejidos*. A project with good governance is less likely to have a reversal because the project is consented and accepted.

Table 11.5. Governance Risk 1

Identification of Risk	Contribution to Reversal Risk Rating
Non- Communal Land	**0%**
Number of General Assemblies each year	
1	6%
2	1%
>2	0%

Table 11.6. Governance Risk 2

Identification of Risk	Contribution to Reversal Risk Rating
Non-Communal Land	**0%**
The *ejido*/community has approved rules addressing forest carbon projects	
Yes	0%
No	5%

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