Elements and Recommendations for the Design of a Benefit Distribution Mechanism for REDD+ in Mexico

Photo: Rodrigo Fernández

The effectiveness of REDD+ in the field depends on the ability to provide benefits and co-benefits for local communities to undertake actions to maintain and enhance forest carbon stocks in their territory.

Key Messages

- *The design of a benefit distribution mechanism should have a clear conceptual framework, based on the applicable national law, to define an appropriate institutional architecture and incorporate criteria of effectiveness and cost-efficiency in implementation.*
- *The following principles for the design of a benefit distribution mechanism for REDD+ in Mexico were defined through a participatory process with key actors: legality, legitimacy, effectiveness, efficiency, equity, additionality, and transparency.*
- *The mechanism must focus on the distribution of benefits linked to results and foster synergies and complementarity with other national forestry incentive schemes.*
- *We recommend a nested institutional architecture that incorporates local, state, and federal levels. This is more consistent with Mexico's climate change mitigation laws and policies and allows a more direct involvement of local communities in the allocation of benefits.*
- *The benefit distribution mechanism must ensure that benefits are delivered in a transparent and equitable manner to the people implementing REDD+ efforts.*

Introduction

One component of Mexico's National REDD+ Strategy (ENAREDD +) is the financial architecture to capture and channel resources for reducing emissions from deforestation and forest degradation and conserving or increasing forest carbon stocks (REDD+). The architecture must include, among other things, a system for distributing the benefits generated by the avoided emissions and storage of carbon stocks. For REDD+ to succeed, it is important that the benefits and incentives reach the actors responsible for addressing the causes of land use change and promoting a more sustainable development model. One of the main challenges related to the implementation of REDD+ is how to ensure the equitable distribution of these benefits among

the various stakeholders. This will depend largely on how actions are linked across different scales and the way that performance is measured.

In this publication, the Mexico REDD+ Alliance seeks to contribute to the ongoing discussion related to the design of the benefit distribution mechanism that optimizes the role of forests in mitigating climate change and improves the lives of forest communities. The first section of this document provides information about the elements and principles that should be considered in the design of the mechanism. Then, we present a proposed conceptual framework and institutional architecture for the distribution of benefits from REDD+ in Mexico. Finally, the text concludes with a series of recommendations to advance

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PRINCIPLES FOR DISTRIBUTING REDD+ BENEFITS

1 **Legality:** The distribution of benefits is based on the national legal framework, respecting property rights, indigenous rights and the laws relating to the distribution of benefits from REDD+, and the use and access to natural resources.

2 **Legitimacy:** Benefit distribution should be agreed upon with the effective participation of those who have rights to forest lands and who participate in the REDD+ mechanism.

3 **Effectiveness:** The distribution of benefits cost-effectively contributes to the social, ecological and climate mitigation objectives of the National REDD+ Strategy.

4 **Efficiency:** The distribution of benefits should incentivize and reward REDD+ actions that result in reductions or removals of additional emissions and do so with the lowest possible transaction costs.

5 **Equity:** The monetary benefits are distributed fairly between all actors involved in the implementation of REDD+ actions at the local scale, regardless of cultural, social, and gender differences.

6 **Additionality:** The benefits are awarded to actions that prove emission reductions or increases in removals in forests that would not have occurred in the absence of the REDD+ mechanism.

7 **Transparency:** The mechanism distributes the benefits in a clear manner, performs constant monitoring and evaluation of resource management, and ensures access to information and accountability at all levels.

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the development of this mechanism. The information presented is the result of an analysis funded by the Mexico REDD+ Alliance and conducted by the Mexican Civil Council for Sustainable Forestry based on an extensive literature review, discussion workshops, working groups with key stakeholders, and interviews with experts.

Elements and Principles for the Design of a National Benefit Distribution System for REDD+

The literature review of experiences and benefit sharing mechanisms recognizes a multiplicity of elements to be considered for the design of a benefit distribution mechanism for REDD+. To simplify the analysis, these were grouped into three categories: conceptual, structural, and implementation elements. This section discusses each of these categories and their application within the Mexican context. The definition of these elements must integrate a number of principles for the distribution of benefits that have been internationally defined and are described in this section.

Sustainable forest management is an example of a REDD+ action because it can directly increase carbon sequestration in forests.

Conceptual Elements

To design a benefit distribution mechanism for REDD+, it is necessary to have a clearly defined understanding of the concepts involved. Among the diversity of conceptual approaches, the Mexico REDD+ Alliance proposes the following set of terms and definitions for the design of a benefit distribution mechanism for REDD+ in Mexico.

