Guide to Structuring a PES Project

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

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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
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
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?
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’)

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
Determine marketable value (potential price)

- Price of an ES is 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)
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
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
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
The Carbon Project Cycle

- PIN
  - PDD and Monitoring Plan
- Implementation
  - Registration
  - Validation
  - Monitoring
  - Verification
  - Commercialization
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

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)
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
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

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
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
Asante sana!

Questions and Discussion

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