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10

APPROACHES FOR
THE ALLOCATION
OF INCENTIVES

REDD+ ACADEMY

LEARNING JOURNAL

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The UN-REDD Programme is the United Nations collaborative initiative on Reducing Emissions from Deforestation and forest Degradation (REDD) in developing countries. The Programme was launched in 2008 and builds on the convening role and technical expertise of the Food and Agriculture Organization of the United Nations (FAO), the United Nations Development Programme (UNDP) and the United Nations Environment Programme (UNEP).

The UN-REDD Programme supports nationally-led REDD+ processes and promotes the informed and meaningful involvement of all stakeholders, including Indigenous Peoples and other forest-dependent communities, in national and international REDD+ implementation.

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METTE L. WILKIE

DIRECTOR,
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Dear Learner,

Welcome to the second edition of the REDD+ Academy Learning Journals. The journals provide you with state of the art knowledge on REDD+ planning and implementation, developed by some of the world's leading experts at the UN-REDD Programme.

The journals have been designed to accompany you in your learning journey and equip you with the necessary knowledge to understand the various components of REDD+, from the basics to the finer points of setting reference levels, monitoring, allocation of incentives and stakeholder engagement.

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CONTENTS



1
CLIMATE CHANGE AND THE
ROLE OF FORESTS



2
UNDERSTANDING REDD+ AND
THE UNFCCC




3
DRIVERS OF DEFORESTATION
AND FOREST DEGRADATION



4
NATIONAL STRATEGIES OR
ACTION PLANS



5
NATIONAL FOREST MONITORING
SYSTEMS FOR REDD+



6
FOREST REFERENCE (EMISSION)
LEVELS FOR REDD+



7
POLICIES AND MEASURES FOR
REDD+ IMPLEMENTATION



8
REDD+ SAFEGUARDS
UNDER THE UNFCCC



9
REDD+ FINANCE



10
APPROACHES FOR THE
ALLOCATION OF INCENTIVES



11
STAKEHOLDER ENGAGEMENT
IN REDD+



12
GOOD GOVERNANCE

- What is an Incentive Allocation System (IAS)?
- Characteristics of an IAS for REDD+
- Design of an IAS

CASE STUDIES

- DRC**
Logging concessions and the allocation of incentives
- NEPAL's** Community forestry
- VIET NAM**
Stakeholders' preferences studied to design a system for allocation of REDD+ incentives

ACTIVITIES

- Exercise 20**
True or False
- Exercise 21**
Crossword - Characteristics of an IAS



10

Approaches for the Allocation of Incentives

This module discusses approaches for the allocation of incentives as a way to encourage stakeholder¹ actions for REDD+. The module includes sections about:



The module contains sections about:

- What is an incentive allocation system?
- What are the key principles to follow when establishing an incentive allocation system?
- Issues to address in an incentive allocation system



What do you already know about this topic?

¹ Stakeholders include relevant government agencies, private sector entities, CSOs, and women, men and youth from forest-dependent communities, indigenous peoples and smallholders

10. APPROACHES FOR THE ALLOCATION OF INCENTIVES

WHAT IS AN INCENTIVE ALLOCATION SYSTEM?

An Incentive Allocation Systems (IAS) is a structure which can be used by a country in order to incentivize stakeholders to adopt behaviors which are aligned with the national REDD+ objectives. Such structures are also known as benefit-sharing systems or benefit distribution systems. In the context of REDD+, it might however be more appropriate to talk about allocating incentives, rather than sharing or distributing benefits, for a number of reasons:

- First, it will avoid potential confusion with ‘multiple benefits’, which is a different issue altogether, dealing with the social and environmental positive impacts of REDD+ actions beyond emission reductions;
- Second, benefit-sharing systems are usually associated with community/local level projects and using different terminology will reduce the risk of assumption that a project-based approach is being proposed; and
- Finally, the term ‘benefits’ implies a reward for actions already undertaken; but an alternative approach is to make investments for future action. The term ‘Incentives’ captures both ideas.

INCENTIVES

Countries implement REDD+ activities through a package of Policies and Measures (PAMs), as explained in **Module 7: Policies and Measures for REDD+ Implementation**. Incentives may be required to encourage stakeholders to perform specific actions or change their behaviours in line with these PAMs. There are two types of incentives:

- Direct incentives e.g. cash transfer, participatory management, etc.
- Policy and governance incentives e.g. tenure clarification, agricultural intensification, etc.