First, we propose to distinguish between two types of REDD+ interventions that could be subject to financing: **actions** and **activities**. A **REDD+ action** directly results in reducing emissions from deforestation and forest degradation or conservation, enhancement and sustainable management of forest carbon stocks (e.g. reforestation, fire prevention, creation of conservation areas), while a **REDD+ activity** creates favorable conditions for obtaining results without generating them directly (e.g. alignment of public policies, legal reforms, institutional strengthening).

Based on this, it is possible to differentiate the terms **benefits** and **incentives** for REDD+. *Benefits* are defined as economic resources, goods, or services obtained as payment for results as measured in tons of carbon reduced through the implementation of *REDD+ actions*. Meanwhile, *incentives* have the flexibility to fund both *REDD+ actions* and *activities* as they are not tied to the amount of avoided emissions or removals generated and do not need to prove additionality. Although the ENAREDD+ does not distinguish between *benefits* and *incentives*, defining them as separate concepts provides additional clarity in the allocation of financial resources for REDD+.

In terms of *benefits*, it is possible to distinguish two types: **monetary** and **non-monetary**. The first are economic resources (e.g. wages, payment for results), while the latter are goods or services of value to beneficiaries (e.g. infrastructure, training, access to credit). Both can be obtained ex-ante (before generating results) or ex post (after verification of the results). According to the principles of fairness and legitimacy, the decision on the type of benefits received must be agreed upon in advance with the beneficiaries.

The term *co-benefit* refers to the additional non-carbon benefits resulting from the implementation of *REDD+ actions* and *activities* such as poverty reduction, biodiversity conservation, and improved forest governance. The *co-benefits* are not subject to be distributed through the benefit distribution mechanism, but should be considered as they add value to the *actions* and *activities* and help to generate a more positive cost-benefit relationship for the country and for local actors.

ELEMENTS FOR THE DESIGN OF A BENEFIT DISTRIBUTION MECHANISM FOR REDD+

Element	Description	Key Questions
Conceptual elements	Definition of basic concepts	What are benefits, co-benefits, and incentives? Who can get benefits? What types of costs and benefits exist? What is the relationship between costs and benefits?
Structural elements	Legal framework, nesting approach, and institutional and financial architecture	Who is entitled to benefits? Who and how to distribute the benefits? How you can ensure benefit sharing according to the principles identified?
Implementation elements	Criteria for the effective distribution of benefits	How to ensure that the distribution of benefits maximizes your results?

Another basic concept for a benefit distribution mechanism is the **beneficiary**. More than a definition, it is necessary to specify the criteria to identify who may be entitled to *monetary* and *non-monetary benefits* of REDD+. Mexican law and the ENAREDD+ state that the *beneficiaries* will be those who hold property rights over forest land. However, there is an unresolved debate about the inclusion of other members of forest communities and ejidos that help implement REDD+ actions, but do not have property rights. Moreover, internationally, several authors suggest to include as *beneficiaries* individuals and communities who have conserved their forests (and not only those who reduce their deforestation and degradation), as their exclusion would create a perverse incentive.

Finally, within the conceptual elements it is necessary to define the **costs** that will be considered for calculating distributable *benefits*. Costs can be divided into three types: *opportunity costs*, *implementation costs*, and *transaction costs*. *Opportunity costs* refer to the loss of revenue caused by *REDD+ actions* or *activities*. *Implementation costs* include costs incurred to develop and implement *REDD+ actions* or *activities*. *Transaction costs* include costs of monitoring, measuring, reporting and verification of carbon and the collection and distribution of the benefits derived therefrom. To distribute benefits, you also have to distinguish who incurs the costs - the federation, implementing institutions, and/or local actors.

Structural Elements

The following structural elements are important to consider: **legal framework**, **nesting approach**, and **institutional architecture**.

Regarding the **legal framework**, the mechanism must define who is entitled to receive benefits and what institutional structure will be used to manage and allocate those benefits based on national legal instruments, relevant international agreements, and the ENAREDD+. Notably, the legal identification of beneficiaries should resolve uncertainties about the allocation of benefits from avoided emissions. Both legislation and the ENAREDD+ state that the economic benefits of forest carbon sequestration should

The conservation of biodiversity is considered a co-benefit of REDD+ actions. The co-benefits add value to REDD+ initiatives and are critical to long-term success.

