

Making REDD Payments Effective:

Designing REDD+ Benefit Distribution Systems (BDS) in Viet Nam, Cambodia and Laos

REDD: An unprecedented opportunity

An estimated 410 million people worldwide depend directly on forest resources for their livelihoods, while 1.2 billion people in developing countries derive part of their subsistence from forests and trees.¹ Reducing Emissions from Deforestation and Forest Degradation (REDD) creates a financial value for the carbon stored in the forests and offers incentives to developing countries to reduce emissions from forested lands and invest in low-carbon paths to sustainable development - it is estimated that global financial flows for greenhouse gas emission reductions could reach up to US\$30 billion a year.²

REDD+: Moving beyond REDD

Deforestation and forest degradation contribute up to 20% to global anthropogenic greenhouse gas emissions. To address this, REDD+ was established at the United Nations Framework Convention on Climate Change (UNFCCC) Conference in 2007. REDD+ moves beyond deforestation and forest degradation and includes the role of conservation, sustainable management of forests and the expansion of forest carbon sinks. REDD and REDD+ will officially come into existence after the first phase of the Kyoto Protocol (post 2012) and there are ongoing efforts to prepare recipient countries.

For Viet Nam, Cambodia and Laos, REDD+ presents a significant opportunity. However, the potential to attract international investment and REDD payments will depend, amongst other things, on a country's ability to establish an effective REDD-compliant benefit distribution system (BDS) to ensure that financial and non-financial benefits reach the local stakeholders who directly reduce deforestation and degradation and provide the (emissions reduction) service.

What is a BDS?

A BDS is a mechanism to effectively transfer international payments for carbon conservation to local stakeholders in accordance with agreed performance standards. A REDD+-compliant BDS is one which addresses the principles, and meets the expectations of the international community in terms of equity, transparency, and performance-related aspects, while managing REDD+ revenues in an effective and efficient manner.

REDD+ readiness

In order to assist the Government of Viet Nam (GoV) to design a REDD+-compliant BDS, IUCN and the UN-REDD Programme convened a team of national and international consultants on behalf of the Ministry of Agriculture and Rural Development (MARD) to prepare a study of BDS issues and options. Field work, literature reviews, and stakeholder consultations were carried out. This study is the first comprehensive analysis of the issues which a national REDD+ BDS would need to address. It identifies potential barriers and constraints on such a system, and identifies options to overcome these. Supported by Sida funding from SENSIA, IUCN undertook a similar process in Lao PDR, and a more rapid assessment in Cambodia. This issues and options paper outlines the findings of these three studies.

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Scope of a BDS

Establishing a sustainable REDD-compliant system.

Developing a framework and implementing mechanisms that ensure equitability

Conducting effective and transparent monitoring of the system.



Viet Nam

A functioning administration, social stability and relatively high level of tenure security would enable Viet Nam to gain a competitive edge in a future REDD+ regime, which could potentially generate up to US\$80-100 million/year for the country. In line with its stated goal to become an international leader on REDD+, the GoV has identified the design of a transparent and equitable BDS as a key priority in order to establish an effective REDD framework.³

Establishing a successful BDS

To ensure the effectiveness of REDD+, and subsequently attract significant international investment, it is important that an equitable and transparent BDS be established.

In developing a BDS, three key legal issues have been identified as priorities: the rights to forest and carbon; mechanisms for coordination between each of the government agencies involved in REDD, and ensuring that all legitimate beneficiaries are recognised within the process.

To satisfy these three priorities, a legal framework is needed to provide guidance on how these issues are addressed within Viet Nam. The legal framework would also enable the GoV to develop an efficient BDS and ensure that all further legal issues that may arise are adequately addressed.

Implementing a sustainable framework

To ensure that the international REDD+ requirements regarding transparency, equity, and performance linkages are met, it is important that an equitable BDS is implemented within Viet Nam. In order to do this, an effective framework must first be established.

There are several mechanisms that may be considered when establishing a BDS framework. These include establishing a REDD+ fund managed by a multi-stakeholder board and subject to independent external audit. REDD+ revenues could be centralized to minimize transaction costs, and a performance-based funding mechanism may be identified to ensure there is a direct connection between revenues received and payments to forest managers.

These mechanisms are intended ensure that REDD+ benefits are shared with forest managers in an equitable manner that also provides a strong incentive to make the reductions permanent. This will ideally lead to a sustainable and internationally recognized BDS.

Ensuring Legitimacy and Transparency

Continued monitoring of an established BDS will ensure the credibility of REDD+ in Viet Nam and is consistent with the GoV's intention to become an international leader on REDD+.

The development of a comprehensive monitoring process could include the concept of 'participatory monitoring', where local people record information about their landscape in a systematic and cost effective manner.

A monitoring system can include a socially acceptable recourse mechanism to manage complaints that may arise. In developing this recourse mechanism, the GoV may consider how Vietnamese civil society organisations can be most appropriately integrated into the system. This will ensure maximum participation in the REDD+ system.

Viet Nam: A competitive edge

Viet Nam is well-placed to develop a REDD-compliant BDS as a result of many years of experience with initiatives such as the 5 Million Hectare Reforestation Programme, which was launched in 1998, and internationally supported payments for forest environmental services (PFES) pilot projects.



