

**REDD+ Financing Options:  
Considerations for a  
“Payment-Incentive” Mechanism**

**Tim Brown, World Bank**

# REDD+ Financing Options: Considerations for a “Payment-Incentive” Mechanism

## Goals:

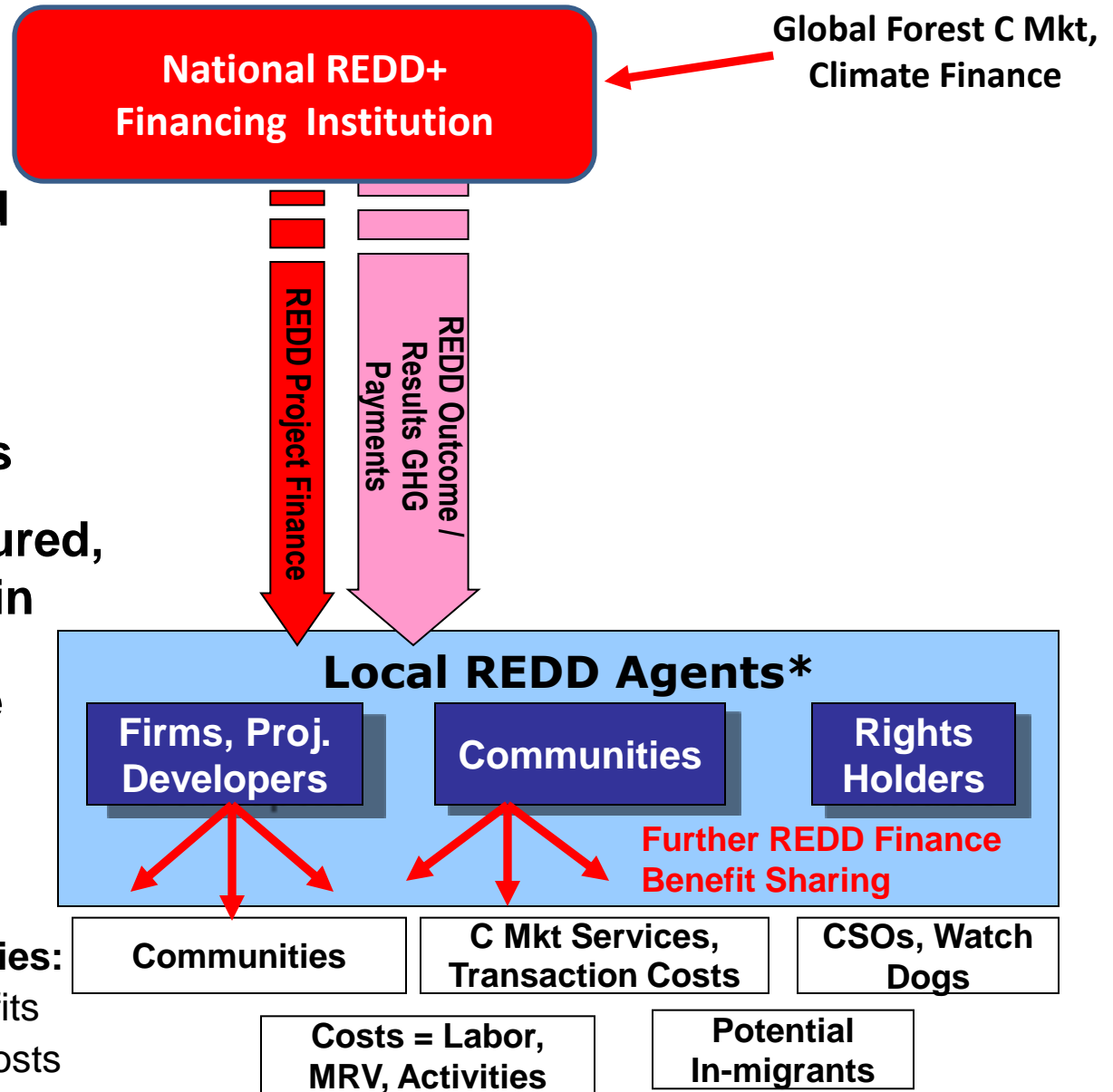
- Describe framework for REDD payment-incentive system design
- Compare / contrast alternative REDD+ financing flows & mechanisms
- Distinguish the uses and targets of different kinds of REDD+ payments/transfers:
  - fiscal-based
  - project-based
  - policy-based
  - compensation-based
- Distinguish benefit sharing from payment calculation – and the importance of transactions costs
- Frame follow up questions for further considerations

