



Building a “Village Company” to improve community based forest management in the context of REDD



A resident of Dodoma Isanga Village receives her dividend from the village's REDD revenue

In Tanzania, the REDD pilot project ‘Making REDD work for communities and forest conservation in Tanzania has developed a community-oriented REDD model based around direct payment of REDD revenues to communities. REDD revenues are paid as dividends to all community members. This paper describes the process and outlines some of the advantages of the system and the implications of this model in terms of national and international policy.

For more information about the project, please visit: <http://www.tfcg.org/makingReddWork.html>

A wide variety of benefit sharing mechanisms have been instituted under the umbrella of community based natural resource management. We believe that, when the benefits from community-based natural resource management include revenue, treating community-based natural resource management as a community business and community members as shareholders in the business offers many advantages over systems that only allow revenue to be spent on communal benefits. Treating village revenue from natural resources as dividends allows communities the greatest flexibility over the use of their earnings; contributes to rural economic development; can be used to create incentives for individual behavior change; improves the delivery of communal benefits; encourages wider participation in decision making; and lowers transaction costs. Here, we present one such dividend-based benefit sharing mechanism developed and implemented by villages participating in two REDD pilot projects in Tanzania.

The Tanzania Forest Conservation Group (TFCG) and the Tanzania Community Forest Network (MJUMITA) started the two pilot projects in 2009 to reduce greenhouse gas emissions from deforestation and forest degradation (REDD). The goal of the projects is to help 30 villages in two sites in Tanzania to achieve significant and permanent reductions in emissions from deforestation; verify the emissions reductions under the Verified Carbon Standard (VCS); and earn revenue from selling the verified emission reductions in the voluntary carbon market. The project aims to provide an example of a pro-poor approach to REDD in Tanzania and plans to seek additional verification under the Community, Climate, and Biodiversity (CCB) project standards.

One of the key strategies to reduce deforestation that the project is supporting is to help participating villages to set up community based forest management (CBFM). While CBFM has been successful at improving or maintaining forest condition in the areas that communities decide to manage, research suggests that the benefits from CBFM in Tanzania often accrue more to village leaders and other local elites, while poor households incur a disproportionate amount of the costs (Vyamana 2009; Lund & Treue 2008). Additionally, few communities practicing CBFM have received significant income from CBFM (Blomley & Iddi 2009) and it is not clear that the current CBFM governance systems in most communities will be appropriate for handling larger amounts of income. CBFM governance dashboards implemented by members of the the Community Forestry Network of Tanzania (MJUMITA) in 350 villages have revealed serious governance problems including poor participation rates by the wider community in CBFM activities, minimal or no record keeping and little information sharing by village leaders.

In part, the relatively poor performance of CBFM in terms of governance and benefit generation / sharing is because most CBFM in Tanzania has been focused on creating village forest reserves that did not permit timber harvesting. This relates to the types of forests that have been placed under CBFM, which often included areas that were already heavily degraded (Blomley & Iddi 2009) or catchment forests where harvesting could not be permitted. Additionally, the focus of some of the institutions supporting CBFM (conservation NGOs), and misinterpretations of CBFM by district government officials has also contributed to conservation oriented rather than sustainable management oriented CBFM in Tanzania.

Thus, since communities were expected to generate little if any revenue from their forest reserves (typically less than \$500 a year), the governance mechanisms for dealing with revenue were not a focus of many CBFM initiatives. Amongst MJUMITA's 350 member communities practicing CBFM, most villages simply use fixed percentages to divide up income between village natural resource committees and the village council. In most cases, these two government bodies are free to decide how to use their share of the revenue, though in some cases the village assembly approves the use of the village council's portion of revenue.





Residents of Nyali Village in Kilosa District vote in favour of the REDD revenue distribution plan proposed by their village government.

Sustainable harvesting is permitted under REDD and will help to make REDD an acceptable option for communities and make it easier for communities to place more forest under CBFM. Revenue from REDD and sustainable harvesting could be substantial. Trial REDD payments to villages based on conservative estimated potential annual earnings from expected reductions in deforestation in MJUMITA / TFCG REDD projects have ranged from \$2000 to \$30,000 depending on the village. If communities were to receive more reasonable carbon prices than those offered by the voluntary carbon market at present, perhaps when an international REDD mechanism is in place, earnings of \$80,000 a year for some villages are possible.

These potential revenues far exceed the revenues that villages are accustomed to managing. Therefore, MJUMITA has worked with participating REDD communities to develop new systems for managing revenue from REDD and sustainable forest management according to good governance principles. While the project has left decisions about the final form of the benefit sharing arrangements up to each village assembly, we provided guidelines for villages to consider. Most importantly, we recommended that the final decision regarding the use of village

earnings from REDD+ or sustainable forest use fees should be made by the village assembly annually and that options for the use of revenue should include paying dividends to community members.

The basic steps of the process are as follows:

1. The village assembly (meeting of all villagers over the age of 18) passes bylaws specifying who is eligible to receive dividends from village forest revenue. For instance, bylaws might specify that all adults residing in the village for more than 3 years and their dependent children under the age of 18 (who may not reside in the village) are eligible for dividends. The bylaws also establish a revenue sharing committee consisting of village council members from every sub-village and members of the VNRC.
2. Sub-village leaders compile lists of eligible residents and post them for comments in a public place within each sub-village. Lists are adjusted as discrepancies are found.
3. The revenue sharing committee secretary compiles the completed lists into one

registry book. The registry is read aloud in the next village assembly meeting, adjusted if needed, and approved by the village assembly.

4. The revenue sharing committee meets to develop budgets for village development and conservation activities based on previous village assembly meeting discussions. The committee also calculates the dividends by dividing all forest revenue from that year by the number of eligible residents. Finally, the committee calculates the cost of each development and conservation activity in terms of its cost per dividend.
5. The village assembly meets and the revenue sharing committee presents the village forest revenue for the year, its sources, and the basis for any REDD revenue. The committee presents the dividends and proposed cuts for dividends for each development and conservation activity. The village assembly votes on each proposed activity and unpopular activities are adjusted or removed. The revenue sharing committee presents the final dividends and the dividend payment day is announced.
6. On the dividend payment day, payments are organized by sub-village. Individuals come up one by one to collect their dividend in front of their fellow community members. The revenue sharing committee observes the process and ensures that each person signs the registry book against their name and the amount of the dividend.

While, cash dividends from communal natural resource earnings have been tried elsewhere in Southern Africa, the concept is new in Tanzania, where significant communal village earnings are rare, and always directed to funding government functions or development projects. A REDD benefit sharing system that includes an option for dividends has many potential advantages. Most importantly, it should increase the sense of community wide ownership over the forest, the revenue generated from the forest, and any development projects that are funded by the revenue. Since any revenue directed to development projects represents a decrease in the funds available for dividends, we expect that community members will take more interest in

deciding on which projects to fund and will be more likely to hold village leaders responsible for implementing the selected projects. Furthermore, since the village assembly has the power to change its mind annually, village leaders should have an increased desire to deliver on development projects since the village assembly could decide to spend all its earnings on dividends the following year if unhappy with the village government's performance.

During trial REDD payments, we found that many communities were unwilling to contribute to village development projects such as building classrooms or health clinics unless MJUMITA would oversee the use of the funds, suggesting that community members were already seeking to withhold funding from the village governments based on previous experiences. Thus, MJUMITA has also worked with villages to develop bylaws concerning the use of funds that have been approved for village development projects requiring village governments to stick to approved budgets and account properly for their expenditures. Hopefully, after the successful implementation of some village projects, villagers will develop more confidence in the system and be willing to approve development projects without relying on a third-party to hold the funds.

Essentially, including the option for 100% of forest revenue to be spent on dividends transforms the revenue to be spent on development projects from rent revenue to tax revenue. Governance research, particularly research conducted in countries with relatively weak institutions suggests that taxes are associated with greater demands for accountability from those that are taxed and that "unearned" government revenue from natural resource rents or foreign aid allow governments to avoid taxes and demands for accountability (Gloppen & Rakner 2002; Brautigam et al. 2008; McGuirk 2010). Another key consideration is who is paying the tax. For instance, some district taxes are generated from fees and taxes on charcoal, timber, and agricultural cash crops. However, these fees are generally paid by traders who come to villages rather than by community members themselves. Thus, even though the taxes affect the price that community members receive for their goods, they don't pay them directly and thus are less likely to hold their leaders responsible for their use. The dividend

system makes it obvious that the money is coming out of community members' pockets.

In addition to improving the delivery of village level development activities, the dividend approach could also be used to hold district government officials accountable for the services they provide communities. For instance, district agricultural extension services and law enforcement support increase villages' capacity to implement REDD. Rather than imposing fixed taxes that award a portion of REDD funding to districts, villages could budget for the services that they view as valuable and withhold funding if district officials fail to provide the desired services. The voluntary nature of the tax creates instant accountability (as evidenced by the results of the project's trial payments) compared to other tax reforms in Tanzania that have been undermined by the state resorting to coercion to extract taxes from unwilling tax payers rather than generating true accountability (Fjeldstad & Rakner 2003).

These ideas are simple and yet radical. Anecdotally, during the first round of test payments in the REDD project, there seems to be a point in each meeting when community members seem to understand the idea behind the payment mechanism. The meetings instantly

become more lively as community members realize that, for the first time, they have full control over development activities in their village.

Dividend payments also provide a rare opportunity for government and civil society to reach nearly all village members at one time. Tanzanian villages range in size from a little over 200 to 1000 adults. TFCG and MJUMITA's experience suggests that participation rates in village assembly meetings are generally low, with often less than 20% of adults attending. Furthermore, those most likely to attend will be from the areas nearest to the village center, which is often far from the forest. Thus, people living near or in the forest may be the least likely to attend village assembly meetings. Realizing this, the project started REDD awareness raising activities at the sub-village level. However, this process is time consuming, expensive and still fails to reach a significant number of community members. In contrast, on dividend payment days, more than 90% of adults show up to collect their dividends on that day. The project has taken advantage of these days to conduct additional REDD awareness raising activities, provide agricultural training and bring agricultural supply store representatives from town to offer their goods at competitive prices.



During the REDD payment days, almost all residents of a village participate. This provides a valuable opportunity for awareness raising on REDD, agriculture and other issues.

If substantial enough, the benefits of dividends from natural resource rents do not end with increased accountability and participation. The dividends themselves could also make a substantial contribution to rural development by allowing individuals to decide how to spend their income. All villages have adopted individual dividends rather than household dividends, which is probably more democratic given the power dimensions of gender in many households. The project also promoted the idea that children should be eligible for dividends and that these dividends should go to mothers or the primary care giver for the children. Though seemingly controversial, especially in conservative rural communities, this suggestion was adopted by almost all the participating communities because they clearly recognized that mothers were the primary care givers of children.

To our knowledge, previous CBNRM schemes involving dividends for community members, most notably CAMPFIRE in Zimbabwe, only involved adults. The inspiration for dividends for children channeled to mothers came from the Basic Income Guarantee pilot project in Namibia, that involved an unconditional guaranteed income scheme for a rural community. Women tend to be more likely than men to spend their income on goods and services for their children. In Namibia, the Basic Income Guarantee project found dramatically reduced rates of child malnutrition, increased school attendance and increased use of health services after introducing payments to mothers (Frankman 2010). Cash payment systems to poor mothers in Brazil and Mexico have also found similar benefits (Handa and Davis 2006). Another advantage of targeting more money to women is that they are less likely to suffer from alcoholism, which is a major public health problem in rural Tanzania, and are therefore more likely than men to put their earnings to productive uses.

Aside from benefits to children, small cash payments can contribute to economic development by:

- **Removing barriers to entrepreneurship** – Often, poor households cannot afford to risk their labor on activities that do not result in immediate income. For a poor household even very small cash dividends represent several days of casual labor which they have

saved. Cash payments can enable people to purchase supplies and equipment required for new enterprises; help households meet some of their daily consumption needs before the new enterprise starts to generate income; or give them income to fall back on if the new enterprise fails to generate the expected return.

- **Not being a one size fits all approach to rural development** – Rural communities are heterogeneous with regards to capital, land, natural resources, education, and entrepreneurial skill. Therefore, it can be difficult to design a livelihood program that will be appropriate for all community members. Each individual is in the best position to know the kinds of opportunities she or he can capitalize on and individual payments give people the greatest number of choices for how to adapt their livelihoods to a world with REDD+.

Based on a survey of community members after REDD trial payments, we have already found considerable evidence to support the idea that even very small cash dividends can contribute to improving livelihoods. Forty-four percent of respondents reported that someone in their household used their dividends for entrepreneurial activities related to increasing their agricultural productivity, livestock keeping, or starting small businesses. Additionally, though not counted as an entrepreneurial activity, it is likely that for some households, purchasing food could have been considered an entrepreneurial activity if it freed up their labor to work on their own farm rather than as a casual labor on other peoples farms.

Dividends could also be used to encourage community members to adopt behaviors that will help to make REDD efforts more sustainable in the long run. For instance, some communities have decided to include the use of fuel efficient stoves as an eligibility requirement for dividends. Though more complicated, in the future, adoption of conservation agricultural practices could also be included in the eligibility requirements. While verifying these behaviors at a large-scale would lead to high transaction costs, at the scale of the sub-village, where eligibility lists are composed, people generally know



By strengthening governance and accountability within the community, the model can be self-governing thereby avoiding the need to invest in expensive external monitors.

enough about each other that little direct monitoring is actually required. The only danger is that some behaviors may be more difficult for disadvantaged groups to adopt. However, this can be avoided by including provisions for the poorer groups that ensure they will receive their dividends. Again, by compiling eligibility lists at the sub-village level, communities can take advantage of their knowledge of each other to agree on eligibility without monitoring or means testing.

The project has recommended a couple of key controls on the dividend system. Eligibility based on residency length helps communities avoid being swamped by people moving to their village to collect payments. Also, most, but not all villages agreed to put a cap on the number of children that a mother can claim as dependents, thereby avoiding incentivizing larger families.

One concern frequently voiced by outside observers of the project's dividend system is that if carbon prices are low, the per capita dividend might be too low to make any kind of significant impact on rural life and community members will see the dividends as irrelevant. We

would argue that if this is the case, then carbon prices are simply too low and REDD will not work regardless of the benefit sharing mechanism. However, under the dividend system, villagers can always decide to spend their dividends on social services that might make more of a difference. Furthermore, the project has found that even dividends as low as \$10 per person (\$50 per average household) generated a great deal of interest and unprecedented turnout at village meetings to discuss how to use them. During the first round of trial payments, almost all communities voted to spend some money on social services and forest management. However, in all villages except one, a majority of funds were spent on dividends, even when the remaining per capita dividends were \$5 per person. Thus, the dividend option is very popular even when the dividend itself would appear to be insignificant from an outsider's point of view.

Another common concern is that paying everyone dividends must be associated with high transaction costs. However, our experience suggests the opposite to be the case. For the reasons detailed earlier, the dividend system should improve accountability and thus reduce

the need for external monitoring of village development funds. At the same time, the dividends payments themselves cost very little to implement. Resident lists are compiled and checked at the sub-village level where everyone knows each other and there is little risk of missing people. Furthermore, dividend payments are made in public in front of the entire village assembly, making it difficult to manipulate who gets paid. For the work of compiling the resident lists and overseeing the payments, village assemblies have generally agreed to pay REDD benefit sharing committee members the equivalent of \$1.3 each, bringing the total cost of the system at the village level to about \$30. A police escort for the money and providing for district officials to participate in the process might cost \$200 per village, but these additional costs would be incurred even without a dividend system. Thus, the system has low transactions costs, is self-governing, and should reduce external monitoring costs compared with alternatives.

It should be recognized, however, that these kinds of systems do not instantly work and require some additional oversight at the beginning. It would probably be prudent for the supporting organization or district officials to attend the first two rounds of payments to ensure that communities adhere to their bylaws. This is necessary largely because the system differs from the status quo and even though village assemblies have approved the bylaws, many community members do not believe payments will actually happen until they do. Experience from the TFCG / MJUMITA REDD project sites finds that some village governments fail to fulfill most of their roles and responsibilities and that there are extremely low levels of trust. However,

with minimal oversight, all communities have successfully implemented the system and we anticipate that after implementing the payment process twice with external support, community member independently will know what to expect and should be able to make sure that their leaders adhere to the process.

The model that we have been piloting requires an international and national REDD+ mechanisms with nested accounting that provide forest owners with guaranteed access to carbon financing for emission reductions that they achieve on their land. Internationally, due to concerns about leakage, there is general consensus that REDD+ accounting should be based at the national level. However, the need for national greenhouse gas emissions accounting, does not require an exclusively national-level REDD+ payment mechanism. Some drivers of deforestation can not be addressed by national level interventions or policy changes. In some cases direct incentives need to reach the communities or other forest owners in order for them to choose to reduce deforestation.

Furthermore, establishing national accounting systems will take time, but many REDD+ efforts require immediate incentives. Therefore, to make early progress on REDD+ where possible, the REDD+ mechanism should initially allow for crediting emission reductions by community or other forest owner, even without national accounting, using methodologies similar to VCS. Once the national accounting system is functioning, it would issue verified emissions reductions to communities or other forest owners, and the forest owner should then have the right to choose their financing option.

About 'Making REDD work for communities and forest conservation in Tanzania'

This 5 year partnership project was launched in September 2009 by the Tanzania Forest Conservation Group (TFCG) and the Community Forest Conservation Network of Tanzania (MJUMITA). The project aims to demonstrate at local, national and international levels, a pro-poor approach to reducing deforestation and forest degradation by generating equitable financial incentives from carbon finance sources for communities that are sustainably managing or conserving Tanzanian forests at community level.

Project Location

The project is being implemented in two sites. One site is in the Eastern Afromontane biodiversity hotspot, the other site is within the East African Coastal Forests biodiversity hotspot. The sites include 36 villages in 3 districts and 1 municipality. The total project area is 373,200 ha and the total forest area is 215,000 ha.

Lindi Project Site

Lindi Rural District and Lindi Municipality: 17 villages. Project area: 120,00 ha. Forest area: 75,000 ha.

Kilosa and Mpwapwa Project Site (includes 9 villages primarily supported using other funds)

Kilosa District: 13 villages. Project area 200,461 ha. Mpwapwa District: 5 villages. Project area 52,739 ha. Total forest area for Kilosa and Mpwapwa District: 140,000 ha.