

UN-REDD
PROGRAMME | REDD+ ACADEMY

10

Approaches for Allocation of Incentives

Learning objectives

By the end of this module, you should be able to:

- Define what are benefits and incentives
- Explain the principles of systems for allocation of incentives
- Describe the importance of effectiveness, efficiency and equity
- List key issues to consider in designing a system for allocation of incentives

Agenda for the session

- Introductory presentation on allocation of incentives
- Group Exercise: Quiz on Finance and Allocation of Benefits

What is a system for allocation of incentives?

A structure which can be used by a country in order to incentivize stakeholders to adopt behaviours which are aligned with the national REDD+ objectives

Noting that:

- Sometimes called “Benefit Distribution Systems”
- “Benefits” implies a reward for actions already undertaken; but “incentives” looks forwards and backwards
- NO UNFCCC guidance available
- PAMs may seek to eliminate perverse incentives

Effectiveness

Incentives should be available:

- at the **optimal time**, understood by all stakeholders, before or after obtaining results, as an investment or as a reward
- in the **optimal amount**, understood by all stakeholders, enough to stimulate the desired action, financial or non-financial
- in the **optimal form**, understood by all stakeholders, meeting stakeholders' preferences, financial or non-financial

Key principles for allocation of incentives

A systems for allocation of 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 such a way as to minimize costs (while being consistent with a rights-based approach)
- **Equitable:** the incentives are shared in a manner that is fair and equitable, particularly for the benefit of the most vulnerable

Efficiency

The system should :

- **make available as much funding as needed** to support the costs of incentives
- **use existing financial institutions** if appropriate
- **avoid 'cascading' funds** through administrative systems to avoid waste and corruption
- **be institutionally efficient** in terms of reporting, decision-making and delivery
- deliver incentives **promptly**

Equity

The system should be:

- **defined clearly**, on the basis of rights, costs or results
- **transparent** so that incentives are understood by all
- **fair**, so that comparable interventions and results receive comparable incentives
- **equitable** to both men and women

Key issues in a system for allocation of incentives

1. Who qualifies to receive incentives?
2. On what basis should decisions on allocation of incentives be made?
3. How will the data for decisions (either input-based or output-based) be collected, analyzed, and shared?
4. Who will make the decisions, based on the collected and analyzed data?
5. How will the type of incentive (monetary; various types of non-monetary) be decided?
6. How will the incentives be delivered?
7. How will the system be monitored?



Key points

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- Systems for allocation of incentives are also sometimes known as benefit sharing systems
- 'Incentives' suggests systems which both encourage future actions and reward past actions
- Effective systems deliver the optimal amount in the optimal form at the optimal time
- Efficiently systems deliver the maximum level of reward in the easiest way
- Equitable systems reward all fairly, based on rights, costs or results
- Seven key issues need to be considered when designing a benefit sharing system