# Overview of Basic REDD Payment- Incentive System Design

## Simply REDD+

- A. Project development payments flow to field agents for demo activities
- B. Agents take action to reduce GHG emissions
- C. Reductions are measured, Carbon Payments begin
- D. Benefits (all hope) are further distributed to affected parties, beneficiaries

**Affected Parties:**  
Sharing Benefits  
or Incurring Costs

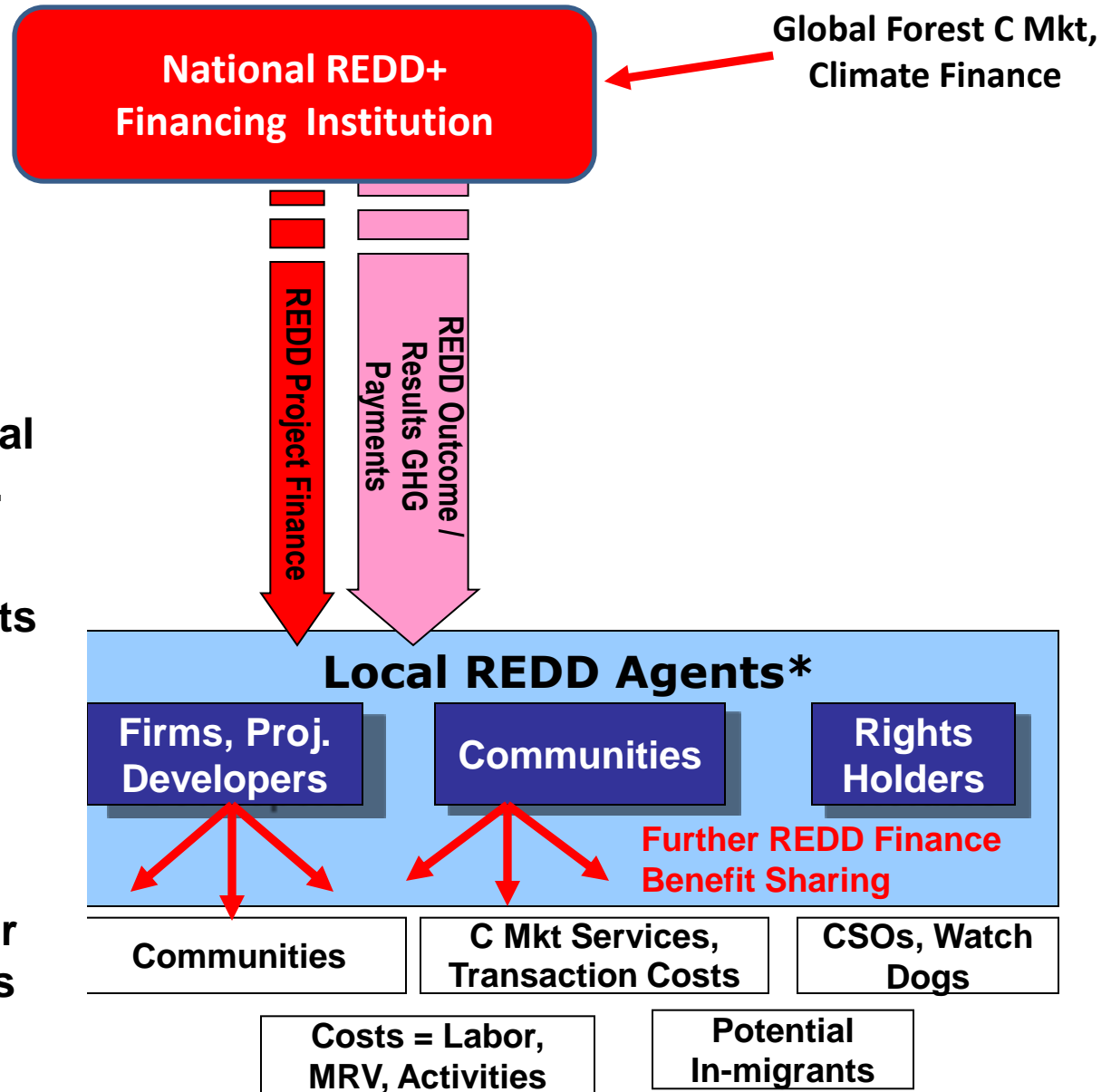


\* Local Gov'ts or National Ministries may hold rights, develop projects, or represent communities. Not illustrated for simplicity

