



Guide to Structuring a PES Project

Michael Richards and Tommie Herbert

*Training Workshop on Payments for Ecosystem Services (PES) and
Reducing Emissions from Deforestation and Forest Degradation (REDD+)*

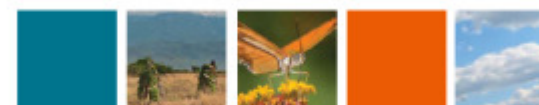
8 August 2011



Guide to Structuring a PES Project

- Identify demand and supply potential
- Assess legal, policy and institutional basis
- Develop a Project Idea Note (PIN)
- Structure PES agreement
- Implement & monitor project

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Payments for Ecosystem Services: Getting Started

A Primer



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2008



1. Identify Demand and Supply Potential: is there a project?

- Identify demand / potential buyers of ecosystem services (ES)
- Identify sellers and legal basis for sale
- Define, measure and assess ES in a project area
- Determine likely market value or price



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Identify Potential Buyers and Sellers

Potential buyers:

- Who relies on or benefits from the ES?
- Is there a problem with current supply of ES?
- Willingness and capacity to pay?

Potential sellers:

- Who owns the land?
- Who has ES property rights? (legal basis for PES?)
- Who are the resource managers?
- Who should be paid?

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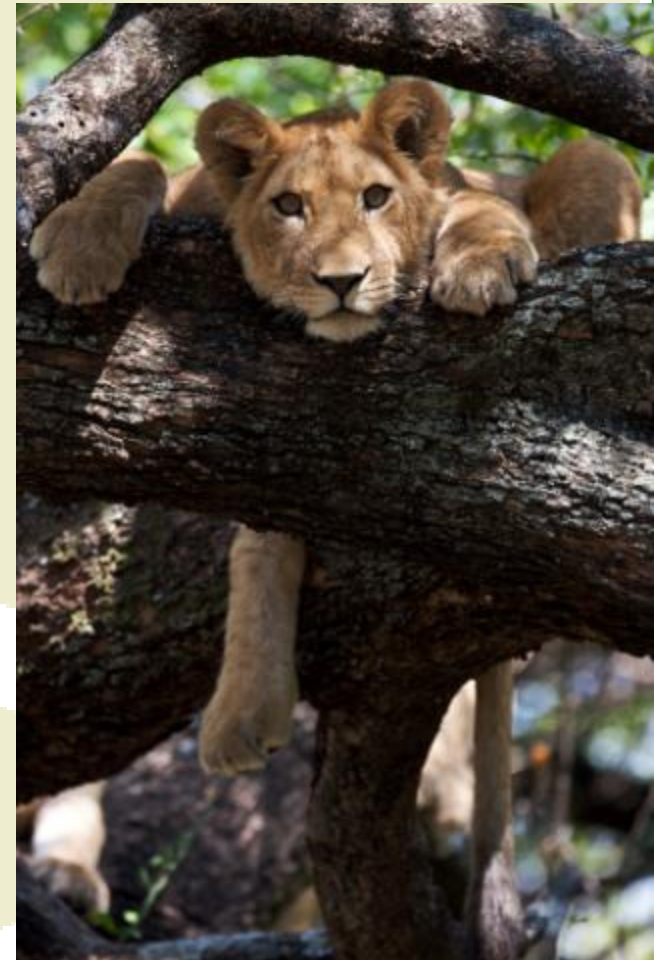




Define Supply of Ecosystem Services

- Define the project area: reference area and leakage belt
- Assess quality & current status of ES including rate/level of degradation (baseline/carbon reference scenario)
- Technical relationship between NR management and ES – how clear? Capacity to enhance/maintain ES?
- Additionality of PES?
- Capacity to monitor impact of land use change on ES flow - so buyers know that ES are real ('additional')

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Identify Degradation Agents and Drivers

Agents: Groups or types of resource users who are damaging ecosystem in business-as-usual situation

Drivers: Factors driving agents' land-use decisions

Importance:

- Baseline projection
- Assess leakage risks
- Project design, especially land use incentives strategy and leakage mitigation



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Determine marketable value (potential price)

- Price of an ES in voluntary markets is determined by supply and demand: what buyer is **willing to pay** and seller is **willing to accept**
- Regulated markets: legislative basis, e.g., cap and trade markets created – caps or emission quotas set by governments or negotiated (e.g., as in Kyoto Agreement)



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2. Assess legal, policy & institutional context

- What rules exist for PES deals?
- Land and ES ownership – who has legal right to sell? (who owns the trees?)
- Link between legal rights & resource management – land use incentives?
- Local tenure & use rules – sustainable management?
- Local institutional capacity
- Governance
- All these affect investor risk and transaction costs



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Areas of Expertise Needed

- Negotiation and legal/contractual skills
- Experience of working with communities and social issues (partner with a local NGO?)
- Technical, e.g., carbon measurement (MRV)
- M&E skills

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3. Project Idea Note

- Project scope, strategy and objectives
- Characterization of the 'without project' baseline or counterfactual
- Estimation of forest carbon stocks or sequestration potential
- Carbon additionality
- Socio-economic context – communities & other stakeholders
- Co-benefits: social and biodiversity impacts