Incentives can either be provided in advance of reported results (‘*a priori*’) and considered as investments in order to achieve emission reductions (ER) or enhanced removals, or following reporting of results (‘*a posteriori*’) in

the form of a redistribution of Results-Based Finance (RBF) paid to a country in recognition of its measured ER or enhanced removals.

Note that not all PAMs need to be associated with incentives to stakeholders. Indeed, some PAMs may be effective by eliminating ‘perverse incentives’ or direct subsidies promoting forest destruction. This is addressed in **Module 9: REDD+ Finance**.

IAS UNDER THE UNFCCC

There is no UNFCCC guidance or requirement for countries to design and implement an approach for allocating incentives. Only one COP decision² relates to incentives:

1/CP.16; Appendix 1; para 2(e)

“... actions referred to in paragraph 70 of this decision [i.e., the 5 REDD+ activities] are not used for the conversion of natural forests, but are instead used to incentivize the protection and conservation of natural forests and their ecosystem services ...”

It is important to note that UNFCCC provisions do not imply that RBF should be used to provide incentives to stakeholders. However, many countries have taken this approach, and the demand for guidance on IAS is high.

Having a clear system for allocating incentives to stakeholders for REDD+ is also seen by many as a way of addressing and respecting REDD+ safeguards which refer, among other things, to the effective participation of stakeholders and the transparency of forest governance structures. If an IAS is non-transparent, or allocates incentives to parties not directly engaged in reducing emissions, it is unlikely to satisfy donors that safeguards requirements are being met. More information on Safeguards can be found in **Module 8: REDD+ Safeguards under the UNFCCC**.

² The UNFCCC has gathered all of the COP decisions relevant to REDD+ in the Decision booklet REDD+ (UNFCCC, 2014).

CHARACTERISTICS OF AN IAS FOR REDD+

A system for allocating incentives for REDD+ should be:

- **Effective:** the incentives serve to reduce emissions from forests and to promote removals by forests to the maximum extent feasible.
- **Efficient:** the incentives reduce emissions and promote removals in a way that minimizes costs (while being consistent with a rights-based approach).
- **Equitable:** the incentives are shared in a manner that is fair and equitable, particularly to vulnerable groups including indigenous people, women, youth, the poor, etc.

Ways to ensure the IAS presents those three characteristics are detailed later in this module. To help countries meet the requirement to address and respect the REDD+ safeguards, the IAS should also:

- **Ensure** the full and effective participation of all relevant stakeholders (Decision 1/CP.16, Appendix 1, paragraph 2[d]);
- **Empower** transparent and effective national forest governance structures (Decision 1/CP.16, Appendix 1, paragraph 2[b]); and
- **Engender** respect for the knowledge and rights of indigenous peoples and members of local communities (Decision 1/CP.16, Appendix 1, paragraph 2[b]).

Effectiveness

The incentives should be made available at the optimal time, at the optimal level and in the optimal form to effectively promote the desired actions and ensure the sustainability of the results or maintain the desired actions. The timing, amount and form need to be clearly defined and understood by both the recipients of incentives and those providing them, and are subject to (negotiation and) agreement between parties. This consultation and negotiation process is similar that required for Free, Prior and Informed Consent (FPIC), which is detailed in **Module 11: Stakeholder Engagement in REDD+**.

Optimal time

Some incentives can be provided before results are obtained as an investment and to establish good will; others can be viewed as rewards for successful actions. Since RBF comes only after results have been verified, a country may decide to make earlier payments for the above reasons and recover the cost later from RBF. Some bilateral agreements, such as Germany's [REDD+ Early Movers](#) programme can also pay for results achieved before the agreement came into force.

Optimal amount

An adequate incentive should be provided to stimulate and maintain the desired actions. Consideration of opportunity costs (the income foregone by a particular group in order to support REDD+ objectives) may help with defining the level. However, incentives need not be purely financial. In-kind incentives may be complementary to financial incentives and non-financial incentives alone may prove adequate e.g. improved access to extension services, or improved tenure security.

