

Summary on

Lessons Learned for REDD+ from PES
and Conservation Incentive Programs.

Examples from Costa Rica, Mexico, and Ecuador



FONAFIFO, CONAFOR and Ecuador Ministry of Environment. 2012. Lessons Learned for REDD+ from PES and Conservation Incentive Programs. Examples from Costa Rica, Mexico, and Ecuador.

This report is a summary from a full paper prepared in Collaboration with National Forest Finance Fund “Fondo Nacional de Financiamiento Forestal”, National Forest Commission “Comisión Nacional Forestal”, Ecuador Minister of the Environment, Forest Trends, Forest Carbon Partnership Facility, and Latin American and the Caribbean Region in the World Bank.



A Report Sponsored by The World Bank:



Introduction

Between them, Mexico, Costa Rica, and Ecuador have substantial experience with implementing payments for ecosystem services (PES) and conservation incentive programs. Yet, many aspects of their experiences remain poorly understood and would require special attention in any new or expanded use of these types of incentives. As these countries, along with many others, get ready to implement integrated approaches to Reduced Emissions from Deforestation and Forest Degradation (REDD or REDD+ with conservation, sustainable management of forests, and enhancement of forest carbon stocks), they seek to understand how the lessons and challenges from their past experiences, as well as the wider lessons from similar initiatives around the world, can inform their emerging REDD+ strategies, policies, institutional frameworks, and tools.

One key requirement for PES and REDD+ is that payments must be conditional upon performance—that is, participants achieving certain outcomes or doing (or refraining from) certain activities. Performance-based payments, in turn, require supportive legal and policy frameworks, as well as effective monitoring, verification, and reporting. Moreover, they must be carefully targeted to achieve desired environmental and social outcomes, taking into account the particular goals of the program as well as synergies and trade-offs with other goals, programs and sectors.

Performance payments such as PES, whether market- or fund-based, will be an important element of national and subnational REDD+ mechanisms. Learning from past experience will therefore allow national and subnational governments to avoid past mistakes while adapting successful approaches to the REDD+ context. The central question is whether, and how, PES and conservation incentives can be effective instruments for REDD+.

At COP16 in Cancun, representatives from Costa Rica, Mexico, and Ecuador held a discussion on PES and conservation incentive programs in these three countries and their relationship to REDD+. Building on the success of that preliminary discussion, Costa Rica, Mexico, and Ecuador are working with the World Bank and Forest Trends to document PES experiences and implications for their REDD+ programs and policies, and to make this experience internationally available for REDD+ stakeholders. This report forms a part of that work and describes lessons learned in five key areas:

- a) Legal aspects of PES, conservation incentives and REDD+ programs through the lens of participation agreements
- b) Poverty reduction, livelihoods, and other equity issues
- c) Evaluating and managing trade-offs and synergies between programs, sectors, and incentives
- d) Monitoring, reporting, and verification of activities and outcomes
- e) Financial mechanisms, targeting, and controlling administrative costs

Specifically, the report describes examples of how each of these topics has been tackled in national programs and how these experiences can inform the development of REDD+ in the three focus countries and beyond.

Methodology

This report is based on a broad review of the literature, discussions with on-the-ground experts, and discussions and feedback from a workshop and two panel discussions held in Costa Rica, Durban and Washington. A list of people interviewed and of workshop participants can be found in the acknowledgements section that follows the report. Forest Trends' role in this project is that of coordinator, aggregating insights from people with first-hand experience designing and implementing national programs in the three focus countries. The World Bank provided conceptual and editorial support and financed the project.

The report is divided into five topical sections, as described above. In general, the topics are discussed in terms of discrete lessons for REDD+ from experience with national PES and conservation incentive programs. Each lesson summarizes relevant information from the wider PES literature, highlights experiences in this area in the focus countries, and describes applicability to national REDD+ strategies.

Brief Synopsis of the Country Programs

Costa Rica and Mexico have been pioneers in the creation of PES mechanisms. Costa Rica started its PES Program (PSA) scheme in 1997, coordinated by the National Forestry Financing Fund (FONAFIFO) with funds from a tax on fossil fuels. By 2009, there were 671,000 hectares under the PSA. This helped increase national forest cover from 44% in 1998 to 51% in 2005. Costa Rica's experience is also notable as regards establishing an enabling policy, legal and institutional framework for PES.

Mexico started its Hydrological Environmental Services Program (PSAH) in 2003 with earmarked funds from national water fees. The PSAH involved payments to landowning 'ejido' and 'agrarian communities', as well as individual landowners, for maintaining forest in hydrologically important areas. In 2004, the Payments for Carbon and Biodiversity Services Program (PSA-CABSA), which includes agroforestry systems, was added. These programs have since been integrated into the Program of Payments for Environmental Services (PSAB). PSAB currently covers 2.2 million hectares of forest.