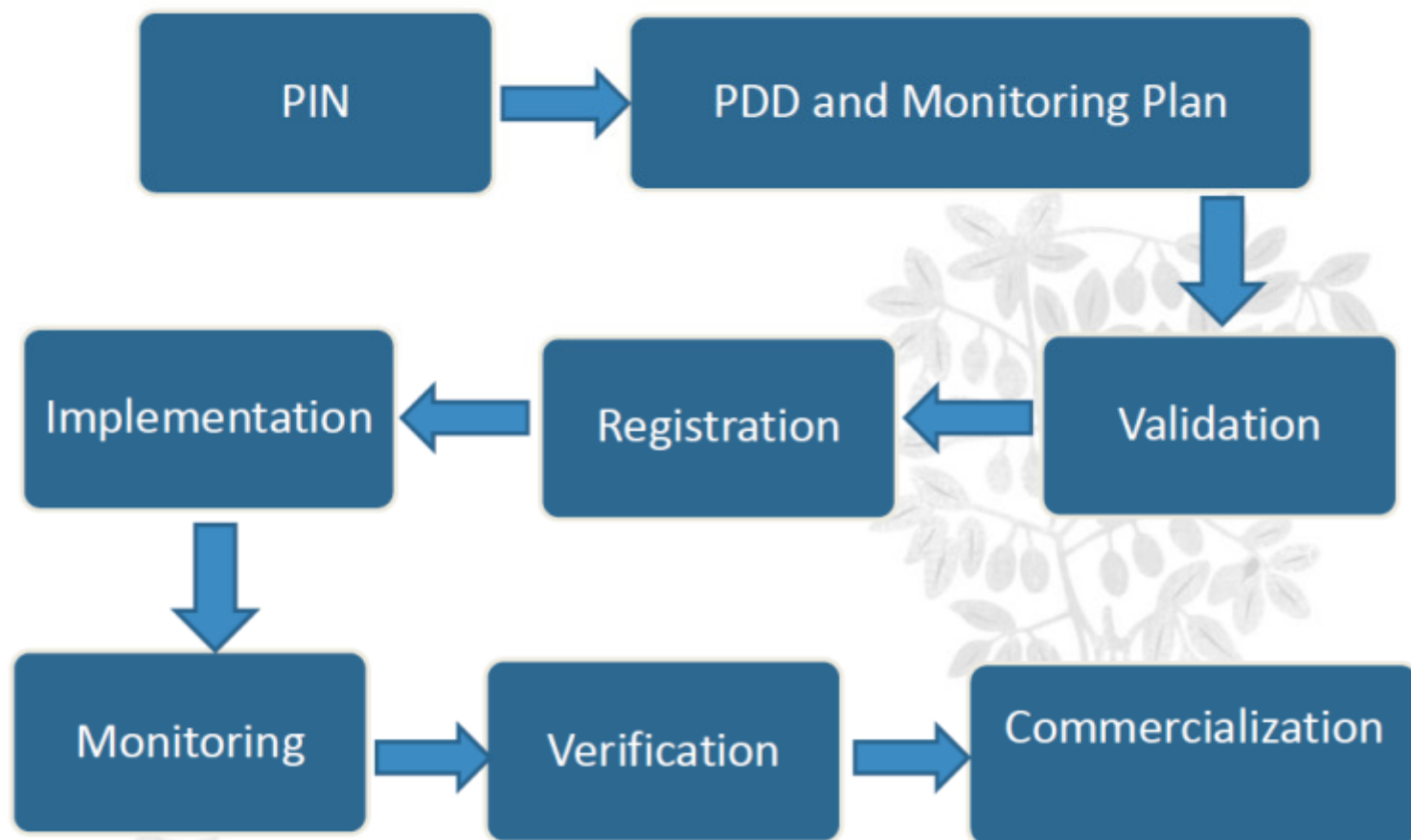


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The Carbon Project Cycle



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Guide to developing forest carbon PDD

Topics covered:

- Technical – project design and baselines
- Measuring carbon (MRV)
- Legal issues
- Financial/business/marketing
- Community engagement
- Social impact assessment
- Biodiversity impact assessment



Building Forest Carbon Projects



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EcoDecisión
Asociación civil de desarrollo ambiental

2011

http://forest-trends.org/publications/building_forest_carbon_projects



4. Structure PES Agreement

- Define rights and responsibilities of buyers and sellers
- Type of contract
- Payment basis – delivery of what?
- Dispute resolution
- Payment / benefit sharing options (including in-kind)

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Elements of an Agreement

- Terms and types of payments
- Timing of payments
- Requirement or conditionality for payment, e.g., report, data
- Managing and mitigating the risks
- Length of contract
- Dispute resolution



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Options for Payment and Agreement Types

PAYMENT TYPES

- Direct financial payments
- In-kind payments
- Recognition of rights/tenure
- Pay-per-tree
- Forest establishment and protection
- Profitable and sustainable land management
- Providing services

AGREEMENT TYPES

- MOU
- Legal Contract
- Customary Law Agreements
- 'Handshake' agreement
- Quid pro-quo



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Consider setting up multiple
stakeholder managed trust fund



5. Implement & Monitor PES Agreement

- Finalize PES management plan
- Implementation issues:
 - 6 month/annual operating plans
 - Accounts tracking systems
 - Governance of finance & benefit sharing mechanisms
 - Train community members in admin & technical tasks
 - Conflict resolution procedures
 - Monitoring delivery of ES



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Monitoring – essential for PES projects

- PES are performance-based
- Sample monitoring sites
- Local people can measure carbon – training
- Social & biodiversity benefits – impact assessment
monitoring plans required by CCB Standards (SBIA Manual)
- Ex-ante impact assessment is key to project design (e.g. Using ‘Open Standards for the Practice of Conservation’ (Conservation Measures Partnership, 2007)
- Helps identify risks and potential negative impacts – early detection of problems will save costs
- Important for adaptive management



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Asante sana!

Questions and Discussion

Michael Richards

The Katoomba Incubator

mrichards@forest-trends.org

www.forest-trends.org

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