Optimal form

Stakeholders may have preferences regarding the form of the incentive, and if the incentive is provided in a different form, its effectiveness will be reduced. For example, in Viet Nam a survey of stakeholders in Lam Dong province revealed that there was a preference for non-cash incentives (see case study below). In such a case, providing at least some in-kind incentives could boost effectiveness.

Efficiency

An IAS should be financially efficient, in the sense that it must obtain the desired effects at the lowest cost possible. Certain operational elements of REDD+, such as National Forest Monitoring Systems (NFMS – discussed in **Module 5: National Forest Monitoring Systems for REDD+**) and Safeguards Information Systems (SIS – discussed in **Module 8**), carry recurring costs. These costs, which are essentially 'fixed' as they are independent of the volume of



REFLECTION POINT

Other than cash payments, what incentives do you think would work most effectively to encourage local communities to adopt behaviours that align with REDD+ objectives?

emission reductions secured, may need to be covered from RBF and will thus limit the financial resources available for incentives.

Such fixed costs can be reduced by using financial institutions as service providers. For example, the Amazon Fund uses the Brazilian Development Bank (BNDES) to administer its incentive system. In addition, administrative costs can be reduced by not letting the funds transit through several institutions before reaching their final destination (a 'cascade' of funds from the national, to state/provincial, to district/local levels, for example). A cascade also increases the risks of fraud and corruption. The system also needs to be institutionally efficient, especially for links between reporting, decision-making and delivery. If a report indicates that a milestone has been reached, triggering the delivery of an incentive, the affected stakeholders need to receive that incentive promptly in order to remain engaged and committed.

Equity

The system should allocate incentives in a fair and equitable way. All those undertaking comparable interventions and achieving comparable results should receive comparable incentives, irrespective of social position, ethnicity, gender, or any other social parameter. Stakeholders will most likely cease to engage in an inequitable system and it may even give rise to social tensions. Equity also requires transparency – agreed incentives negotiated with different stakeholder groups should be public knowledge.

Equity can be defined in different ways:

- On the basis of 'rights' held by stakeholders in relation to the concerned resources (land, forest, etc.) (note that there may be a large body of overlapping and potentially conflicting rights to consider);
- On the basis of costs (including opportunity costs) incurred in performing actions in support of REDD+ PAMs;
- On the basis of results achieved (note that, as it is difficult and costly to measure ER at a scale relevant to the allocation of incentives, it is preferable to use proxies to measure stakeholder performance).

As both women and men use forests and engage in differing economic activities, consideration of gender when defining and sharing REDD+ benefits is critical. These gender-differentiated

needs, uses, skills, and knowledge of forests can also provide critical data that can then inform and aid in undertaking action to reduce deforestation and forest degradation. For example, women's subsistence activities and indigenous knowledge of the forest can aid forest-related activities, such as species monitoring, soil management and forest restoration functions, which then can contribute positively to the sustainable management of forests or enhancement of forest carbon stocks (UN-REDD, 2011). However, women, given various political, socio-economic and cultural barriers they often face, may be disadvantaged or marginalized in traditional or formal processes, particularly land tenure, which can lead to them to having unequal access to information and legal processes, and/or not being involved in decision-making processes on benefit sharing mechanisms and structures. Women may also be excluded from REDD+ benefits due to weak rights to land and forest resources, or even because they lack a bank account.

Given these dynamics, it is critical that the design and implementation of the IAS is equitable and fully integrates a gender perspective³. In this process, the full and effective engagement of stakeholders (detailed in **Module 11**) can help ensure that benefits are equitably and fairly shared among those promoting and undertaking REDD+ interventions.

Some key questions to consider in this regard:

- Do women engage and interact with forests? If so, how?
- Is the land tenure and resource-use system equitable with regards to gender, both in policy and in practice?
- Is there transparency with regards to financial transfers to and within communities?
- Is there a strong national law on gender equality and is this law enforced and carried out in practice?
- Is there a fair and accessible system for both women and men to address grievances and conflict?

³ Integrating a gender perspective is the process of assessing and integrating the implications of any planned action on women and men, as well as including specific provisions for gender equality, including in legislation, policies or programmes. It is a systematic approach for ensuring the concerns and experiences of women and men are an integral part of the design, implementation, monitoring and evaluation of policies and programmes in all political, economic and societal spheres, so that women and men benefit equally, and inequality is not perpetuated. (adapted from [United Nations Economic and Social Council Agreed Conclusions, 1997/2.](#))

DESIGN OF AN IAS

Given the principles presented above, the design of an IAS should address seven important issues, which are listed below.

