



UN-REDD
PROGRAMME



Food and Agriculture
Organization of the
United Nations



INFO BRIEF

Financing, Incentives and Benefit Sharing

INTRODUCTION

REDD+ is an incentive mechanism that rewards stakeholders (nations, communities and individuals) to conserve and manage their forest resources sustainably to secure carbon or emissions credits to mitigate climate change. Rewards come in two forms: 1) transfers of financial resources from the international arena to developing countries engaged in REDD+ implementation to serve as incentive for their actions to avoid deforestation and forest degradation; 2) Benefits derived from emissions trading on basis of the enhanced carbon stocks arising from REDD+ activities plus the non-carbon (monetary and non-monetary) benefits derived from REDD+ implementation. This considers safeguards introduced to protect local communities from exploitation that guarantee representation, distribution and political justice in REDD+ implementation.

However, in practice REDD+ implementation has in most instances has focused on three approaches for benefit sharing: (i) Direct Payments for Services which is performance-based and in which benefit payments are in exchange of defined activity or outcome, often carbon (ii) Managed Fund whereby benefits are channelled through a central fund from where the benefits are distributed to beneficiaries in accordance to laid down procedures or to purchase goods and services, or invested s needed and (iii) Collaborative Resource Management in which benefits flow directly from an external actor to a community or other local partners.

SOURCES OF FINANCE AVAILABLE IN NIGERIA

There are four principal sources of finance:

- (i) Domestic (federal and states budget appropriations);
- (ii) (ii) Regional and sub-regional multilateral banks (AfDB and its various windows and the EBID);
- (iii) (iii) Foreign (bilateral and multilateral with their respective/associated climate financial instruments) and
- (iv) Private Sector (both domestic and International).

With the plethora of financing sources available to implement REDD+, a focused strategic approach is needed to raise finance for investment into REDD+ activities-blending finance from various sources to achieve a crowd funding to generate sufficient funding for implementation. Nigeria has not accessed most of the existing climate finance and hence needs to build the capacity as well as to develop an integrated financing strategy to strategically mobilize and use public finance to leverage private sector investments in REDD+ activities.

This policy brief explores financing options for the Nigeria REDD+ programme at federal level and Cross River State (CRS) and attempts to assess the options for sharing incentives and benefits whilst offering a set of recommendations for the integration of multiple benefits in the REDD+ process in Nigeria.

BENEFIT SHARING MECHANISMS IN NIGERIA

Benefit sharing is a mechanism to identify the outcomes from an activity (financial or non-financial), and then distribute them. Effective benefit sharing design will create incentives for different stakeholders to initiate and support action to reduce emissions from deforestation and forest degradation. Benefit sharing is the final stage of a process that seeks to generate, monetize and allocate REDD+ benefits (both carbon and non-carbon). In Nigeria, there are two examples of benefit sharing arrangements outside of the extractive industry. The first one involves the Forest Commission of Cross River State which shares revenue from fees derived from forest products with the forest dwelling communities that are the custodians of the forests in the State. The arrangement is as follows: communities get 70% of revenues obtained from community forests, the remaining 30% goes to the commission, while in plantation forests the sharing is 50% to communities and 50% to the Commission. The financial benefits are used to finance various community projects and payouts to vulnerable groups in the community.

Secondly, an American Pharmaceutical company, Shaman Pharmaceutical, Inc. collaborates with an international NGO (The Healing Forest Conservancy) and a local NGO (Bio-resources Development and Conservation Programme) and several traditional healers and their communities to prospect for phyto-medicines based on the knowledge of the traditional healers and community members. Shaman provided upfront compensation that responds to the immediate needs of the communities through the international NGO. The payments are used to fund community projects in agro-forestry, agriculture, etc. for which the local NGO provides capacity building support to the communities. However, neither of these examples meets fully the REDD+ benefits sharing mechanism which must meet the requirements: the sharing must be equitable, effective and efficient and must be done along two axes: vertical and horizontal.

REDD+ FUND

To receive and channel all the potential finances from the various sources, public, private, domestic, regional and international, it is recommended that Nigeria establishes a

REDD+ Fund at the national level. The fund should be operated by an existing bank of repute such as the Central bank of Nigeria. However, to ensure transparency and accountability the Fund should be managed by a multi-stakeholder body comprising of representatives from government, private sector, civil society and communities, among others. The fund should be audited by an independent group of reputable auditors on an annual basis with findings widely publicized.

