

**Payments for Environmental Services
Financing Community Development and Conservation**

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Payments for Environmental Services

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Communities and smallholders are key stewards of forests and other natural resources globally and their proper engagement in schemes for payments and compensation for environmental services (PES) is critical from the beginning. It is estimated that community tenure will reach 700 million hectares by 2020. In developing countries alone, communities' ownership rights already cover 25 percent of national forests.

The dependency of local communities to secure livelihoods and cultural traditions from their environment is closely linked to the successful establishment of PES schemes, such as REDD+, which must contribute to strengthening tenure rights and improve local socio-economic well-being. Therefore, global mitigation efforts and finance will need to have significant engagement of communities and smallholders, as agents of deforestation or as stewards of forests, if this abatement potential is to be realized. Solutions must simultaneously address global needs to combat the risks of climate change and respond to priorities in the developing world of sustainable livelihoods and economic development.

Among the key barriers for PES to benefit local communities, however, are a critical deficit of capacity by local communities and stallholders in the developing world to develop these opportunities, a shortage of working projects demonstrating results on the ground, the lack of policy and legal frameworks to recognize and stimulate forestry opportunities, and a paucity of business models that facilitate market access for communities and small and medium producers.

Internationally there is a global consensus about the need for action to reduce forest loss, the need for significant financial flows, and the central role of national government-led approaches to setting baselines and monitoring emissions reductions. However, how finance will be distributed and flow to the communities and landowners on the ground is still to be determined.

While there is frequent mention of the need to mobilize significant private finance, there is far less clarity on how the conditions and mechanisms to make this occur will be framed, and whether this is expected to occur through government securities, project-level direct investment or other vehicles. From an investor perspective, there are market, regulatory and delivery risks associated with carbon markets, which are more pronounced for REDD (a new asset class not recognized to date under climate change agreements) and for an indigenous project in an area undergoing rapid cultural and economic change.

Forest Trends has been developing a series of initiatives to advance REDD and other PES projects, policy and schemes that leverage the ability of local communities to secure access rights to their natural resource base as well as improve territorial governance.

PES Community Capacity Building - Closing the gap between indigenous groups, local communities, and environmental markets by fostering regional awareness and training key leaders of community based organizations in targeted regions in Latin America, Africa and Southeast Asia, to understand and critically discuss PES and acquire the basic knowledge to engage in project development and influence policy.

Benefit Sharing Mechanisms - While the details of REDD are still under discussion, a basic principle is that REDD will involve performance-based payments for developing countries in response to measured and verified reductions in carbon emissions. One of the most hotly debated issues is how countries will improve or develop effective and transparent systems to channel benefits to local communities.

Socio-Environmental Standards for REDD+ - Indigenous groups, traditional peoples and other local communities are expressing concerns about the risks associated to REDD projects and programs that could disrespect traditional rights and generate social conflicts. They are claiming for participation in the development of policies and standards for REDD. A new process is emerging by civil society organizations to develop social and environmental criteria for REDD.

Recognizing Indigenous Peoples and Community Rights – Building on the success of the Baker & McKenzie legal analysis commissioned by Forest Trends, which concluded that the Suruí indigenous people in Brazil, and by extension other indigenous people in the country, have carbon ownership rights within their demarcated territory, Forest Trends is developing new landmark legal opinions and baselines that recognize and strengthen indigenous peoples' territorial rights and traditional livelihoods. A series of new studies are planned, starting with Peru, where the high cost of gaining legal clarity around REDD is likely to present a substantial barrier. These studies will provide a more concrete and systematic examination of what the laws and policies, or lack of, will mean in practice from the perspective of a specific REDD project, providing guidance to indigenous communities and other stakeholders.

Katoomba Ecosystem Services Incubator - The “Incubator” is a powerful model for linking global expertise with local capacity and needs to develop solid community PES projects. By investing in the capacity building, project design, and technical assessment, the Incubator creates the enabling conditions and platform for other finance to follow, and positions local stakeholders for equitable participation in benefits. Over the next three years the Incubator will expand its project portfolio, targeting a set of 12-15 projects embodying catalytic forest-based mitigation opportunities, which are constrained by current policies, methodologies or business models. Project development will focus on three pivotal segments with strong articulation to policy formation at the national and international level: 1) REDD and indigenous peoples; 2) Local community management of public forests and 3) Aggregation strategies for small-scale reforestation, and will work with local and global partners in four strategic regions - Brazil, the Andes, East Africa, and West Africa. Following are two community based projects under development within the Incubator.

Sierra Gorda Biosphere Reserve: Carbon finance for community reforestation - Mexico

For nearly 20 years the Grupo Ecológico Sierra Gorda has been working with thousands of rural families in the Sierra Gorda Biosphere Reserve, developing an innovative model of community development within the most ecosystem-diverse protected area in Mexico. Since 1990 Sierra Gorda and its sister organization, Bosque Sustainable, have been supporting extremely poor upland communities of the reserve in reforesting and restoring over 400 hectares.

In 2006 and 2007, Sierra Gorda successfully completed the sale of carbon offsets from these projects to buyers in the voluntary market, and seeks to expand carbon finance for existing and new plantations. To enhance the viability of this offset offering, Sierra Gorda and Bosque Sustainable are integrating small-scale community restoration projects with larger native-species commercial plantations with the aim of having them certified under Climate, Community and Biodiversity (CCB) standards. The Incubator will provide support to enable these organizations to complete design documents, verify carbon project stocks and projections and secure CCB certification – essential steps in moving these projects to market and creating a new livelihood and conservation alternative for the traditional inhabitants of the biosphere reserve.

Suruí REDD Project: Strengthening Indigenous Rights and Conservation in the Amazon - Brazil

The Suruí indigenous people, numbering approximately 1,250, live in a 247,870-hectare territory in the Amazon rainforest of the state of Rondônia in western Brazil. Since 2007, the Incubator has been working with the Suruí for using carbon finance to restore deforested lands within their territories through native-species reforestation. However, REDD is likely to prove a much more powerful tool for protecting the territory and its forests. More than 96% of the Suruí's 247,870 hectares of ancestral lands are still covered by intact tropical forest, though these are threatened by illegal logging and expansion of the agricultural and ranching frontier. This project proposes to catalyze carbon financing to promote the conservation of biodiversity and indigenous rights.

The Incubator, working with the the Suruí Community Association Metareilá and other Brazilian partners, aims to develop the technical assessments and community-based design to position a Suruí REDD project for the voluntary market. Developing a viable REDD project will not only contribute to sustainable livelihoods and forest conservation for the Suruí, but will provide a best-practice reference that can help shape the REDD debate in Brazil and internationally. Legal opinion clearly supports the rights of the Suruí, and other indigenous communities to the carbon and associated economic benefits from their forests. However, how these emissions reductions are eventually tallied will be critical, given that eventual climate change agreements place strong emphasis on national and subnational accounting frameworks as a condition for REDD finance. Beyond rights, increasingly informed participation by indigenous organizations in defining these frameworks will be key to fairness and effectiveness.