Issue 1: Who qualifies to receive incentives?

Answering this question requires properly addressing the equity issue between those who incur costs, those who have rights to the forest and those who deliver results. In Vietnam, for example, there are seven categories of forest ‘owners’. All are considered eligible for incentives except for the Armed Forces.

Carbon rights

The UNFCCC does not make any reference to the concept of ‘carbon rights’ and countries are under no obligation to define such rights. Indeed, under the Convention, reporting on ER is to be done at the national level and is the responsibility of the country as a whole. Yet, carbon rights have generated much attention and debate. Some see it as an effective legal tool to ensure that stakeholders living closest to the forest benefit from REDD+. Others have argued that carbon cannot be measured at the individual or even community level and that talking about carbon rights raises unrealistic expectations among stakeholders. It is ultimately up to each country to decide whether they wish to define carbon rights and use them to determine who should receive incentives for REDD+.

Issue 2: On what basis should decisions on allocation of incentives be made?

In theory, this could be based on performance in terms of emission reductions/removal enhancements. However, it would be immensely expensive to measure emission reductions/removals at a scale relevant for allocation of incentives – the costs would probably exceed results-based payments (RBP) received. Therefore an alternative measure of performance is needed. A measure based on inputs (e.g. time spent on forest patrols; area re-planted) is far easier to assess and can be assumed to be related to emissions reductions/removals.

Issue 3: How will the data on performance be collected, analyzed, and shared?

Assessing stakeholder performance, as a basis for the allocation of incentives, should be done objectively through the use of data. To promote efficiency, the costs of data collection, analysis and results dissemination should be kept low.

Certain variables can be integrated into the NFMS in order to assess the performance of eligible recipients of incentives (see **Module 5**). The role of participatory data collection should also be considered. For some types of data collection, self-reporting with spot checks may be most efficient. For example, communities may self-report areas of bare land planted, or person-hours of forest patrolling, but the forest authority may be responsible for checking the accuracy of reported data. In this process, it is important to ensure that data collection integrates a gender perspective, wherein consultation is undertaken meaningfully with all members in communities, including women, men and youth, who are engaged in undertaking action to reduce deforestation and forest degradation.

Issue 4: Who will make the decisions, based on the collected and analyzed data?

In order to ensure transparency and to avoid risk of corruption, decisions on the allocation of incentives cannot be made by stakeholders who are potentially eligible for these incentives. Therefore, if there is some type of committee or board to make decision, members of this committee or board (and the organizations they may represent) should not be eligible to receive incentives.

Issue 5: How will the type of incentive (monetary; various types of non-monetary) be decided?

In order to promote effectiveness and equity, stakeholders, regardless of social position, ethnicity, gender, or any other social parameter, should be able to indicate their preferred type of incentive since they will respond more positively to incentives that match their wishes. The type of incentive should be consistent among similar stakeholders. A registry may be required to maintain a record of incentives to be provided (and conditions to be met in order for them to be provided). This registry should be available and accessible for inspection and verification, at least by the stakeholders themselves.

Issue 6: How will the incentives be delivered?

This of course depends on the nature of the incentives. In order to promote efficiency, existing mechanisms may be available for delivering monetary incentives – for example, many countries have experience of conditional cash transfers in the health and education sectors. Stand-alone REDD+ ‘funds’ should not be the default choice.

Other types of incentives will require different mechanisms. Technical support incentives (for example, agricultural intensification and alternative



REFLECTION POINT

Do women have the same legal rights to resources as men?

Answer the five above questions for your country. Do you think women would have equal access to REDD+ benefits?



REFLECTION POINT

What existing mechanisms does your country have in place that could be used to deliver incentives?

livelihood options) may be delivered through specialist governmental or non-governmental agencies.