More recently, Ecuador created the Socio Bosque program of conservation incentives in 2008. In addition, in June 2009 the Ministry of Environment established the "Páramo Chapter" of Socio Bosque resulting in the additional conservation of about 18,000 hectares of this Andean ecosystem of great importance for protecting and regulating water resources. By 2011 about 868,000 hectares of native forest and other priority ecosystems were protected.

PES and Conservation Incentives as Building Blocks for National REDD+

Based on the three national experiences, Costa Rica, Mexico, and Ecuador, supported by Forest Trends, the World Bank, and several experts, have identified key interrelated (and often overlapping) lessons for informing the transition to REDD+.

Chapter 1: Participation Agreements

Slayde Hawkins

Contracting for REDD+ raises complex, but not unprecedented, issues. Specifically, experience with participation agreements in conservation incentive programs in Costa Rica, Mexico, and Ecuador is instructive for REDD+.

One key lesson from the conservation incentive context is that the political and institutional context for these agreements is incredibly important. Good coordination among relevant regulatory bodies will be especially important to keeping REDD+ administrative costs down and enhancing the success of the program. Another lesson is that access to technical support and training are essential to increasing the program's reach and efficacy, though keeping costs and time investments down will be challenging. A third lesson is that tenure remains a challenge for REDD+, as it has been for conservation incentive programs. Recognizing possessory rights short of formal title is likely a part of the solution in many places.

In terms of their content, agreements opting into participation incentive programs provide the basic framework that REDD+ participation agreements are likely to follow. The agreements themselves are standardized and quite short, referencing more detailed program guidelines for procedural details. This is a good format for REDD+ as well. An important difference between existing participation agreements and those that will be used for REDD+ is the current lack of experience with contracting for concrete ecosystem outcomes, such as emission reductions or removals. To address this gap, REDD+ participation agreements will likely need to borrow not only from conservation incentive participation agreements, but also from emission reduction purchase agreements now used in the voluntary and compliance carbon markets.

A summary on lessons for Participation Agreements:

1. Provide a clear institutional framework that facilitates inter-sectoral cooperation.
2. Use simple contracts, backed up by clear, easy-to-reference program guidelines.
3. Invest in legal capacity building and technical support.
4. Explore options for overcoming tenure barriers to participation.
5. Set contract duration based on the relative need for certainty in ecosystem service delivery versus flexibility in enrolled properties.
6. Make payments directly or indirectly conditional on ecosystem service delivery.
7. Design program activities to minimize the costs of participation while allowing for productive activities to occur alongside REDD+.
8. Incorporate robust and transparent guidelines for monitoring and verification.
9. Provide clear, transparent, and enforceable sanctions for noncompliance, in combination with risk management mechanisms.

Chapter 2: Lessons from PES for the ‘Equity’ Objectives of REDD+

At present there is little evidence of trade-offs in the three countries in the sense that poverty or equity objectives are being sacrificed for environmental objectives. The challenge, at least for Ecuador and Mexico, is how to move towards a higher carbon additionality regime that targets higher risk forest areas without sacrificing social objectives. For Costa Rica, this challenge seems less urgent in view of the fact that it does not stand to gain much from a REDD+ regime based on lowering deforestation rates.

It is argued here that social trade-offs in REDD+ programs can be minimized by combining a ‘policy, governance and rights based approach’ (Lessons 1, 2 and 3) to REDD+ with targeted incentives to resource managers. The incentives system will need to tread a delicate balance between equity and carbon efficiency objectives: as pointed out by Kaimowitz (2008: 493): “If it goes too far in the direction of fairness and equity it will be difficult to significantly reduce emissions from deforestation and degradation. On the other hand, if it goes too far in the direction of efficiency it will end up rewarding wealthy groups for inappropriate and often illegal behavior, increasing inequality, and undermining the political legitimacy of the entire endeavor” (Kaimowitz 2008: 493).

While a stricter carbon additionality regime increases the risk of trade-offs, these may not be inevitable. For example, Alix-Garcia et al. (2008) show that poorer *ejidos* could be ‘winners’ in a differentiated per hectare payment regime (Box 2-1) reflecting the potential for ‘win-win’ opportunities in Mexico where the poorest communities often have very high deforestation threats. The analysis also underlines the need in the three countries to conduct rigorous *ex-ante* assessments of the likely social outcomes (positive and negative) according to different REDD+ strategies. This would help the countries identify and prioritize strategies that minimize trade-offs and/or aim for ‘win-win’ outcomes. Credible monitoring systems which factor in attribution are also essential for adaptive management and to improve program design—until there is better quality data, REDD+ program design will be hampered by contested perspectives on social impacts.