# Overview of Basic REDD Payment- Incentive System Design

## Simply REDD+ With Costs Built In

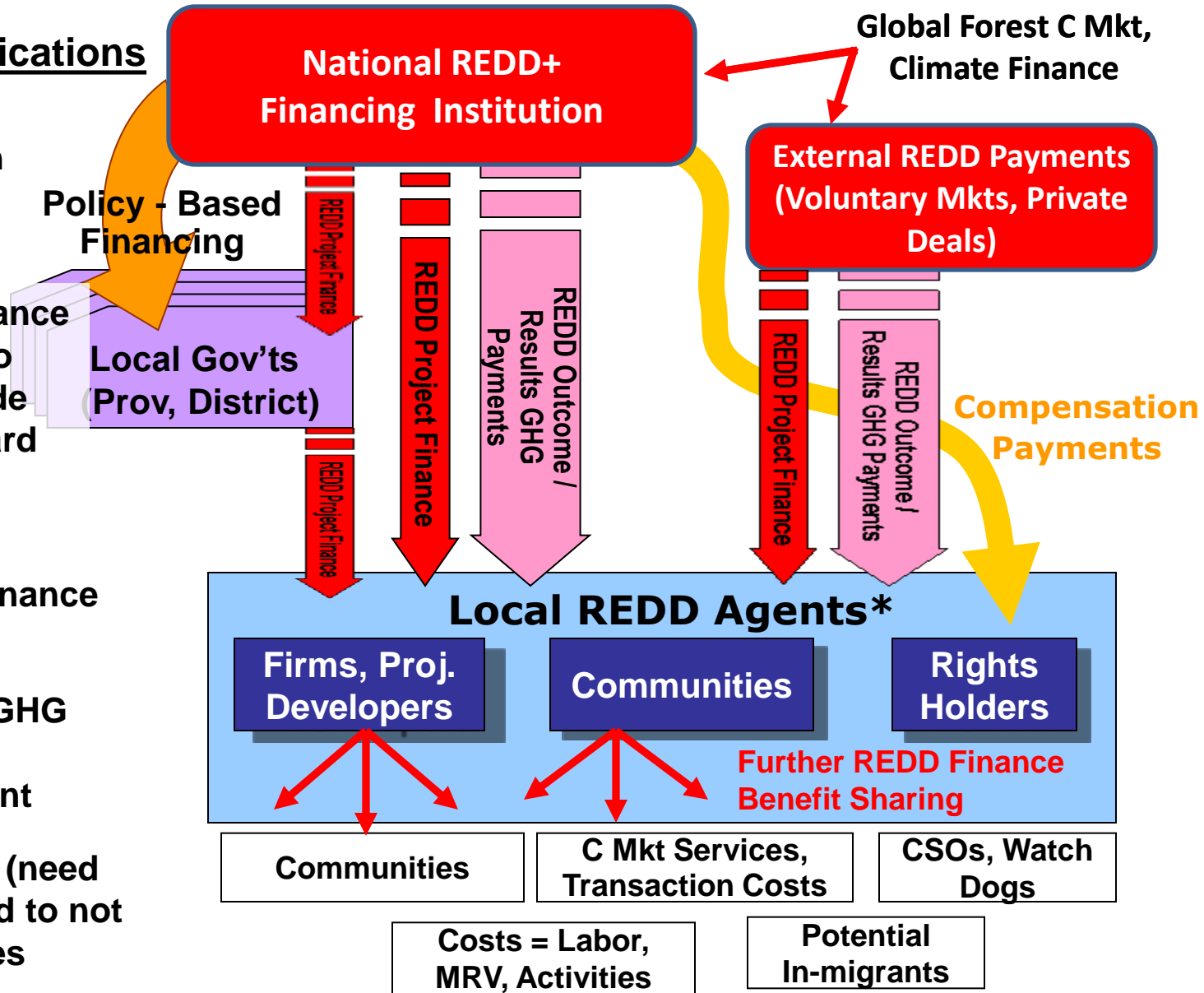
- Policy & regulatory decisions can impede \$ flow, for example:
- REDD Payments may be taxed or divided at central level, before passing on.
- Detailed rules & MRV increase monitoring costs
- Transactions costs with local agents can reduce benefits available for distribution
- Expectations are high for direct sharing of benefits