Photo: Rodrigo Fernández

be allocated to the recognized land owners and landholders. As for the benefits from payment-for-results for avoided emissions, the latest draft of the ENAREDD+ (April 2014) states that they should be distributed to "the owners and inhabitants of the forest regions who make efforts to stop deforestation and degradation of forest land under the mechanisms established for this purpose." Those mechanisms still need to be clearly defined in the legal framework. Furthermore, the ENAREDD+ indicates that the benefits under this heading must be distributed by a collegial body that includes the participation of local actors. Moreover, note that Mexican legislation, international agreements, and the ENAREDD+ establish a number of social safeguards that must be respected at all stages and components of REDD+.

The *institutional architecture* includes the design of a system to manage, administer, allocate, and monitor resources collected to finance REDD+ actions and distributed for carbon sequestration and avoided emissions. This system should be based on a *nested approach* that links federal, state, regional, and local officials to distribute the benefits. This institutional architecture should be based on the existing legal and institutional framework, considering the authorities and capacities of institutions operating at each level and the transaction costs associated with their operation. The institutional arrangement chosen should ensure the participation of forest owners in making decisions on the distribution of benefits, meeting safeguards, and adhering to the principles outlined above. In Mexico, both the institutional architecture and nesting components are in the process of being defined.

Implementation elements

The *implementation elements* are focused on ensuring the best use and performance of the benefits at the local level to meet the objectives of REDD+. Among the elements to consider are: (a) establishment of a typology of beneficiaries for the allocation of resources, (b) the inclusion of beneficiaries without property rights, (c) the legal definition of the application and allocation of benefits.

Once the beneficiaries have been clearly defined, they can be categorized within a typology based on their contribution to reducing emissions and/or increasing removals in the forests. This classification would prioritize the allocation of benefits and financing for REDD+ actions in accordance with the capacity of the different beneficiaries to generate results. Assigning benefits based on a typology can increase efficiency. Moreover, the latter is consistent with the current provisions of the ENAREDD+.

Second, as mentioned above, there is a debate about whether or not to include as beneficiaries individuals and groups without property rights over forest land. Allowing benefits to be assigned to individuals or groups backed by the ejido or communal authorities that carry out restoration, conservation, management and sustainable use of forest resources can have a positive impact on forests and local livelihoods. This would allow women, youth and "avecindados" to directly access the economic benefits of REDD+. This possibility would need to be agreed with the legal owners of the land so that their rights over forest resources and agricultural organization structures are respected.

Finally, it is essential to resolve the legal rights to carbon, avoided emissions, and the benefits derived from both. It is critical to define who will be involved in making decisions about the allocation and use of resources obtained under the REDD+ mechanism. To ensure the effectiveness of the REDD+ mechanism, local communities must be involved in decision-making and receive the largest number of potential benefits and thereby encourage significant changes in their patterns of deforestation, degradation, and exploitation of forest resources.