Finally, the sobering history of trying to achieve ‘win-win’ outcomes leads one to return to the debate about whether there is too great a loading of social objectives on PES and REDD+ agendas, and that other interventions are better at reducing poverty and empowering women. In the context of national REDD+ programs this argument favors a ‘do no harm’ strategy. On the other hand, as set out in Lessons 1-3, several of the ‘ingredients for success’, such as measures to tackle key policy and governance failures, are common to environmental and social agendas.

A summary of lessons on PES equity:

10. Strengthen the enabling legal, policy, and governance framework.
11. Support implementation with good governance and appropriate institutions at multiple levels.
12. Adopt a rights-based approach that respects internationally-agreed safeguards.
13. Use targeted outreach and capacity building and control transaction costs to overcome obstacles to participation, particularly for poor or marginalized people.
14. Incorporate credible monitoring of social outcomes and impacts.

Chapter 3: Evaluating and Managing Environmental Trade-Offs and Synergies

Jan Cassin

PES and REDD+ exist in a complex, potentially conflicting framework of social, environmental, and economic programs and goals. In determining where, when, and how these incentives should be used, policymakers must understand, evaluate, and manage trade-offs and synergies within this framework.

In theory, PES programs that reward multiple benefits have several advantages over programs that pay for a single service. A lesson of Mexico's PSAB is that successful programs are linked to a clear perception of the relationship between forest conservation and multiple benefits. Multiple payments would provide stronger incentives for conservation, whereas payment for a single service may not cover opportunity costs. PES programs have more chance of success if funds from different services can be combined. For example, in Bolivia an initial biodiversity payment for forest conservation provided the start-up costs to allow a watershed payment services program to be designed and implemented, with long-term funding from water users. But the challenges associated with multiple ecosystem service payment (additionality, metrics, accounting and relationships between management activities and service provision) will substantially increase transaction costs.

Despite these challenges, PES programs have explored several ways of rewarding multiple benefits: payments for different services over time in Bolivia; tiered payments based on the importance of areas for particular services in Mexico and Costa Rica; and payments tied to a points system in the above-mentioned Silvopastoral Project. Monitoring data from the latter suggest that it has resulted in greater environmental benefits and additionality than some other PES programs in the region. Payments that reward multiple services can also help ensure that a narrow focus on carbon in REDD+ does not result in trade-offs with other vital ecosystem services such as biodiversity and water.

A summary of lessons on Evaluating and Managing Environmental Trade-Offs and Synergies:

15. Account for multiple benefits in targeting payments or incentives.
16. Use multiple criteria to minimize trade-offs and enhance synergies when selecting eligible participants and activities.
17. Explicitly consider multiple or co-benefits in evaluating outcomes.
18. Evaluate synergies and trade-offs with other environmental and economic development policies and programs.
19. Use differentiated payments to recognize and reward actions that enhance synergies among multiple environmental services.

Chapter 4: Monitoring, Measurement, Reporting and Verification

Gena Gammie and Jacob Olander

From Incentive Programs to Emissions Reductions

Current forest monitoring at both the national and the program-specific level can provide increasingly reliable estimates of the actual emissions and carbon storage of lands enrolled in PES and incentive programs, and modeling efforts such as Mexico's Deforestation Risk Index can begin to estimate the counterfactual reference scenario to approximate the overall level of emissions reductions that these programs may be producing. In principle, this combination of forest cover monitoring, carbon stock assessments and credible reference scenarios could allow a national PES program to quantify its contribution to reducing emissions from deforestation nationally and potentially accessing carbon markets or results-based international payments. However, the range of different estimates of effectiveness and deforestation risk that derive from the varying analyses (see for example discussions of Costa Rica's PPSA under Lesson 2) imply that it is very difficult to ascribe a precise volume of reduction in deforestation or emissions to these programs. It is even more difficult, due the heterogeneity, geographic dispersion and fragmentation of landholdings enrolled, to precisely attribute avoided emissions to a specific landholding or participant. In this sense, the sorts of methodological approaches used to date for REDD+ projects in voluntary markets may be difficult if not impossible to apply to these programs to account for emissions reductions.

Given these methodological and quantification challenges it seems unlikely that these programs will generate emissions reductions units under project-based approaches. However, they can clearly play an important role in evolving national REDD+ strategies, and other forms of international results-based REDD+ finance could contribute to their expansion and focalization. At their current stage, these programs could be considered and financed as "results-based demonstration activities" (in the terms of the Cancun Decision, Paragraph 73) with monitoring efforts focused on estimating deforestation and emissions reductions according to changes in forest cover and carbon stocks against a program-specific reference scenario.