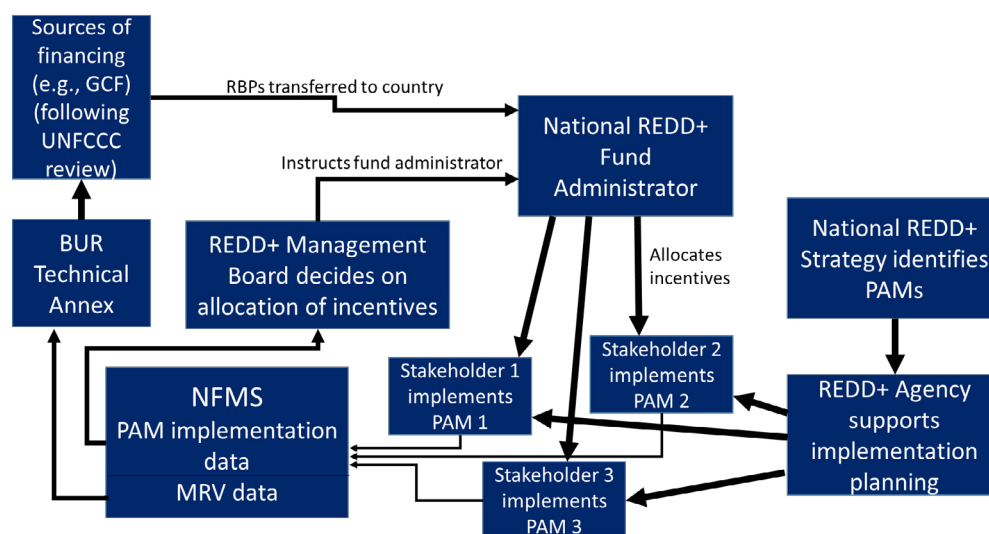
Issue 7: How will the system be monitored?

It is likely that different parts of an IAS will be monitored in different ways. As mentioned above, monitoring the performance of eligible recipients is part of the role of the NFMS.

Monitoring the delivery of incentives (in accordance with the conditions recorded in the registry of incentives) will require a different set of expertise and can for instance be the role of the REDD+ management agency.

Figure 10.1 below depicts a hypothetical IAS, and Table 10.2 demonstrates how each of the seven principles discussed above are addressed in this hypothetical system.

Figure 10.1 Example of an IAS structure



Source: UN-REDD Programme

Table 10.2: Seven principles of IAS, and how these are addressed in Figure 10.1

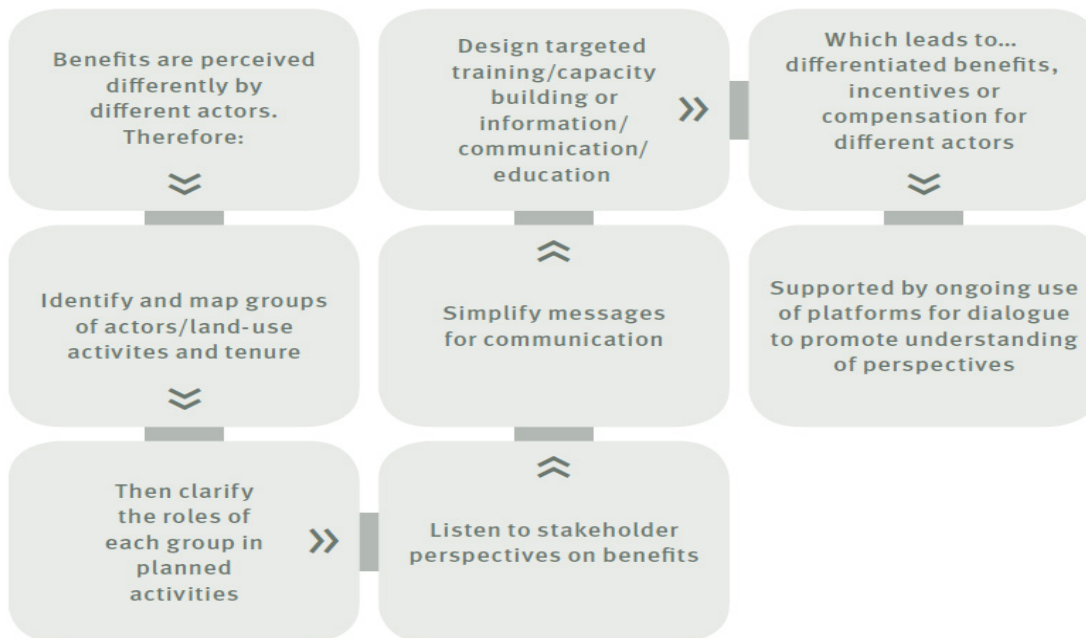
Principle	How it is addressed in the example
Who qualifies to receive incentives?	Implementation planning supported by the REDD+ Agency identifies stakeholders to be involved in implementing specific PAMs
On what basis should decisions on allocation of incentives be made?	NFMS data is submitted to the REDD+ Management Board
How will the data for decisions (either input-based or output-based) be collected, analyzed, and shared?	Responsibility of the agency(ies) responsible for the NFMS
Who will make the decisions, based on the collected and analyzed data?	REDD+ Management Board
How will the type of incentive (monetary; various types of non-monetary) be decided?	REDD+ Agency supporting implementation planning
How will the incentives be delivered?	National REDD+ Fund Administrator delivers funding to entities identified in implementation planning to be responsible for delivering agreed incentives
How will the system be monitored?	Through reports of the REDD+ Agency, REDD+ Management Board, and National REDD+ Fund Administrator