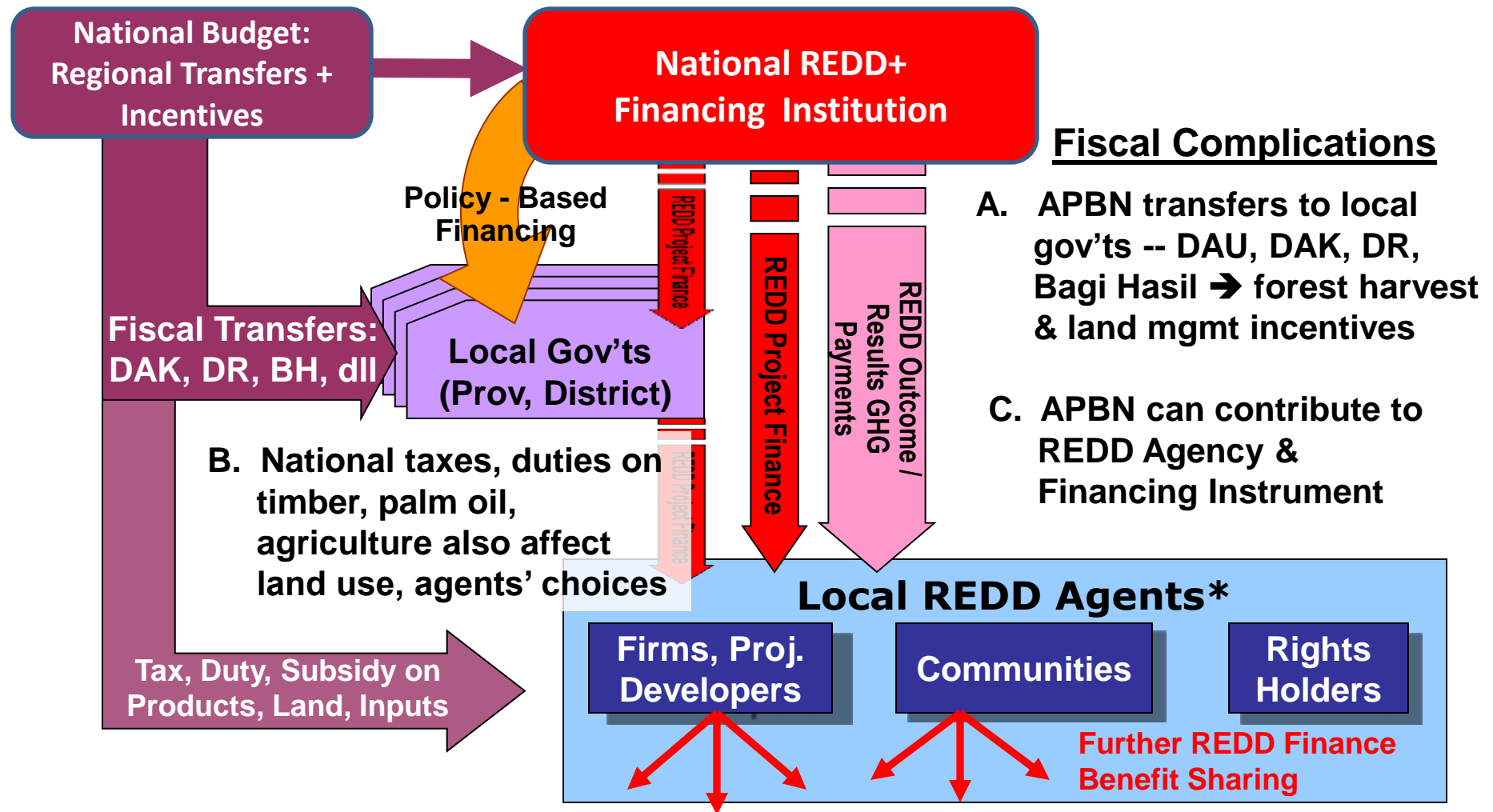
# REDD Payment- Incentive Design: Beyond the Basics

## Real World Complications

- A. Payments can flow to or through local gov'ts then on to field agents
- B. Policy or performance based payments to regions can provide incentives or reward action
- C. External REDD businesses also finance projects directly
- D. They also pay for GHG reductions, expect return on investment
- E. Some agents may (need to) be compensated to not act, give up licenses (equity?)