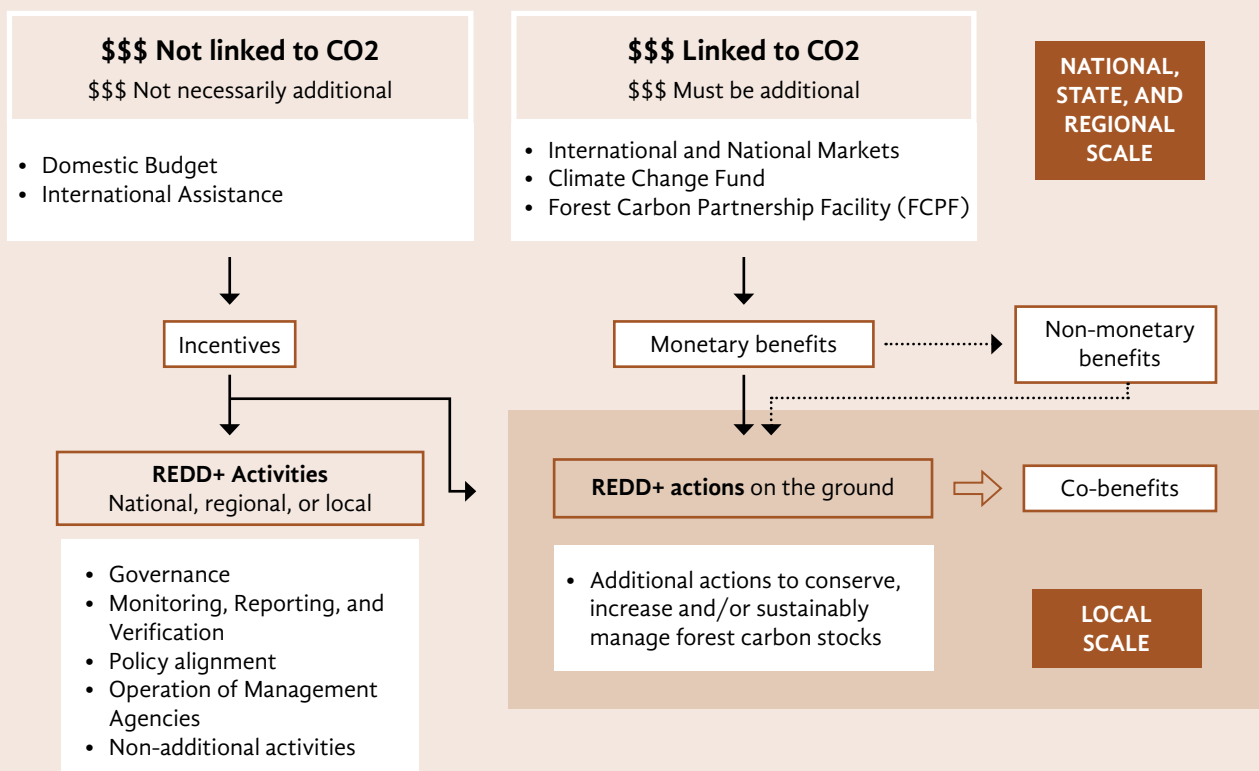**CONCEPTUAL FRAMEWORK FOR REDD+ BENEFIT DISTRIBUTION IN MEXICO**
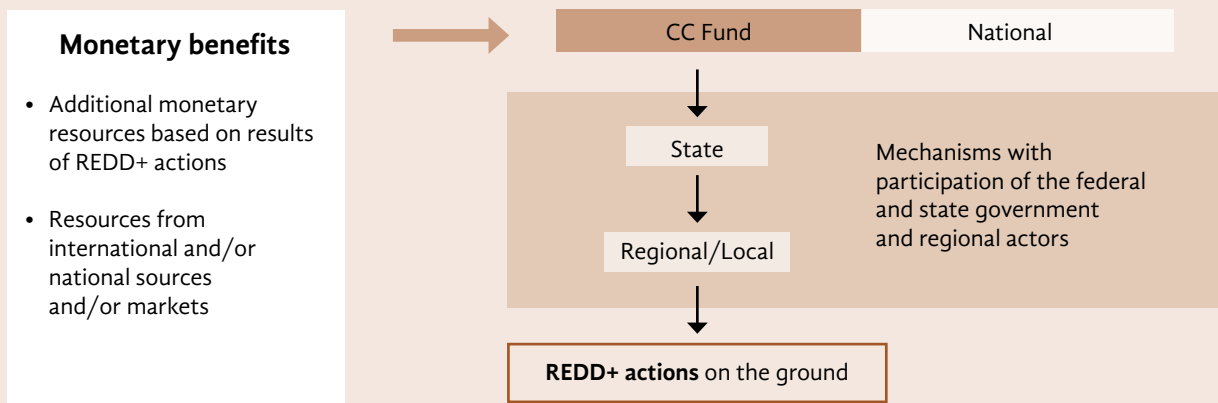
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Equity must be one of the fundamental principles of the benefit sharing mechanism. It is not only about providing fair compensation, but about implementing measures to ensure that vulnerable populations such as women and indigenous and marginalized groups actually participate in the benefits and incentives for REDD+, avoiding reinforcement of patterns of social inequality. The comprehensive and effective social participation in this mechanism is key to implementing the principle of equity.

INSTITUTIONAL ARCHITECTURE FOR THE BENEFIT DISTRIBUTION MECHANISM

Monetary benefits

- Additional monetary resources based on results of REDD+ actions

- Resources from international and/or national sources and/or markets

CC Fund | National

State

Regional/Local

Mechanisms with participation of the federal and state government and regional actors

REDD+ actions on the ground

1   Offers increased opportunities for planning, policy alignment, governance, and participation in decision-making.
2   Aligns with the existing legal and institutional framework.
3   Provides a juridictional framework to link benefit distribution, MRV, and forest-related policies.

Proposed Conceptual Framework and Institutional Architecture for the Distribution of Benefits from REDD+ in Mexico

Based on the elements and principles developed and discussed with key stakeholders, the Mexico REDD+ Alliance proposes the following conceptual framework for the design of a benefit distribution mechanism for REDD+ in Mexico.