Cambodia

In 2009 Cambodia became an official observer of the UN-REDD Programme. UN-REDD in Cambodia focuses on preparing the country for REDD+. The unique history of Cambodia, its rapid development and the current challenges Cambodia faces over land tenure, governance and technical capacity result in a requirement for more extensive research of the Cambodian context if REDD+ is to be successfully introduced.

Preparing for REDD

To successfully prepare for REDD+, the Government of Cambodia (GoC) could initially develop a research programme comprised of:

- Producing a detailed needs assessment for what is required in Cambodia to establish REDD+ projects;
- Conducting field research to evaluate previous REDD+ related or community conservation projects;
- Researching and identifying legal options to establish a REDD+ legal framework;
- Articulating how the Cambodian political environment affects natural resource management;
- Conducting research with local and government stakeholders to establish expectations, concerns and how REDD+ will be developed in Cambodia.

Establishing a sustainable BDS

A comprehensive BDS framework that is managed and regulated with mechanisms to ensure accountability and transparency is desirable and can create a sustainable system and international confidence in Cambodia's approach to REDD+. The BDS should be detailed and clearly defined, but also flexible.

The BDS mechanism may include a measure for capacity development to ensure that Cambodian institutions can effectively manage the REDD+ process; establish an equitable REDD+ legal framework, and resolve uncertainties and contestations over land and land tenure.

These mechanisms and measures will assist the GoC to establish an efficient and transparent BDS in Cambodia and successfully prepare for REDD+.

Ensuring an effective BDS

The key concept of a BDS is to ensure that REDD+ revenues are equitably distributed. An efficient and transparent BDS will engage and reward those who are directly providing the emissions reductions service and provide a strong incentive to make the reductions permanent.

There are key mechanisms which may be implemented by GoC to ensure the equitable distribution of REDD+ revenues. These could include establishing a REDD+ fund to manage revenues which may be managed by a multi-stakeholder board to ensure accountability and transparency. A further measure could include centralizing the management and disbursement of REDD+ revenues to minimize transaction costs and increase transparency.

The most effective way to establish these mechanisms is to first conduct extensive research to gain a comprehensive understanding of how these mechanisms would be successful in a Cambodian context.

Why is a sustainable REDD+ system so important in Cambodia?

The annual loss of primary forest in Cambodia is among the highest in the world. REDD+ offers incentives to reduce emissions from forested lands and invest in low-carbon paths to sustainable development.



Laos

As almost forty percent of Laos is covered by forest, and with relatively high per-capita emissions and low opportunity costs, REDD+ offers a unique opportunity to place a higher economic value on the country's vast forestry resources thereby reducing deforestation, improving livelihoods and attracting significant international investment. An effective BDS will enable the Government of Laos (GoL) to successfully implement REDD+.

Designing an effective BDS in Laos

In order to ensure that the adopted BDS will meet the minimum standards and protocols of the international community that is supporting the REDD+ fund, the following provisions could be addressed in the initial BDS development phase:

1. **Organizational makeup:** The fund management should ideally have participation from all relevant government institutional organizations, private sector representatives, donors, civil society and local government.
2. **Transparency:** Financial data and planning documentation should be readily available and accessible to the public for review.
3. **Use of funds:** REDD+ fund resources may be used for natural resource management and conservation activities in the forestry sector, governance capacity building and community development/poverty reduction activities.

Creating local incentives in Laos

If 100 percent of the revenue from carbon credits sold flowed directly into the REDD+ fund, an agreed upon portion could be allocated to villages in Laos. This mechanism would ensure that local stakeholders are equitably rewarded for their services; thereby creating financial incentives for participants in a future REDD+ programme.



Learning from experience

A review of existing experiences with payment mechanisms in Laos provides valuable insights which can inform the development of a REDD+ BDS. It has been noted that the Poverty Reduction Fund (PRF), appears to be the most relevant in relation to developing effective mechanisms to manage REDD+ revenues.

The PRF has established management structures from the national level down to the village levels, as well as developed procedures to meet the strict requirements of international donors.

As such, the PRF could be used by the GoL as a foundation to develop a comprehensive and efficient BDS which meets international requirements and attracts investment into a national REDD+ programme.

Meeting international requirements

There are several key factors that will influence the effectiveness of a future BDS in Laos. One such factor is stakeholder participation. The involvement of non-state actors, such as civil society and the private sector, in decision-making is seen as a pre-requisite to ensure transparency, equity and accountability.

By developing a REDD+ BDS which takes this into account, the GoL will ensure that international requirements regarding transparency and accountability are addressed.

A further mechanism that may be used for the development of a BDS is a centralized REDD+ fund. A centralized fund would increase accountability, as it would allow REDD+ revenues to be effectively managed and monitored. The creation of a centralized fund would also enable the revenues to be equitably distributed to the forest stewards who are providing the emissions reduction service in Laos

¹ IUCN (2009) *REDD-plus: Scope and options for the role of forests in climate change mitigation strategies*. Washington, DC: IUCN.

² UN-REDD Programme (2009) *About REDD +*. <http://www.un-redd.org>. Accessed 28 July, 2010.

³ UN-REDD Programme (2009) *Design of a REDD-Compliant Benefit Distribution System for Viet Nam: Executive Summary*. Viet Nam: UN-REDD Programme