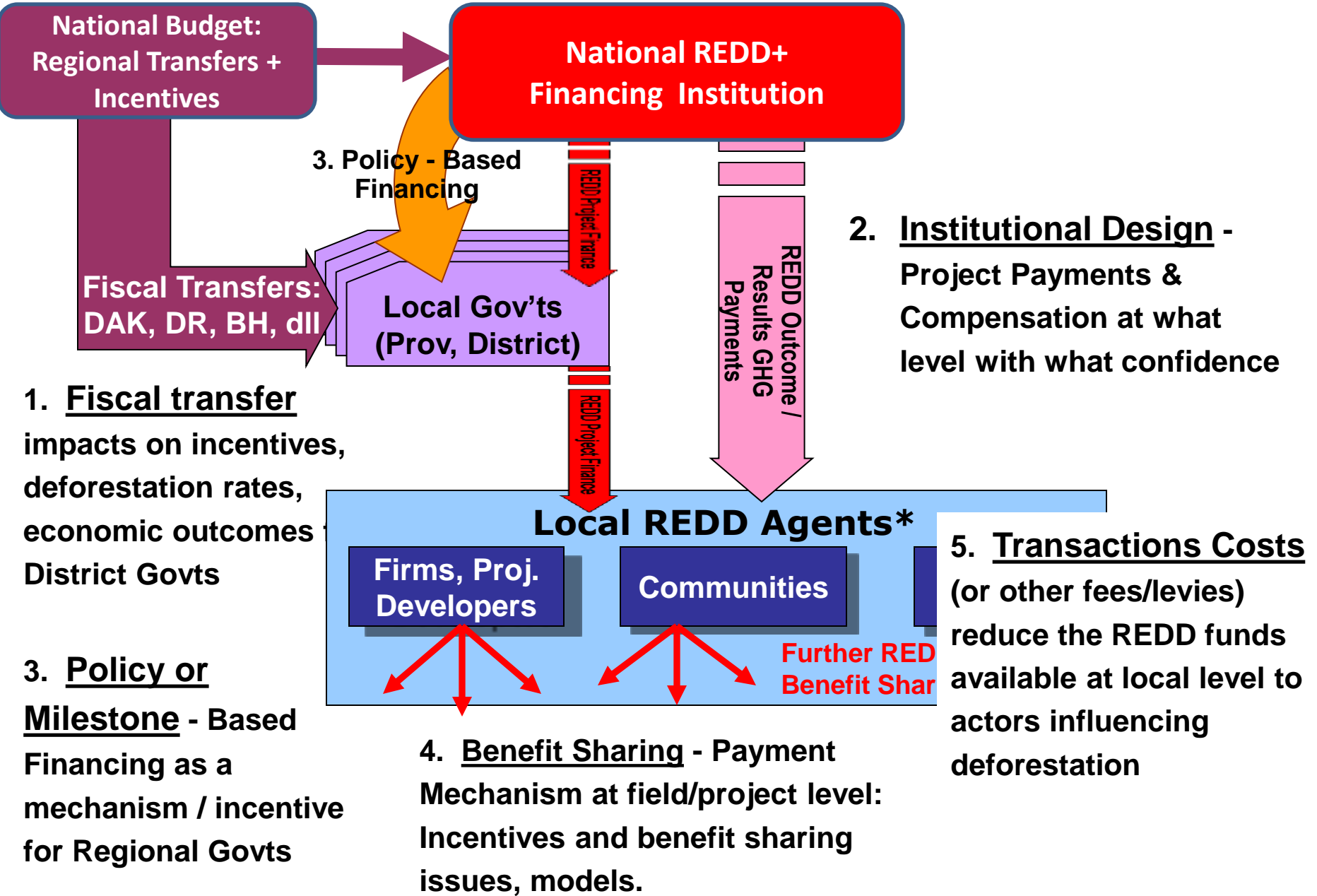


# REDD Payment- Incentive Design: Additional Fiscal Flows



- Fiscal transfers (25% of APBN) are generally larger than potential REDD payments
- Can enhance and leverage the REDD goals and payments – or perhaps lead to misaligned incentives between local gov'ts and REDD program, agents in field
- Need to assess & align incentives to ensure success of national REDD+ Program