Importance of participatory processes in the design of systems to deliver REDD+ incentives

Designing an IAS that is effective, efficient and equitable, and that satisfies the seven principles discussed above, is a complex process that requires consultation and communication with a broad range of stakeholders. Figure 10.3 below presents a process which could be used to ensure that the design process is

appropriately participatory. The process begins by recognizing that different stakeholder groups have different perceptions. It goes on to explore these differences and ensure they do not present barriers to participation. This in turn enables a full and effective participatory process to develop a common vision through training, awareness-raising, and the establishment of platforms for on-going consultation. More information on participatory processes can be found in **Module 11**.

Figure 10.3 A methodology for designing incentives



Source: [The Forest Dialogue \(2014\)](#)

Examples of existing systems to deliver REDD+ incentives

Despite much debate, there are few examples so far of REDD+ AIS. There are however, many examples of relevant systems in Payments for Ecosystem Services (PES) and Sustainable Forest **Management (SFM) programmes**.

Many of the examples fail to adequately address one or more of the seven key issues described previously. For example:

- Participatory identification of the nature of incentives is rare – often the incentives are defined by government (and are often cash-based)
- Monitoring of performance may be weak or absent

- Equity is poorly defined and applied
- Decision-making is opaque

Things Not to Do

An analysis of lessons learned from early attempts to implement REDD+ ([Fishbein and Lee, 2015](#)) made four points about the allocation of incentives:

- DO NOT make assumptions about what motivates political leaders and other key stakeholders to change behaviour without a careful analysis and understanding of the context. The design of an IAS based on simplistic assumptions will probably not be efficient or effective.

- DO NOT offer largely results-based finance to low-capacity countries, jurisdictions or local stakeholders and expect them to perform. Achieving REDD+ results requires many capacities to support policies and measures involving allocation of incentives.
- DO NOT look to REDD+ payments or corporate supply chains as the sole solution to the problem. Many policies and measures are required to address unsustainable commodity production.
- DO NOT underestimate the problem of political and bureaucratic capacity and turnover in countries.

CASE STUDY: REPUBLIC OF CONGO

The allocation of incentives is not unique to REDD+. In the Republic of the Congo, as in many other countries, communities in and around logging concessions are meant to receive funds from the logging companies to pay for local development projects. However, due to bureaucratic hurdles and corruption, many villagers can't access the money and still lack basic necessities like fishing equipment, farming supplies and water pumps. Even when funding is available, funds are often not distributed equitably, with women and indigenous people typically not receiving as much support as others.

Analysis of the constraints preventing effective allocation of incentives revealed that the main problems included:

- Weak internal governance, with provincial authorities and local communities often in charge of setting their own rules for local development funds which may not be appropriate.
- Lack of technical and human capacity in regional administrations and villages for the planning, design and monitoring of development projects.
- Lack of clarity on who should receive benefits.

With support from the [EU REDD Facility](#), solutions to these problems were being sought, including:

- Developing legally binding rules to ensure fund management activities are clear and accountable. Undertaking a participatory, bottom-up investigation to gather stakeholder knowledge to assess and identify where the legal texts can be improved.
- Developing an accountability manual to guide stakeholders in project design.
- Modifying the eligibility criteria for local development fund projects.
- Training fund administrators in fund management and accounting, and creating safeguards such as monitoring systems to make the process more accountable.