BENEFIT SHARING EXPERIENCES IN CROSS RIVER STATE

Although costing of REDD+ activities post-readiness, especially in CRS has not been computed, it is anticipated that the implementation of the REDD+ activities (policy implementation as well as piloting on the ground activities), will require a significant amount of resources (financial and technical) since it will involve a diversity of upstream policies and policy instruments. There are communities in Cross River State, notably the Ekuri Community, that have conserved their forests sustainably for many decades based on the application of traditional knowledge and law. Unfortunately, these forests dwelling communities have not benefit from the carbon stock piles that their efforts have built up over the years. For them the REDD+ programme should be a welcoming enterprise but for the ban on extractions of non-timber products from the forests which has been a bone of contention and a source of distrust by the community in the REDD+ initiative as they do not foresee carbon benefits in the short term despite their acknowledged and remarkable efforts towards conservation in the surrounding forest areas. The forest dwelling communities have traditionally earned their livelihoods by means of collection and marketing of an assortment of non-timber and non-carbon forest products. The forests are a source of a variety of food and medicinal items, fiber, fuel wood, fodder, clean water, and sacred grounds that provide them spiritual direction among other cultural and spiritual values in addition to global benefits, such as ecosystem services and climate change mitigation for which the communities' conservation works are invaluable.

OWNERSHIP OF CARBON IN REDD+

Important factors that determine access to benefits include land tenure/ownership, social-economic status in terms of vulnerability, and the scheduling of benefits distribution. In

addition, the need to decarbonize the global economy through climate change mitigation has given new importance to carbon as a tradable commodity and therefore a new kind of property in forest ecosystems as such carbon ownership or carbon rights, is now a key determinant of access to carbon benefits derived from REDD+ activities. The complexity of defining carbon ownership may stall many REDD+ initiatives in Africa as national laws, Nigeria included, do not cover carbon rights. It is therefore proposed that Nigeria may choose to decouple carbon ownership from land ownership and to take the carbon enhanced and sequestered as an ecosystem service. In this case, all actors who contributed to the enhancement of the carbon may access benefits from its sale. This could serve as an interim solution while the Government enacts a suitable law to govern determination of ownership of carbon in REDD+ initiatives.

RECOMMENDATIONS

Financing:

The Forest Trust fund contained in the Forest Act of Cross River State should be operationalized and a window crested to finance REDD+ activities. REED+ being multi-sectoral, it also recommended that, it should be mainstreamed in all relevant sectors and advocate for increased budgetary allocation for implementing REDD+ activities.

Incentives and benefits sharing:

1. The design and implementation of REDD+ activities should integrate as many multiple benefits, especially those that communities currently depend on for their livelihoods including their responding to their spiritual and cultural needs. Focusing on multiple benefits serves equity purposes better than focusing on a single benefit, e.g. carbon. It will also improve the livelihoods of participating communities – increase food security and provide alternative income generating activities – while restoring ecosystems services.
2. Tenure rights, especially, carbon rights should be determined to avoid conflicts. In the absence of a legislative process, one solution is to decouple carbon rights from tenure rights, and treat carbon as an ecosystems service. That way the rights to carbon benefits th eons who have contributed to

the enhancement of the carbon stocks arising from implementation of REDD+ activities.

3. In anticipation of several states eventually engaging in REDD+ activities, the Federal government should establish a comprehensive national emissions trading market and enact the necessary laws to regulate its operation. The existing Carbon Exchange Platform can serve as a basis for the trading platform.
4. National Carbon Fund should be established at Federal level to receive and distribute finance for the implementation of REDD+ activities, including providing incentives to motivate stakeholders, and distribute benefits to eligible actors. The Fund should be capitalized through resource mobilization at both the international (Climate Financing sources + emissions buyers) and domestic and private sector sources.
5. To make it transparent and accountable, management of the National Carbon Fund should comprise of multiple stakeholders' board (government, private sector, NGOs and Community representatives) to ensure accountability and transparency. The Fund could be based at the Central Bank of Nigeria to reduce transaction costs and audited by an independent entity.
6. A Benefits Sharing Mechanism for REDD+ in Nigeria should consider both carbon and non-carbon benefits. This approach will enhance interest, and provide greater motivation for participation. Benefit distribution should follow a combination of fund-based and pro-poor approach.
7. Design of REDD+ activities should be participatory and involve communities in decision making. The specific roles and responsibilities or each category of stakeholders should be agreed upon in advance. Entitlement (payments/rewards) for results should be clearly explained to stakeholders.
8. The Forest Commission of CRS should facilitate capacity building and provide technical support for implementation. There is need to foster trust

between Government and communities before and during implementation – one way of doing this is to review the ban on timber now extended to all forest products. REDD+ implementation should be the motivation for forest conservation.

9. A National Carbon Fund should be established at federal level to receive funds from international and domestic sources for distribution as incentive to deserving stakeholders for the implementation of the REDD+ initiative. The fund should be audited by an independent body to ensure transparent operations and make it accountable. Similarly, a Carbon Registry to index and document all carbon projects and transactions should be established at federal level.