# REDD Payment- Incentive Design: 5 Distinct Issues



# REDD Payment- Incentive Design: 5 Distinct Issues

## Understanding and Questions for Follow Up

1. Fiscal transfer impacts on incentives for District Govts
2. Institutional Design Institutional Design,  
Project Payments & Compensation
3. Policy or Milestone - Based Financing can provide an alternate  
incentive / funding source for Regional Govts
4. Benefit Sharing – Adds complexity at field/project level; expectations  
are high
5. Transactions Costs (or other fees/levies) reduce the REDD funds  
available at local level to actors (and incentives for investors)



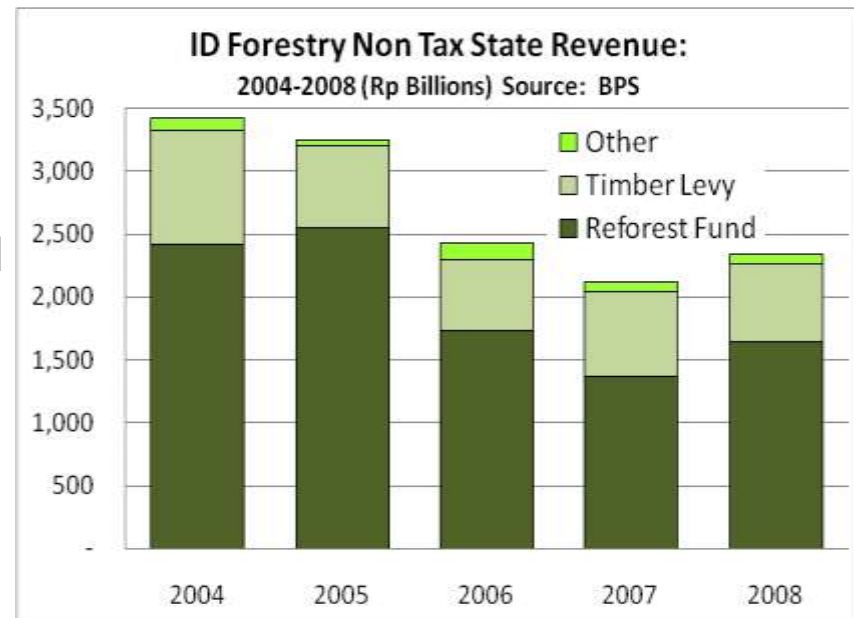
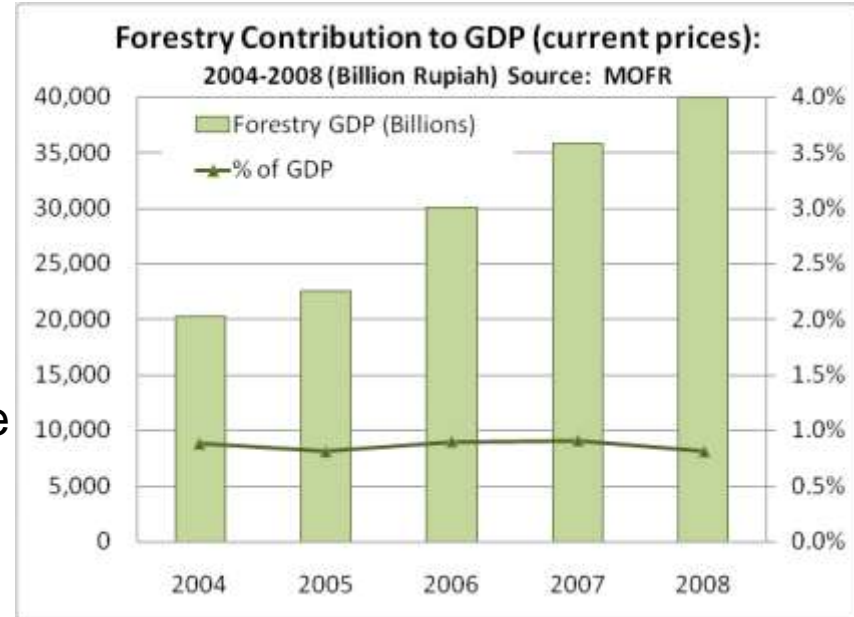
# Issue Area 1: Fiscal Transfers and REDD+