CASE STUDY: NEPAL

Community Forestry is well established in Nepal, having been initiated in 1978. Despite successes in rejuvenating degraded forests, community forestry has faced many challenges in benefit sharing and resource allocation among users and stakeholders. These particularly relate to inequality and unfair distribution. In some cases, most of the benefits from community funds were enjoyed by wealthier stakeholders. Not surprisingly, it has also been found that poor and disadvantaged stakeholders participate much less in decision making and in planning and implementing activities. In other cases, benefits were strategically allocated more to marginalized members of the community based on the collective decisions that were made within the community (Shrestha et al, 2014).

There are now more than 14,000 Community Forestry User Groups (CFUGs) in Nepal, and about 39 per cent of the population belong to one. The community forests provide basic needs such as timber, fuel wood, fodder, grasses, and non-timber forest products, and for some community forests there are also opportunities for commercial sales, mainly of timber. Revenues from such sales are deposited in a community bank account and are intended for local development projects.

An operational plan and a constitution are required documents for CFUGs, and responsibility for overseeing implementation of the operational plan falls to the User Group Committee (UGC). However, some UGCs may be dominated by richer and higher social status CFUG members, and the use of revenues tends to preferentially benefit those same groups.

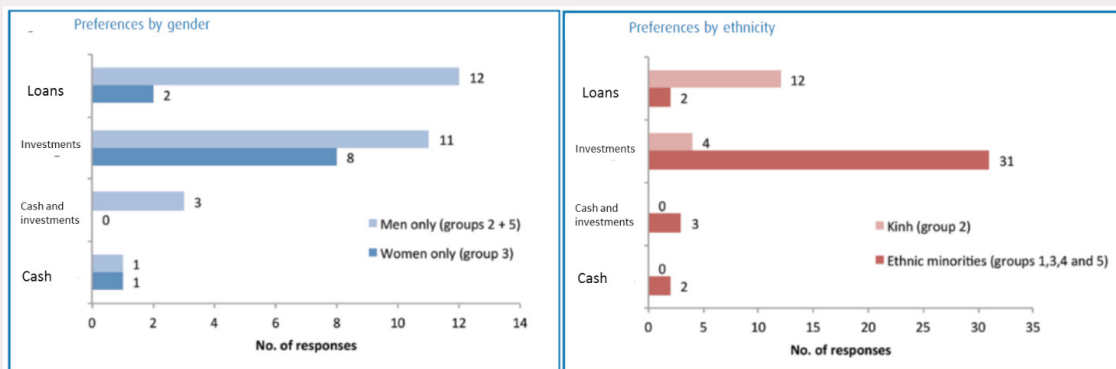
REDD+ IAS could encounter similar challenges in ensuring equity among users without antagonizing certain groups or lowering the overall level of support for REDD+. Some of the possible solutions include:

- Ensuring that REDD+ policy at the national level supports transparent and accountable systems at local levels;
- Educating local leaders on issues such as planning and monitoring, and the importance of effectiveness, efficiency, and equity; and
- Raising awareness among stakeholders of their rights and responsibilities under REDD+, and ensuring that conditions for the provision of incentives are well understood.

CASE STUDY: VIET NAM

As part of a process to design a system for allocation of REDD+ incentives in Viet Nam, a study was conducted of stakeholders' preferences in a commune in the Central Highlands (Enright, 2013). Participants in the study were assigned to groups and asked to consider a number of possible incentive packages. Differences among the packages related to variables such as the type of incentive offered, the frequency of provision, the conditions for provision and the institutions involved in administering the mechanism.

The results indicated a wide diversity of opinions, and highlighted gender and ethnic differences (see below).



A number of key results:

- Few stakeholders wanted cash incentives. This, despite the fact that cash incentives are the only option available under the pre-existing 'Payment for Forest Ecosystem Services' scheme in Viet Nam.
- Men are far more willing to consider loans as a viable incentive than women. A large majority of women favoured investments in community infrastructure as the best type of incentive.
- Similarly, a large majority of ethnic minority stakeholders favour investments as the best form of incentive. The Kinh majority (Vietnamese) stakeholders, in contrast, prefer loans.

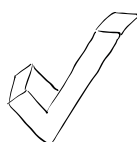
Recognizing that stakeholders are only effectively incentivized if offered something they value, the results emphasize the need for a flexible system that can offer different type of incentive to different stakeholder groups.