This framework distinguishes between benefits and incentives, highlighting their differences in terms of objectives, sources, and additionality. This distinction means that the benefits and incentives should be managed under different but complementary structures and criteria. While incentives can finance REDD+ activities and actions, benefits should be allocated exclusively to actions that generate additional, measurable results. Meanwhile, monetary benefits can be used to generate non-monetary benefits for REDD+ actions. Finally, REDD+ actions, in turn, generate co-benefits for local stakeholders.

The framework describes the flow of benefits and incentives from the national to the local level and the role of federal, state, regional, and local entities in this mechanism. National and sub-national entities are responsible for planning, managing, and administering REDD+ resources as either incentives or benefits from national or international, public or private sources. REDD+ activities (i.e. alignment of public policies, legal reforms, institutional strengthening) are conducted primarily at the national and state levels. In contrast, the REDD+ actions directly related to the reduction of deforestation and degradation, conservation, increased carbon stocks and sustainable forest management are performed at the local level and local actors performing these efforts should they receive the benefits and incentives related to these actions.

Additionally, the proposed framework suggests that the benefits from reducing emissions should be transferred from the international level to the national level based on payments for results. That is, Mexico will receive a certain amount of resources in exchange for tons of carbon dioxide equivalent (CO_2-eq) reduced. The same will apply from the national to state level: the state will be paid for results achieved to reduce emissions, which they will report to the federation. However, from the state level to the regional and local levels, the benefits of REDD+ actions will not be distributed in terms of results per ton of emissions reduced, but in other terms of performance. That is, the benefits at these levels can take the form of monetary or non-monetary benefits and resources are distributed in relation to the efforts to address the causes of deforestation and degradation and to reduce the barriers to conservation, enhancement and sustainable management of carbon stocks, with a focus on sustainable rural development. These REDD+ actions are defined through territorial investment plans that define implementation actions. This proposed framework thus recommends a nested institutional mechanism for benefit distribution that includes local, state and federal levels.

Including the state level can present challenges for the national government, since existing forestry grants are awarded directly to local beneficiaries. However, local projects nested within a state institutional framework aligns the distribution of benefits to the nested structure of the national system for measurement, reporting and verification of forest carbon (MRV). In addition, consistent with national legislation on climate change, it assigns authorities to the states to pursue policies, budgets and mitigation actions in their jurisdiction. It also allows a more direct involvement of local actors in decision-making in order to better align with the regional forest policy and social context. For this institutional structure to be effective, steps should be taken to keep transaction costs low and to ensure that states implement resources transparently and appropriately, ensuring they reach local communities and respect the principles of legality, legitimacy, effectiveness, efficiency, equity, additionality, and transparency. All community members should share in the benefits and co-benefits, not just owners of forest land. This can be achieved through performance payments, temporary

Ensuring access to information and establishing mechanisms for accountability are necessary to prevent corruption and bring transparency to the benefit distribution mechanism for REDD+.

employment, collective goods and services, and investment in community businesses, among other options.

Recommendations

To conclude this paper, we list a number of recommendations for the design of a benefit distribution mechanism for REDD+ in Mexico to contribute to climate change mitigation, environmental conservation, and sustainable rural development. These recommendations reflect the perspectives of the actors who participated in the workshops and the analysis of experiences and approaches.

1. Differentiate the criteria and procedures for the allocation of benefits and incentives for REDD+ within the Emissions Reductions Initiative and focus on designing the mechanism to distribute only the benefits arising from payment for results.
2. Avoid mixing designated resources to fund readiness activities with resources for payments for results and respect the additionality criterion in allocating benefits.
3. Promote synergies and complementarities between the benefits of REDD+ and other federal forestry incentives.
4. Ensure the active and effective participation of local communities in decision-making about the distribution of benefits and the type of benefits that will be assigned (monetary or non-monetary).

5. Establish clear legal and operational criteria for identifying beneficiaries and the rights to carbon and avoided emissions.
6. Encourage all members of local communities to access benefits and co-benefits from REDD+ while respecting the legitimate rights holders and legal owners.
7. Develop methodologies and criteria to identify where it is more convenient and effective to invest in REDD+ actions and activities by type of beneficiary, investment needs, the actions to be performed, and local capacities to ensure the permanence of the results. We recommend to do so through investment plans.
8. Include criteria to avoid the capture of benefits by leaders or groups of power within communities.
9. Develop proactive approaches that promote transparency and reduce corruption risks at all levels of nesting, by timely and accurate information sharing, surveillance and monitoring of resource management, and the establishment of mechanisms for accountability.
10. Create a cost-efficient mechanism for distributing benefits that is relatively simple to implement and that minimizes transaction and implementation costs.

Benefits must be targeted at addressing the drivers of deforestation in order to effectively achieve REDD+ goals.

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