## Understanding:

- GOI policies should be aligned so that incentives for district level are clear and compatible with national priorities
- Build on existing institutions and systems where possible: Fiscal transfers are a large and essential part of GOI's business with regions
- Leverage REDD+ payments where possible in concert with existing GOI spending

## Questions:

- What size now, relative to REDD+ Potential
- Are incentives for districts aligned with CC needs?
- Are there distortions that undermine REDD+ objectives



# Issue Area 2: Institutional Design, Project Payments & Compensation

## Understanding

- GOI / REDD+ Initiative must pay for / invest in some actions up front, before REDD payments can be achieved (costs money to get started...)
- **Project-based Payments** = funding for activities, demonstrations, implemented to reduce deforestation (investment before emissions are reduced)
- **Compensation-based Payments** = to cover cost for a shift in behavior, or a reassignment of rights (e.g., plantations licenses, not using fire)

## Questions

### *Paying people to do things:*

- Are payments based on the value of inputs? cost of changing behavior? value of the emissions reductions?
- Can we attribute action to outcome, link effort to carbon value? What if it is a joint product (communities, police, local gov't)?

### *Paying people not to do things:*

- How necessary is it? What is the value of activity forgone? How long does it continue? Sustainable?
- How to avoid moral hazard in paying to avert future threats: agents create threat-plans only to gain carbon benefits?

## Issue Area 3. Policy or Milestone - Based Financing

### An incentive / funding source for Regional Govts

#### Understanding

- **Policy-based payments** = incentives or financing for regional Govts (or Ministries) based on policy changes compatible with national REDD program
- Could equally be based on milestones (REDD strategy, action plan, implementation budget, etc)
- Norway Letter of Intent establishes milestone based payment scheme
- REDD policy based payments to regions could flow in parallel with APBN fiscal transfers

#### Questions

- Could policy based payments catalyze region/province action in key forested areas? (While also defraying the cost of those actions...)
- Could policy based payments be a way to get funds moving before final measurement of carbon outcomes?
- Could matching contributions be a way to leverage action and increase ownership?

## Issue Area 4: Benefit Sharing: Proponents vs. Beneficiaries

### Understanding

- REDD project proponents can be firms, communities, CSOs or gov'ts
- Proponents invest (incur costs) up front in activities, to reduce forest loss/degradation, to later claim carbon credits, earnings
- Proponents may benefit from actions of others (upstream communities, law enforcement, favorable policies)
- Carbon value is not all benefit (profit) – needs to cover costs (investment + MRV), create incentive, catalyze involvement, compensate for losses
- Carbon contributions are measured based on area → project or site level
- Beneficiaries (or claimants) are individuals or contributors

### Questions

- At “site level,” are payments based on value of inputs? cost of changing behavior? value of emissions reductions?
- At “beneficiary level,” how to distinguish direct and indirect contributions? (e.g., villagers change livelihoods, bupati cancels new licenses)
- How will attribution of effort and results be handled with multiple agents within a site, plus external effects/forces?

# Issue Area 5: Transactions Costs

## Understanding

- REDD+ payment system needs to be transparent, equitable, and accountable, but also simple to avoid high transaction costs.
- MRV has a cost. Accounting and reporting on emissions reductions will be complex and costly. Larger geographic areas (province or district) means lower unit cost.
- Distribution has a cost. Attribution of measured emissions reductions to specific agents or actions is even more complex, maybe not fully possible. Smaller geographic units means higher costs.
- Payment/benefit system takes time. Time lags between action (or non action), then measurement, and finally payment and allocation to beneficiaries.

## Questions

- Do all stakeholders understand transactions costs, where they occur, why they are (sometimes) necessary?
- At what point do transaction costs eat up all available REDD+ payments?
- Can final benefits be disbursed based on proxies or negotiated agreements, rather than hectare level carbon measurement?



DEPARTEMEN KEHUTANAN  
REPUBLIK INDONESIA

(Presented at Stakeholder Workshop on REDD+ Partnership at Ministry of Forestry in Indonesia)



**FCPF and PROFOR-financed activities aim to assist the GOI in working through these questions for REDD+ mechanism design**



**Terima Kasih**