EXERCISE 19

Is the following statement true or false?

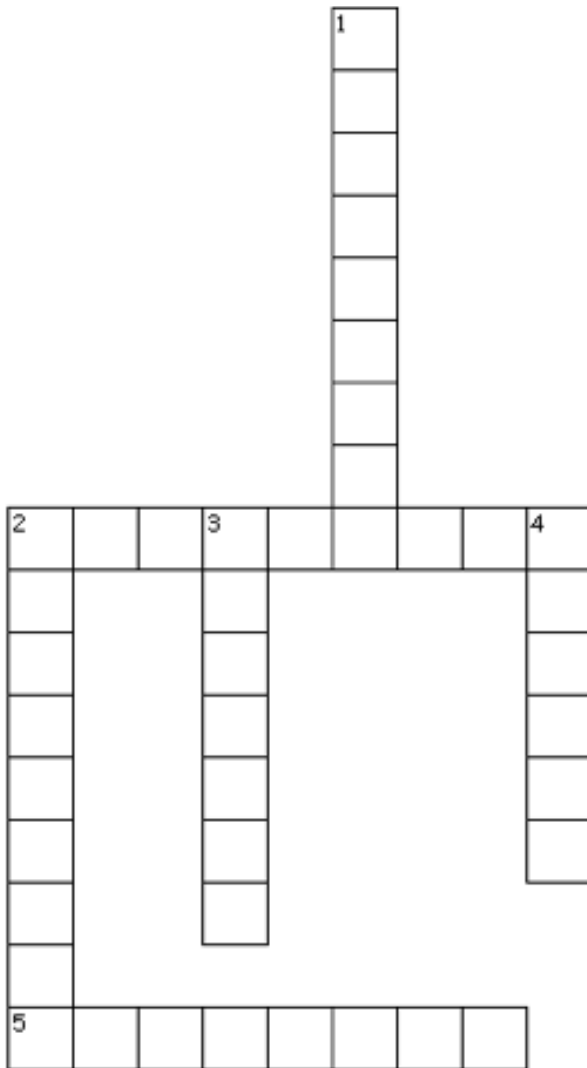
An Incentive Allocation System (IAS) can also be known as a 'benefit sharing system' or 'benefit distribution system'.





EXERCISE 20

Characteristics of an IAS for REDD+ (The numbers in brackets are the letters in each answer).



Across

- 2 - Incentives that reduce emissions and promote removals by forests to the maximum extent feasible are ... (9 letters)
- 5 - An important aspect of equity is gender ... (8 letters)

Down

- 1 - Incentives that reduce emissions (and promote removals) in such a way as to minimize costs are ... (9 letters)
- 2 - Incentives shared in a manner that is fair and equitable, particularly for the benefit of the most vulnerable are ... (9 letters)
- 3 - An inequitable IAS will lead to stakeholders not being ... (7 letters)
- 4 - It is essential to ... the full and effective participation of all relevant stakeholders. (6 letters)

Answers exercise 20

Across answers
2 Effective
5 Equality

Down Answers
1 Efficient
2 Equitable
3 Engaged
4 Ensure



KEY MESSAGES:

- Incentive Allocation Systems (IAS) are structures which can be used by a country in order to incentivize stakeholders to adopt behaviours which are aligned with the national REDD+ objectives.
- There is no UNFCCC guidance or requirement for countries to design and implement an approach for allocation of incentives.
- Incentives and Allocation Systems should be effective, efficient and equitable.
- The design of an IAS should address seven important issues and be developed through a participatory process.



WHAT FURTHER QUESTIONS DO YOU HAVE ABOUT THIS TOPIC?



NOTES

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NOTES

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Web resources:

- REDD+ Web Platform, at <http://redd.unfccc.int/>. The UNFCCC's hub for sharing information and lessons learned about REDD+ activities.
- UNFCCC website, at <https://unfccc.int/2860.php> (not unfccc.int). A source of wide-ranging information on the Convention, including REDD+.
- UN-REDD Programme, at: <http://www.un-redd.org/>, and its Collaborative Online Workspace, at <http://www.unredd.net/>. The workspace provides resources and a discussion forum to support countries engaged in REDD+ and promote stakeholder engagement.

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