A summary of lessons on Monitoring, Measurement, Reporting and Verification:

20. Understand the advantages and disadvantages of PES MRV systems, taking into consideration the key differences in scale, scope and objectives that distinguish the requirements for REDD+ MRV.
21. Use effective MRV design to achieve and attribute additional emissions reductions.
22. Design MRV systems to track leakage in order to improve efficiency of program performance against REDD+ objectives.
23. In order to assess—and adaptively manage—performance on social and environmental safeguards, set clear targets and baselines, and regularly measure and evaluate relevant indicators.
24. Identify opportunities for cost-efficiency in MRV while recognizing trade-offs between cost and accuracy or precision.
25. Invest in human capital and capacity building at both "ends" of the payment.

Chapter 5: Sustainable Finance in PES/ REDD+

Tommie Herbert and David Tepper

A key challenge for PES, conservation incentives, and REDD+ is financial sustainability, i.e., creation of a stable long-term funding path to achieve the desired outcomes. The financial success of these programs hinges on integration at various levels: of different sources of finance; of funding commitments of varied duration; of private sector participants; of clearly defined objectives and adaptive management approaches; and of administrative processes for fund disbursement, MRV, and registration.

While more experimentation in funding mechanisms is necessary, experiences in Mexico, Costa Rica, and Ecuador highlight the potential of environmental endowment funds to increase financial sustainability of PES and REDD+ national programs. These entities can incorporate short and long-term payment solutions, targeted to priority areas/ activities, with funds from combined sources. Advocates of national REDD+ approaches see advantages of funding mechanisms that can leverage national, public, donor and market revenues to help address funding gaps in the early stages of program and project development. Integrating private sector participation will be critical to success of public REDD+ programs. Lessons from PES indicate that co-finance mechanisms must make direct links between users and providers of ecosystem services, and must be complemented by continued outreach to build the case for ecosystem services as an investment opportunity.

Improving targeting in public PES or REDD+ programs is one way to decrease perceived investor risks. Experiences in PES and conservation incentive programs from Mexico, Costa Rica, and Ecuador show the importance of clearly defined, measurable objectives to evaluating and rewarding performance in a national REDD+ strategy. Targeting can be improved by integrating: parameters/ qualifications for entry, education and outreach to key participants, eligible areas under high threat of deforestation, and incentives differentiated by land type. For future national REDD+ strategies, incorporating frequent adaptive management will be important to maintaining a cost-effective program.

Effective environmental targeting is costly in terms of MRV and other transaction costs. Controlling administrative costs will be a big challenge for national REDD+, particularly as social safeguards and stakeholder participation become basic prerequisites for international donors and investors. The country experiences in Mexico, Costa Rica, and Ecuador indicate that the costs can be limited by combining local technical expertise with international technology, aggregating smallholders, and integrating administrative processes with already existing programs. Designing PES and REDD+ programs with a focus on integration will facilitate enrollment, maximize co-investment, and amortize transaction and administration costs across programs.

A summary of PES lessons for Sustainable Finance in PES/ REDD+:

26. Diversify funding sources and duration to reduce risks and contribute to sustainability.
27. Engage the private sector with public programs via an enabling legislative framework.
28. Improve targeting by clearly defining objectives and baselines and using adaptive management.
29. Explore options to control administrative costs.

Acknowledgements

This report was possible thanks to people in the lists below contributing information and feedback:

Alexandra Sáenz Faerron, Ana Coral, Carlos Borge, Carlos Manuel Rodriguez, Carlos Muñoz-Piña, Cinthia Isabel Rosero Chávez, Daniela Carrion, David Bray, Elizabeth Naomi Shapiro, Erik Nicolas Gómez Baggethun, Francisco Alpizar, Francisco Flores Jaquez, Ivette González Montiel, Jacob Olander, Jennifer Alix-Garcia, Jesus Gutierrez Cacique, Jorge Mario Rodríguez Zúñiga, José Manuel Bulás, Josefina Braña Varela, Luis Gamez Hernandez, Marco Antonio Chiu Chávez, Martha Isabel Ruiz de Pedraza, Oscar Sánchez Chavez, Paola Bauche Petersen, Ricardo Manuel Ulate Chacon, Sara Cordero Pinchansky, Sofia Magdalena Garcia Sanchez, Torsten Krause, Virginia Reyes, and Wain Collen.

The World Bank task team members providing conceptual and editorial support: Leonel Iglesias Gutierrez, Pablo Cesar Benitez, Gerald Kapp, Stefano Pagiola, and Antonio Paniagua.

Finally Costa Rica, Mexico and Ecuador thank PROFOR, The World Bank Institute, and the Forest Carbon Partnership Facility in The World Bank for financing the project and sponsoring this report.

A Report Sponsored by The World Bank:

