

Public Disclosure Authorized

BENEFIT SHARING PLAN

REPUBLIC OF MOZAMBIQUE

National Fund for Sustainable Development (FNDS) of the Ministry of Land, Environment and Rural Development (MITADER)

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Benefit Sharing Plan of Mozambique REDD+ Emissions Reductions Program: the Zambézia Integrated Landscape Management Program (ZILMP) – with support from Nitidæ

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INTRODUCTION

BRIEF INTRODUCTION TO THE ER PROGRAM

1. The Zambézia Integrated Landscape Management Program (ZILMP) is a jurisdictional REDD+ program designed by the Government of Mozambique (GoM) to contribute to long-term sustainable management of forest, to reduce deforestation in the Province of Zambézia and to improve the well-being of rural populations. It is the **first program of results-based payments for Emission Reductions (ERs) in Mozambique**.
2. **The ER Program currently covers 9 districts of the Province:** Alto Mulocue, Gilé, Gurué, Ile, Maganja da Costa, Mocuba, Mocubela, Mulevala and Pebane. In this area the main driver of deforestation is small-scale slash-and-burn agriculture. This small-scale agriculture is interlinked with charcoal production, which is a typical by-product of land being cleared for agriculture and remains an important driver of forest degradation. Illegal logging and non-sustainable forestry exploitation practices also contribute to forest degradation.
3. **The ambition of the ER Program is to reduce emissions due to deforestation in the accounting area by 30% below the reference level in from 2018-2019 and by 40% from 2020 to 2024.**
4. The ER Program is implemented through the following World Bank-financed projects:
 - **Agriculture and Natural Resources Landscape (*Sustenta*) project;**
 - **Conservation Areas for Biodiversity and Development (MozBIO) project;**
 - **Mozambique Forest Investment (MozFIP) project;**
 - **Dedicated Grant Mechanism for Local Communities (MozDGM) project.**
5. Those projects promote land-based investments that contribute to reducing deforestation in the ER Program area, including: promotion of conservation and climate smart agricultural production, including the establishment of agroforestry systems; sustainable production of key cash crops; forest plantations and restoration of degraded lands through assisted natural regeneration (ANR) and enrichment planting; sustainable production of charcoal; valorization of key Non Timber Forest Products (NTFP) products. In addition to these land-based investments, enabling activities are implemented to create the necessary conditions for the ER interventions to be successful, such as land use planning, land tenure clarification, community land delimitation and strengthening of community rights to natural resources, including forests, law enforcement and improved forest management governance. Those activities will foster behavior change which are expected to lead to ERs. *More details on ER Program interventions are provided in the ERPD (section 4).*

MONETARY BENEFITS AND PURPOSE OF THE BENEFIT SHARING PLAN

6. The ambition of the ER Program is to reach a total level of ERs of 10,680,932 tCO₂eq over the crediting period (February 2018-December 2024). By selling those ERs (carbon credits), of which 10,000,000

tCO₂eq could be paid by the FCPF Carbon Fund (depending on the final terms of the ERPA), the ER Program is expected to generate monetary benefits.¹

6. **This current Benefits Sharing Plan (BSP) is designed to ensure that those monetary benefits are shared between the various stakeholders of the ER Program according to clear, effective and transparent mechanisms, principles and channels, with support from all relevant stakeholders and communities.**
7. **The BSP is framing the allocation, administration and provision of the ER Program monetary benefits (ER payments to support activities that address the drivers of deforestation in the ER Program area and to incentivize activities that generate additional ERs.**

GENERAL PRINCIPLES OF THE BSP

8. The design and implementation of the BSP of the ER Program have to **comply with relevant applicable laws in Mozambique**, including agreements and customary rights (as required by criterion 33 of the FCPF Methodological Framework), and should ensure a **high degree of efficiency and transparency** in order to be successful and incentivize stakeholders' participation.
9. **Benefits are shared based on performance:** only the verified reduction of deforestation in the ER Program area will trigger ER payments to be shared between the identified beneficiaries.
10. **Local communities are expected to benefit the most:** the proportion of benefits allocated to the communities should represent the most significant share of benefits, as they are the key actors whose behavior (in terms of land use) need to change for ERs to be achieved.
11. **Central to the application of this BSP is the concept of adaptive management.** REDD+ and ER payments are innovative concepts and the ER Program is only at the early stage of its implementation: although key investment projects (Sustenta, MozBIO, MozFIP, MozDGM) are already running, they are continuously adapted to the ever-evolving context of their implementation and practical constraints. In the same way, **it will be fundamental that this BSP be periodically revised and updated according to available information and progress made on the ground.**² This will ensure the progressive and continuous incorporation of key lessons learnt into the BSP to make sure that its functioning remains relevant and efficient.

LEGAL UNDERPINNINGS OF THE BENEFIT SHARING PLAN

The main legal bases for the BSP are summarized in table 1.

¹ Although the arrangements provided in this BSP focus on monetary benefits, it should be noted that the ER Program also generates significant non-carbon benefits (such as rural jobs, food security, biodiversity protection, water quality and quantity provision, among others). Those are detailed in the ERPD and in Annex Z. In the same way, non-monetary benefits and additional non-carbon benefits are covered in each projects' PAD (Sustenta, MozBIO, MozFIP, MozDGM).

² A relevant example of this progress will be the evolving number of delimited communities along the lifetime of the ER Program and the implementation of the BSP.

12. The Decree on “procedures for approval of REDD+ projects” (Decree 70/2013.) mandates the State to distribute the benefits of REDD+ projects, including to local communities.
13. **This was confirmed by Decree 23/2018 on “Regulations for REDD+ Projects and Programs”, approved by the Council of Ministers in April 2018..** Decree 23/2018 clearly states that all REDD+ projects and programs will have to present an associated benefit-sharing plan and monitoring plan of shared benefits before they are approved by the relevant authority.³
14. This Decree mandates **the National Fund for Sustainable Development (FNDS)⁴ as the institution responsible for (i) the approval of REDD+ projects and programs; and for (ii) the management of payments for Emissions Reductions from REDD+ in Mozambique (Article 6)**. Hence, FNDS is responsible for the overall management of this present BSP and for channeling ER Payments to the relevant beneficiaries.

Table 1: Main legal bases for the BSP

Acts	Relevant concepts for Benefit Sharing Plan
Regulation on procedures for approval of REDD+ projects (Decree 70/2013)	<ul style="list-style-type: none"> - Necessity to distribute the benefits of REDD+ projects, including to the local communities
Creation of the National Fund for Sustainable Development (FNDS) (Decree 06/2016 & Resolution 19/2017)	<ul style="list-style-type: none"> - Creation of the FNDS as an independent public body with administrative and financial autonomy, under the sectorial tutelage of the Ministry of Land, Environment and Rural Development (MITADER) and the financial tutelage of the Ministry of Economy and Finance (MEF); - Definition and approval of FNDS’ organic structure, within MITADER, and core responsibilities; - FNDS to be responsible for promoting and managing the financing of programs and projects contributing to a sustainable and inclusive development in Mozambique, with particular emphasis on rural areas; - Focus on financial resources (including international funding) to be used for sustainable development policies through relevant projects and programs linked to: improved environmental management, climate change mitigation, and

³ FNDS will be responsible for assessing all benefits sharing plans, but no specific instructions are provided in the Decree regarding the exact content, design, consultation and disclosure policies of those benefits sharing plans.

⁴ Created by governmental decree in February 2016 (Decree n°6/2016 of February 24), the FNDS is an independent public body with administrative and financial autonomy, under the sectorial tutelage of the Ministry of Land, Environment and Rural Development (MITADER) and the financial tutelage of the Ministry of Finance (MEF). One of its core responsibilities is to mobilize and manage financial resources (including international funding) to be used for sustainable development policies in Mozambique.

	the sustainable management of forests, biodiversity conservation and land planning.
National REDD+ Strategy	<ul style="list-style-type: none"> - Need for the State to work closely with local communities in developing and implementing REDD+ programs - REDD+ to be implemented primarily through large-scale programs
Regulation on REDD+ Projects and Programs (Decree 23/2018)	<ul style="list-style-type: none"> - Clarification of ER ownership; - Obligation for all REDD+ project to present a clear BSP in order to be approved; - FNDS as the appropriate body to manage ER payments and transfer them to appropriate beneficiaries.

STRUCTURE OF THIS DOCUMENT

15. Section I clarifies the type of benefits that will be shared with the beneficiaries, Section II identifies the beneficiaries and their eligibility criteria. Section III clarifies the distribution modalities according to each type of beneficiaries, while Section IV presents the roles and responsibilities of relevant entities involved in the benefit sharing arrangements. The last sections, V and VI, presents monitoring and safeguard issues. The BSP concludes with a summary of the consultations held to date on REDD+ benefit sharing and additional consultation to be held, section VII, and communication activities section VIII.

I – BENEFITS OF THE ER PROGRAM

I-A. BENEFITS TO BE SHARED ARE « NET ER PAYMENTS »

16. **The benefits of the ER Program that will be shared between the beneficiaries are net ER payments**, as defined below. Monetary benefits from the ER Program come from ER payments. Gross ER payments are **the entire volume of ER paid to Mozambique in a given reporting period**.
17. The implementation of the ER Program and of its BSP involves a wide range of costs, which were defined in the ERPD (section 6). For the ER Program and the benefits sharing system to be viable, all those costs should be properly covered throughout the implementation of the ER Program: in order to do so, **gross payments will first be used, at the very beginning of the process, to: (i) operational costs; and (ii) ensure a performance buffer. Once operational costs and the performance buffer are deducted**, net payments will be distributed among eligible beneficiaries, as per Equation 1.
18. **Net payments are the volume of ER Payments that can be distributed to the beneficiaries once operational costs and performance buffer set-aside volume are covered.**

Equation 1: Calculation of net payments

$$\text{Gross payments} - (\text{operational costs} + \text{performance buffer}) = \text{Net payments}$$

I – B. OPERATIONAL COSTS

19. **Operational costs** include expenditures related to the technical support and administrative and financial management of ER Program and BSP, as detailed in table 2. Operational costs for running the ER Program and its BSP are estimated to reach 345,000 USD per year. **Most of operational costs related to the ER Program and its BSP are covered until 2022** by the projects currently implemented in the ER Program area⁵.

Table 2: Operational costs

Operational costs of the ER Program and BSP	Estimated cost (USD/yr)
MRV (4 technical assistants, equipment)	100,000.00
Matching Grant Unit (financial assistant and supervisor)	60,000.00
Feedback and Grievance Redress Mechanism (operationalization and functioning)	30,000.00
Safeguards (specialist and two technical assistants)	90,000.00
Internal audit (inside FNDS)	10,000.00
Verification of safeguards implementation	10,000.00
Initiatives evaluation and communication (PIU + MSLF)	20,000.00
Fees from Ministry of Economy and Finance and Bank of Mozambique	25,000.00
ESTIMATED ANNUAL OPERATIONAL COSTS	345,000.00

⁵ Mozbio, Sustenta, MozFip.

I – C. PERFORMANCE BUFFER

20. **The performance buffer is a mechanism through which the GoM will automatically set aside 5% of gross ER payments to cope with potential under-performance of the ER Program in a given reporting period:** this set-aside money will be used to reward potential beneficiaries who would have effectively reduced deforestation in their area albeit under-performance of the ER Program as a whole (no reduction of deforestation for the 9 districts altogether).
21. **The Performance Buffer will be eligible to the Gilé National Reserve (GNR), the districts and local communities,** according to a percentage split that will be annually defined by FNDS according to monitored performance and in a way that best values local communities' efforts - *detailed examples on this mechanism are provided in section III-E.* **After the last verification, any potential remaining funds will be distributed as per this BSP.**

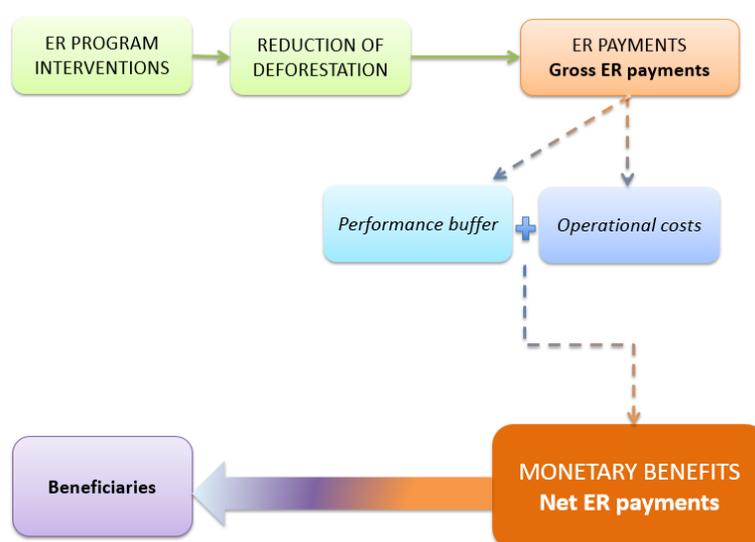


Figure 1: Illustration of net ER payments (monetary benefits)

II – BENEFICIARIES AND FLOW OF FUNDS

II-A. LIST OF BENEFICIARIES

22. The categories of potential beneficiaries are summarized in table 3. Eligibility criteria for each of them are detailed in section III. The categories of beneficiaries comprise:
- (i) **Delimited local communities** with forest cover within the ER project area and represented by a Community Based Organization (CBO), including the Natural Resource Management Committee (CGRN);
 - (ii) **Private sector** actors, who contribute to reducing emissions through specific activities;

- (iii) **Governmental bodies:** Province, Districts and the **Gilé National Reserve (GNR)**⁶.

Table 3: Beneficiaries and responsibilities

Entity	Responsibility in achieving ERs
Local communities	- Main stakeholders present in the ER Program area; - Commitment to using sustainable land use practices to lower deforestation (especially sustainable agriculture practices).
Private sector actors	- Implementations of private initiatives to further reduce deforestation in the ER Program area, such as reforestation and sustainable forest management, among others.
Zambézia Provincial Government	- Provincial coordination and supervision of the ERP and link with Ministry of Land, Environment and Rural development (MITADER) at central level; - Support to the Zambézia Multi-Stakeholders Landscape Forum (MSLF).
9 Districts governments	- Coordination and implementation of activities at district level; - Possible liaison with communities and other actors for ER initiatives.
Gilé National Reserve (GNR)	- Implementation of activities to protect the GNR and to lower deforestation in its Buffer Zone.

II-B. SHARE OF BENEFITS BETWEEN BENEFICIARIES

23. Net ER payments will be shared between the identified beneficiaries as illustrated in Figure 2 and explained below:

- Seventy percent (70%) of net ER payments will be distributed to local communities;
- Twenty percent (20%) of net ER payments will be distributed to private sector actors, in the form of matching grants;
- Two percent (2%) of net ER payments will be transferred to the Provincial Direction of Land, Environment and Rural Development (DPTADER) of the provincial government of Zambézia;
- Four percent (4%) of the net ER payments will be transferred the district government of the 9 districts that compose the ER Program area;
- Four percent (4%) of the net ER payments will be distributed to the Gilé National Reserve (GNR);

⁶ As an introduction, it should be reminded that the GNR is a restricted area with no communities living inside. Communities of the GNR are located in its Buffer Zone only, in which no coercive measures outside of national law applies. No resettlement is forecasted in the ER Program – see ERPD for more details.

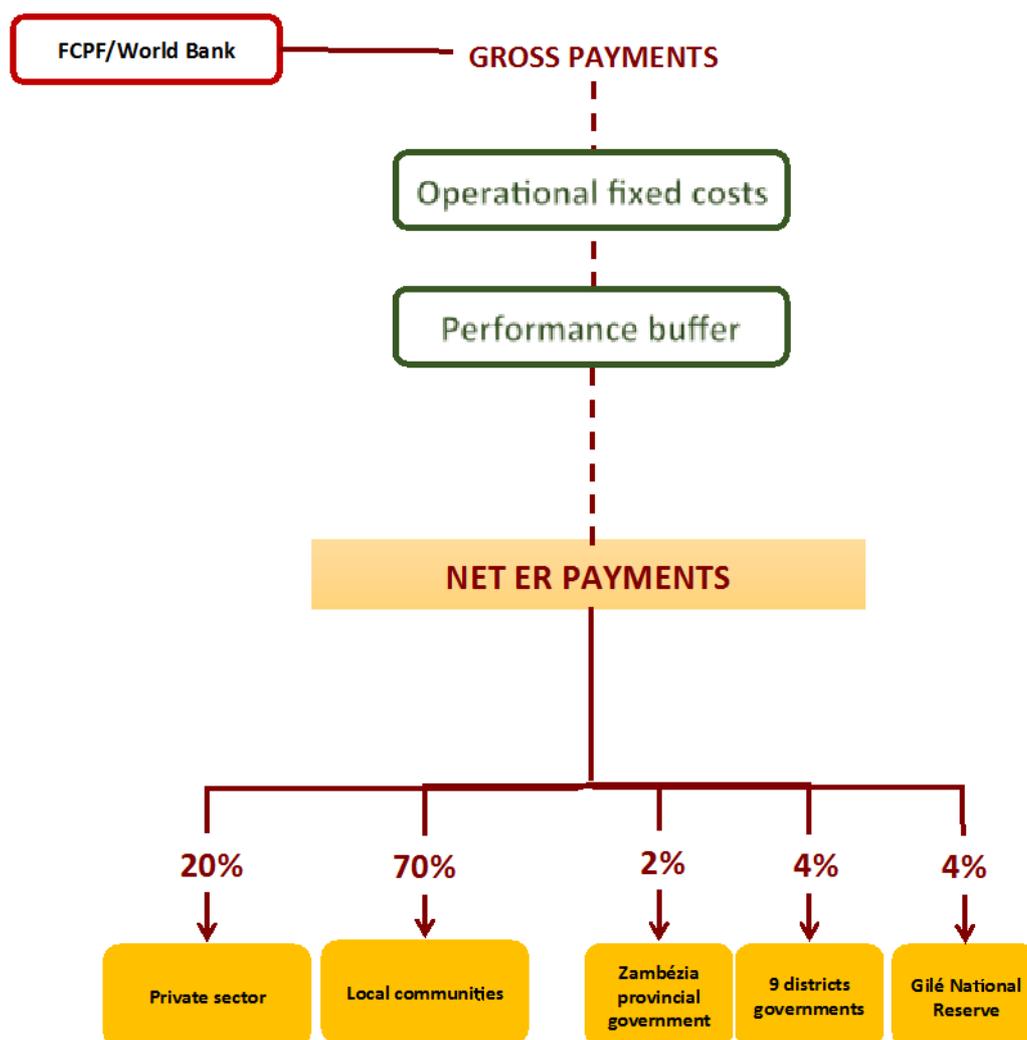


Figure 2: Repartition of ER net payments (distribution of monetary benefits)

II-C. FLOW OF FUNDS TO BENEFICIARIES

24. **It is crucial for its success to base the BSP on national and provincial structures that already exist to create synergies and to strengthen coordination.** As shown in the ERPD final draft, the institutional arrangements for the implementation and coordination of the ER Program builds on existing mechanisms and respect the role and function of all institutions involved in REDD+ and forest management in Mozambique. The BSP will follow the same guidelines: its governance structure is embedded within a strong national system of fiscal control and oversight of international funds.
25. **The recipient of the ER payments will be the Mozambican Ministry of Economy and Finance (MEF)⁷.**

⁷ The MEF is responsible for managing and coordinating national financial planning process for the Mozambican State. It aims to ensure the integrated and balanced economic and social development of the country, through consolidating an integrated system of planning and implementing a sustainable and decentralized development strategy. It is fully entitled to enter into international agreements such as an ERPA with the World Bank.

26. **National procedures mandate international funds entering Mozambique, including ER payments, to be registered by the Bank of Mozambique.** ER payments will therefore be requested and received by the MEF to be deposited into a separate bank account in dollars under conditions acceptable to the World Bank (Designated Account), within the National Bank of Mozambique (*Banco de Moçambique*).
27. **Once the funds are received and registered in Mozambique, MEF will transfer them to the existing National Fund for Sustainable Development (FNDS), acting as the Operator of the BSP.** The FNDS will in turn open a bank account in local currency to manage the ER payments in accordance with the BSP (Operational Account).
28. **The FNDS will distribute those funds the eligible beneficiaries,** according to national procedure and upon fulfillment of the conditions described in the next sections of this BSP (*see “eligibility criteria”*).
29. Figure 3 below illustrates the proposed flow of funds of the ER payments.

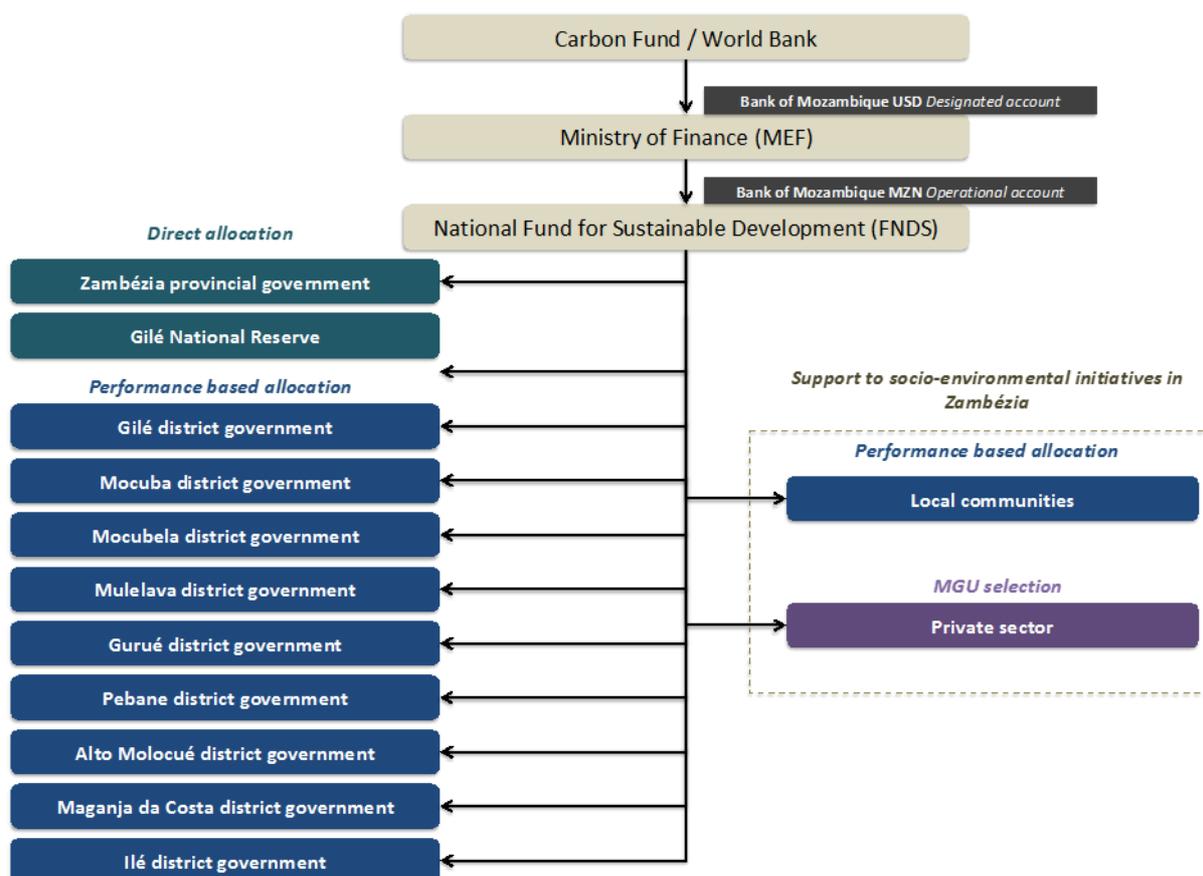


Figure 3: Flow of funds to beneficiaries

III – ELIGIBILITY CRITERIA AND DISTRIBUTION MODALITIES

III-A. DIRECT ALLOCATION TO PROVINCE AND GILÉ NATIONAL RESERVE

Conditions for ER Payments to the Zambézia Provincial government

30. **In order to receive the ER payments, the provincial government of Zambézia will develop and submit to FNDS, every year, Zambézia’s Provincial Economic and Social Plan (PESOP)⁸ of with REDD+ activities included.** This plan will describe measures to be implemented in the Province to reduce deforestation.
31. **The inclusion of REDD+ activities in the PESOP will be supported by the Program Implementation Unit (PIU) at provincial level.** The PIU will ensure that the inclusion of REDD+ activities in the PESOP is consulted with the Zambézia Multi-Stakeholders Landscape Forum (MSLF).
32. The first tranche of ER Payments will be transferred to the provincial government upon submission by the Province of the PESOP (with REDD+ activities included) to the FNDS; subsequent ER payments tranches once the Province submits to the FNDS: **(i) the following year’s PESOP with REDD+ activities included; and of (ii) a technical and financial report on the implementation of the previous activities financed by the ER payments.** *No benefits will be allocated to the provincial administration without submission of those elements.*

Conditions of ER Payments to the Gilé National Reserve (GNR)

33. **In order to receive the ER payments, the Gilé National Reserve (GNR) will submit to the FNDS annually a “GNR REDD+ Plan”.** The GNR REDD+ Plan presents the activities to be implemented by the GNR to contribute to reducing deforestation and forest degradation in the GNR and its Buffer Zone.
34. This Annual Plan **will be prepared with support of the Program Implementation Unit (PIU) at provincial level, and in coordination with the Management Council of the GNR (CGRNG)⁹.**
35. The first ER Payment tranche will be transferred to GNR upon submission to the FNDS of its “GNR REDD+ Plan”; subsequent tranches **will be transferred to the GNR upon submission to the FNDS of: (i) the following year’s annual GNR REDD+ Plan; and (ii) a technical and financial report on**

⁸ Provincial Economic and Social Plan (PESOP) are planning instruments used by Provincial Governments to help implement, at provincial level, the National Program for Sustainable Development promoted by MITADER. The Program for Sustainable Development defines activities to be developed in rural Mozambique to realize the 5th strategic pillar of the Government Five Years Program (*Programa Quinquenal do Governo* - PQG), focusing on transparent and sustainable management of natural resources and the environment.

⁹ The Management Council was created in 2014 as a consultative body aiming to ensure the participatory management of the GNR and its natural resources. It acts as a forum for consultation and decision-making at local level, including district authorities (district administrator of Pebane and Gilé district, SDAE, heads of administrative posts) as well as the Administrator of the GNR, community officer, local community and religious leaders, representatives of the CGRNs of the buffer zone, and observer representatives of the area of tourism, wood exploitation and environmental sector

the implementation of the previous GNR REDD+ Plan. *No benefits will be allocated to the GNR without submission of those elements.*

36. **In case of underperformance of the ER Program as whole, the Performance Buffer will be triggered to channel ER payments to the GNR - details on this mechanism are provided in section III-E.**

III-B. PERFORMANCE-BASED ALLOCATION TO DISTRICTS

Functioning of performance-based allocation for districts

37. **ER payments will be distributed to Districts against their performance, measured by area of forests lost (deforestation) within their boundaries. These payments will be proportional to the ERs achieved by the District:** the share of net ER payments to be channeled to the 9 districts will be split among them according to their individual performance. Only the districts that have achieved ERs within their boundaries will receive ER payments. The objective is to increase accountability, transparency and efficiency in Program implementation and to incentivize the districts to better perform.
38. **In case of underperformance of the ER Program as whole albeit individual performance of some districts in reducing deforestation within their boundaries, the Performance Buffer will be triggered to channel ER payments to performing districts.** *Details on those mechanisms are provided in section III-E and in Section IV (« monitoring of performance »).*

Conditions for ER Payments to Districts

39. **In order to receive the ER payments, districts will add REDD+ activities into their District Economic and Social Plan and Budget (PESOD)¹⁰, and this document will be submitted yearly to the FNDS.** The “PESOD with REDD+ activities included” will describe specific measures to be implemented by the District to contribute to reducing deforestation.
40. **PESODs with REDD+ initiatives included will be prepared with support from the Program Implementation Unit (PIU) and the DPTADER at provincial level.**
41. The first ER Payment tranche will be transferred to districts governments upon submission of their “PESOD with REDD+ initiatives included” to the FNDS. Subsequent tranches **be transferred to the districts governments: (i) according to their monitored performance in reducing deforestation; (ii) upon submission of the “PESOD with the REDD+ initiatives included”; and (iii) upon submission of a technical and financial report on the implementation of the previous ER payments.** *No benefits will be allocated to the districts that have not reduced deforestation and without submission of those elements.*

¹⁰ At district level, Economic and Social Plans and Budget (PESOD) are planning instruments used by District Governments to operationalize their District Development Plan (PDD), which is itself a means to implement at district level the provincial PESOP.

III-C. PERFORMANCE-BASED ALLOCATION TO COMMUNITIES

Functioning of performance-based allocation to communities

42. **At community level, net payments will be distributed against performance. Only communities in whose area reduction in deforestation happened, will receive payments:** the share of net ER payments to eligible communities will be split among communities where no deforestation has occurred in the monitoring period. The objective is to increase accountability, transparency and efficiency in Program implementation and to incentivize the communities to sustainable forest management. It is important to highlight that the current investment projects are already supporting several activities to local communities; hence those payments will be purely results-based.
43. **As long as a community reduces deforestation in its delimited area, it will receive ER payments, even if overall deforestation was not reduced in the District to which the community belongs. This guarantees that performing local communities are not penalized by overall underperformance.**
44. **In the same way, in case of underperformance of the ER Program as whole albeit individual performance of some communities in reducing deforestation in their area of delimitation, the Performance Buffer will be triggered to channel ER payments to performing communities.** *Details on those mechanisms are provided in section III-E and in Section IV (“monitoring of performance”).*

Support to community initiatives

45. ER payments will not be direct cash transfers to communities: **ER payments will finance community initiatives selected by them, and to be implemented with the support of a service provider. This Service Provider will be hired by the FNDS through a competitive process.** Support to community initiatives will be provided as follows:
- **50% of the ER Payments available to a given community will be used to support activities that will contribute to generate additional ERs.** These activities include, but are not restricted to, afforestation and reforestation; agroforestry systems; forestry monitoring; fire control; support to the processing of non-timber forest products; nature-based tourism, etc.);
 - **50% of the funds will be used to support social initiatives** as the ones identified by the communities in their “*agenda comunitaria*”¹¹ (i.e.: boreholes, school, roads maintenance, etc.).
46. **The PIU will create a database with a list of communities, community initiatives they have identified and REDD+ activities eligible to ER payments. The PIU will do so by:** (i) collecting information from each of the delimited communities regarding their “*agenda comunitaria*”, in order to list eligible social initiatives for each community; (ii) clarifying with delimited communities their preferred eligible activities to be implemented to generate ERs (selected from the menu). **Priority will be given to initiatives with a larger number of beneficiaries with special attention to women and the youth** (less than 35 years old), who are expected to represent 50% of total beneficiaries of supported initiatives.

¹¹ The *Agenda comunitaria* is a document prepared by the community during the land delimitation process that indicate the priority areas for development.

Conditions for ER Payments to communities

47. **Only communities whose land has been delimited are eligible.** There are currently 192 delimited communities in the ER Program area, and it is expected to reach 315 delimited communities during ER Program implementation. For this BSP to be successful, all communities within ER Program need to be delimited, and this process is already taking place, funded by the Sustenta and MozFIP Projects. By the time of the first payment, around mid-2020, it is expected that all communities, where the main forest area are located, will be delimited - *Box 1 summarizes the ongoing delimitation process in the ER Program area.*
48. **In addition, only delimited communities with forest cover in their community land will receive ER payments.** The Zambezia PIU will prepare every year a database with information of all delimited communities with forest cover in their area of delimitation. Current information can be seen at the GIS platform that FNDS has put in place: <https://goo.gl/BUqufR>
49. The first ER payment tranche will be transferred to all delimited communities with forest cover in their community land area. Subsequent tranches will **be transferred to (i) all delimited communities with forest cover in their area, (ii) in whose area deforestation reduced.** *The selection and approval process of community initiatives is described in section IV (institutional arrangements).*
50. After the ER payments are received, and considering that all local communities in the ER Program area do not have equal capacity with regards to initiative implementation and financial management, **a service provider will be hired by FNDS, through a competitive process, to implement the selected activities in the communities.**
51. Beneficiary communities will sign a **Conservation Agreement with FNDS** indicating their willing to participate in this ER Program, and to reduce deforestation.

Box 1: On-going community delimitation process

MozFIP and Sustenta Projects, which are implemented as part of the ER Program (see ERPD), materialize the Government's strategy for sustainable rural development in the land sector.

They comprise activities of **community delimitation and registration** and regularization of individual land parcels, allowing the issuance of Official Community Delimitation Certificates and of Titles of Land Use Rights (DUAT). The initiative covers the 9 districts of the ER Program, among other districts in the provinces of Nampula and Cabo Delgado.

Community delimitation process involves **extensive community capacity building in various fields**, such as legislation, conflict management and sustainable management of natural resources. It also comprise the **development of Community Land Use Plans (PCUT) and Community Development Agendas (ACD)**, which guide sustainable development activities at community level and serve as a reference for land planning at district and provincial levels.

Since November 2017, a service provider has been hired by MITADER to lead the process. So far, 8 additional (to those already existing) community delimitations and 4,263 records of parcels were achieved as part of the ER Program. A work of capacity-building has also been engaged with Land Management Services, civil society actors, private sector and academia in the Program area, on various topics such as spatial planning, land information management, geographic information system, collection, sharing and use of spatial information. **By 2021, it is expected that 315 communities should be delimited in the ER Program area.**

III-D. SUPPORT TO PRIVATE SECTOR

Support to private sector initiatives

52. **The BSP support private sector initiatives that will contribute to generate ERs** in the Program area. This support will be operationalized through the existing Matching Grant Scheme (MGS) that is already in place at FNDS. The objective of the MGS is to improve the ability of small and medium enterprises to increase investments and create value added through market-oriented investments. The MGS will facilitate access to commercial financing and address medium and longer-term financial access constraints of small and medium enterprises in value chain development.
53. **The MGS will finance *initiatives of up to \$400,000***. The MGS will cover 80 percent (80%) of the costs of the initiative as grant, and 20 percent (20%) would be matching funds from the beneficiary (these could be their own resources, loans from financial institutions, and their assets). *The grant can be increased to 90 percent when the initiatives involve local communities*. This opportunity is applicable only when the estimated benefits (i.e.: jobs, training, technical assistance, etc.) to local communities are above 50% of the total investment of the activity that will be implemented.
54. **The MGS will be demand-driven and allocations will be made through a competitive selection process based on demonstrated evidence of contribution to the generation of ERs**. The application process consists of two phases, the first phase is the submission of the "Concept Note" and the second phase is the submission of the "Full Application / Business Plan". Only applications that meet the eligibility criteria will be submitted to the FNDS Investment Committee for approval. The concept notes will be evaluated based on the eligibility criteria (innovation, activities that contributes to generate ER and capacity for implementation by the applicant). The selection criteria for the "Full Application" are described in table 4.
55. **The MG Scheme is implemented by a dedicated Matching Grant Unit (MGU) housed at FNDS, which is responsible for the overall reception, screening, and selection of the initiatives** to be approved by the Investment Committee of the MG scheme. *The process flow and timeline are detailed in the figure below. The MGU will also perform due diligence on the use of funds - The composition, functioning and responsibilities of the MGU and of the Investment Committee are detailed in section VI (governance structure).*
56. **The disbursement of Matching Grants funds respects the following conditions:** the beneficiary must open a dedicated initiative bank account where BSP financing from the Grant and co-financing from the beneficiary is transferred. This account must not be used for any other purpose except for implementation of the approved proposal. The Applicant bears full legal responsibility for this account, documents all the payments made to and from it and reports them back to the MGU. The initiative funds are disbursed in tranches on a quarterly basis or based on approved investments.

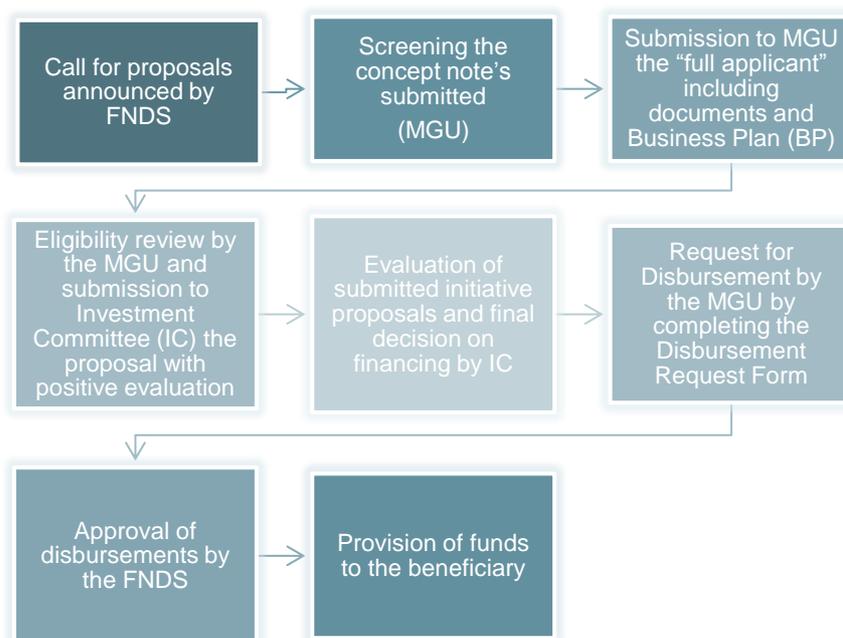


Figure 4: MGU process flow

Conditions for ER payments to the private sector

57. **Eligibility criteria** regarding the types of applicants and the types of eligible investments and expenses for the MG application are summarized in the table below

Table 4: Eligibility criteria for private sector

Time frame	The supported activities and their budget must be designed to be completed by 2026.
Geographic Scope	Initiative applicants must implement the activities in the targeted landscape in Zambezia provinces (ER Program area): Gilé, Ile, Pebane, Alto Molocué, Maganja da Costa, Mocubela, Mulevala Mocuba e Gurué.
Applicants	Applicants need to be classified as Agribusiness, Ecotourism or Forestry Micro, Small and Medium Enterprises (MSMEs) legally registered in Mozambique. Only one application submission per applicant per call for proposals will be selected. Eligible businesses are understood as commercial companies participating in agriculture, ecotourism and forest-based value chains in the program area.
Documentation Requirements	Company Registration Certificate, business license (Alvará), fiscal registration number (Número Único de Identificação Tributária - NUIT), Environmental and social Screening Questionnaire a copy of the last bank account statement and, if available, audited company statements or financial report, proof of last IVA payment, dedicated bank account details, Bank statement for the dedicated bank account (up to 6 months but at least 3 months prior to application date), proof of applicant's own contribution (for the small grant window, the ability to finance the remaining 20% or 10% according to the window applicable).

Financial Viability	For the purpose of this BSP, financial viability is defined as the business' ability to generate income to cover/meet the operating costs and financial obligations of the firm as well as to render profit and provide the potential for future growth. Applicants must clearly describe the technical and financial viability of the business as well as of the proposed investment.
Operational Sustainability	The applicants must describe whether the business can maintain existing practices (as well as innovate and increase productivity) without placing future resources at risk. The applicants will be evaluated against the proposal's incidence on conservation of both ecological and social resources.
Indicative Value Chains	The value chains to be supported are: forest-based products and timber from planted forests; non-timber forest-based products (e.g. honey, natural oils, dried fruits), ecotourism; or other activity that could contribute to generate ERs.
Eligible Expenditures	Mechanization equipment, tools, machinery; soil conservation measures such as terracing, land leveling and watershed treatments; inputs including seeds, fertilizers, other vegetative material and agriculture inputs; seeds for seed production; salaries, storage and processing infrastructures, nursery components/infrastructures, patent application and fees, certifications.
Ineligible Expenditures	Land acquisition; large civil works such as the construction of new buildings that are not productive assets; retroactive payments for expenditures prior to the date on which the MG agreement is signed; financial participation in a firm's equity. Interest or debt owed to any party, Items already financed through another program or company/institution and salaries of government employees.

III – E. HYPOTHETICAL APPLICATION ON HOW BENEFITS WILL BE ALLOCATED ACCORDING TO PERFORMANCE

58. **Four different performance scenarios are shown below.** *For details on Cash flow model for ER Program under different performance scenarios, see annex 3.*

- Scenario 1: Assuming 100% performance within the ER Program;
- Scenario 2: Assuming 50% performance within the ER Program (underperformance scenario);
- Scenario 3: Assuming 10% performance within the ER Program (underperformance scenario);
- Scenario 4: Assuming a non-performance situation within the ER Program for one year subsequent to a performance year (no reduction of deforestation in the ER Program area as a whole, albeit some individual performance of a few districts only).

59. In order to study these scenarios, the table below provides **ex-post estimations** of ERs within ER Program area.

Table 5: Ex-post estimation of ER in ER Program area

ERPA term year (yr)	Reference Emission level (tCO ₂ e/yr)	Estimated ERs	Estimated ER uncertainties	Estimated ER uncertainties associated with reversals	Estimated ERs post uncertainty discount
2nd Sem, 2018	3,243,723	973,117	38,925	280,258	653,935
2019	6,487,447	1,946,234	77,849	560,515	1,307,869
2020	6,487,447	2,594,979	103,799	747,354	1,743,826
2021	6,487,447	2,594,979	103,799	747,354	1,743,826
2022	6,487,447	2,594,979	103,799	747,354	1,743,826
2023	6,487,447	2,594,979	103,799	747,354	1,743,826
2024	6,487,447	2,594,979	103,799	747,354	1,743,826
TOTAL	42,168,404	15,894,246	635,770	4,577,542	10,680,932

60. **Under the ERPA, with a hypothetical price of \$ 5/tCO₂e, Mozambique may receive up to \$ 50 million for the ERs generated (ER Gross Payments).** Prior to the distribution of ER payments, operational fixed costs will be covered (\$ 345,000.00 per year, totalizing \$ 2,415,000 million over the ERPA terms) and a 5% of ER Gross Payments will be set-aside in a Performance Buffer (totalizing \$ 2,500,000 million over ERPA terms) - *see Section I and table below.*
61. **The remaining amount of payments (ER net payments) will be then distributed as direct payments (Province and GNR), performance based payments (districts and communities) and support to private initiatives,** as specified in Section II: two percent (2%) of the payments will be channeled as direct allocation to the Zambezia Provincial Government and four percent (4%) will be allocated to the Gilé National Reserve; four percent (4%) and seventy percent (70%) will be allocated to, respectively, the districts and local communities based on their performance; twenty percent (20%) will be used to support private sectors initiatives.
62. ***It is important to understand that community and private sector initiatives will not necessary be linked to the performance of the district.***

Scenario 1: 100% performance within the ER Program

63. Under the 100% performance scenario, the ER Program will generate around 10,000,000 tCO₂eq between 2018 and 2024. As presented on table 6, the fixed costs throughout the ERPA term will totalize around \$2,415,000 and the performance buffer around \$2,500,000. Around \$ 45,085,000 would remain to be distributed among all the beneficiaries as described on section II. The communities would benefit the most from the ER Payments, and is expected that around \$31,559,500 out of the \$45,085,000 would be channeled to them. The provincial government and the Gilé National Reserve would benefit from direct allocation of the ER Payments and around

\$901,700 and \$1,803,400 would be allocated respectively. The amount to be allocated to the Districtal Government based on their performance, would always be equal to the amount allocated to the GNR as they both would receive a share of 4% from the Net payments. The private sector, would be expected to benefit from around \$9,017,000 representing the second most benefited among all the beneficiaries.

Table 6: Repartition of net ER payments among beneficiaries

Year	Calculated ER for the ERPA term (tCO ₂ e/yr)	GROSS ER PAYMENTS	Performance buffer (5% ER gross payments)	Operational costs (fixed)	NET ER PAYMENTS	Direct allocation		Performance-based allocation		Support to initiatives
						Provincial Gov. (2% ER net payments)	GNR (4% ER net payments)	Districts (4% ER net payments)	Communities (70% ER net payments)	Private Sector (20% ER net payments)
2018	653 935	3 269 675	163 484	345 000	2 761 191	55 224	110 448	110 448	1 932 834	552 238
2019	1 307 869	6 539 345	326 967	345 000	5 867 378	117 348	234 695	234 695	4 107 164	1 173 476
2020	1 607 646	8 038 230	401 912	345 000	7 291 319	145 826	291 653	291 653	5 103 923	1 458 264
2021	1 607 646	8 038 230	401 912	345 000	7 291 319	145 826	291 653	291 653	5 103 923	1 458 264
2022	1 607 646	8 038 230	401 912	345 000	7 291 319	145 826	291 653	291 653	5 103 923	1 458 264
2023	1 607 646	8 038 230	401 912	345 000	7 291 319	145 826	291 653	291 653	5 103 923	1 458 264
2024	1 607 612	8 038 060	401 903	345 000	7 291 157	145 823	291 646	291 646	5 103 810	1 458 231
TOTAL	10 000 000	50 000 000	2 500 000	2 415 000	45 085 000	901 700	1 803 400	1 803 400	31 559 500	9 017 000

64. The table below illustrates how the performance-based payments may be channeled among the beneficiaries in case of full performance of the ER Program, meaning that the expected 10 million ERs are achieved. Here again, it is important to understand that community and private sector initiatives will not necessary be linked to the performance of the district. The example below, shows only what would be the contribution of each districts performance to the total amount of the ER Payments to be allocated to the communities and the private sector. However, the amount of payments flowing to the districtal government will always be allocated based on performance and in case of no performance, the district would not receive any amount of the ER Payments.
65. In case of performance of the ER Program as whole, the performance buffer set-aside payments will be re-distributed among all the beneficiaries as described above on section II.

Table 7: Performance based ERs distribution among communities, private sector and districts in Scenario 1 (100% performance)

Scenario 1: 100% performance					
Districts	Relative performance weight	Calculated ER for the ERPA term by district (tCO ₂ e/yr)	Community	Private	Districts
Gilé	0,26	2 600 000	8 205 470	2 344 420	468 884
Alto Molocué	0,07	700 000	2 209 165	631 190	126 238
Pebane	0,07	700 000	2 209 165	631 190	126 238
Maganja da Costa	0,09	900 000	2 840 355	811 530	162 306
Ilé	0,04	400 000	1 262 380	360 680	72 136
Gurué	0,15	1 500 000	4 733 925	1 352 550	270 510
Mulevala	0,11	1 100 000	3 471 545	991 870	198 374
Mocuba	0,07	700 000	2 209 165	631 190	126 238
Mocubela	0,14	1 400 000	4 418 330	1 262 380	252 476
TOTAL	1,00	10 000 000	31 559 500	9 017 000	1 803 400

66. In each of the 9 districts, the relative performance weight of the district is applied to the total amount available for each category (community, private sector, districts). For instance, the total contribution of Gilé with the ER payments for local communities under the district of Gilé is: $0.26 * \$ 31,559,500 = \$ 8,205,470$. Table 7 described the respective value of ER payments for each category.

Scenario 2: Underperformance Scenario - 50% performance within the ER Program

In a case of 50% performance within the ER Program, the amount of the ERs to be channeled to the beneficiaries reduces almost by half (\$21,335,000 against \$45,085,000). In Scenario 2, it is assumed that the maximum volume of ERs that will be generated is 5 million and, in terms of ER payments, this would represent up to \$ 25 million (based on a hypothetical price of \$ 5 / tCO₂e). The fixed costs remain the same across all the scenarios. However, changes on the amount of the ER Payments to be allocated within the performance buffer change because these costs are deducted from the Gross payments which

directly depend on the amount of ERs generated. Under this scenario, the amount of ERs payments set aside at the performance buffer during the entire ERPA period, will be distributed at the end of the ERPA term among all the beneficiaries following the same criteria as the ones that are used to distribute the ER net payments.

67. The provincial government and the Gilé National Reserve would benefit from direct allocation of the ER Payments and around \$426,700 and \$853,400 would be allocated respectively, representing less than half of the amount of payments that nit would be received in the case of 100% performance.

Table 8: Repartition of net ER payments among beneficiaries

Year	Calculated ER for the ERPA term (tCO ₂ e/yr)	GROSS ER PAYMENTS	Performance buffer (5% ER gross payments)	Operational costs (fixed)	NET ER PAYMENTS	Direct allocation		Performance-based allocation		Support to initiatives
						Provincial Gov. (2% ER net payments)	GNR (4% ER net payments)	Districts (4% ER net payments)	Communities (70% ER net payments)	Private Sector (20% ER net payments)
2018	326967,5	1,634,838	81,742	345 000	1,208,096	24,162	48,324	48,324	845,667	241.619
2019	653934,5	3,269,673	163,484	345 000	2,761,189	55,224	110,448	110,448	1,932,832	552.238
2020	803823	4,019,115	200,956	345 000	3,473,159	69,463	138,926	138,926	2,431,211	694.632
2021	803823	4,019,115	200,956	345 000	3,473,159	69,463	138,926	138,926	2,431,211	694.632
2022	803823	4,019,115	200,956	345 000	3,473,159	69,463	138,926	138,926	2,431,211	694.632
2023	803823	4,019,115	200,956	345 000	3,473,159	69,463	138,926	138,926	2,431,211	694.632
2024	803806	4,019,030	200,952	345 000	3,473,079	69,462	138,923	138,923	2,431,155	694.616
TOTAL	5,000,000	25,000,000	1,250,000	2 415 000	21,335,000	426,700	853,400	853,400	14,934,500	4.267.000

68. In this scenario, a total of \$14,934,500 would be available for local community initiatives; \$4,267,000 for the private sector; and \$853,400 for the district governments, as shown in Table 9. **In each of the 9 districts, the relative performance weight of the district is applied to the total amount available for each category (community, private sector, districts).** For instance, the total ER payments available for local communities in the district of Gilé is: $0.26 * \$ 15,779,750 = \$ 4,102,735$. **The table below describes the respective value of ER payments for each category.**

Table 9: Performance based ERs distribution among communities, private sector and districts in Scenario 2 (50% performance)

Scenario 2: 50% performance					
Districts	Relative performance weight	Calculated ER for the ERPA term by district (tCO ₂ e/yr)	Community	Private	Districts
Gilé	0,26	1 300 000	3882970	1109420	221884
Alto Molocué	0,07	350 000	1045415	298690	59738
Pebane	0,07	350 000	1045415	298690	59738
Maganja da Costa	0,09	450 000	1344105	384030	76806
Ilé	0,04	200 000	597380	170680	34136
Gurué	0,15	750 000	2240175	640050	128010
Mulevala	0,11	550 000	1642795	469370	93874
Mocuba	0,07	350 000	1045415	298690	59738
Mocubela	0,14	700 000	2090830	597380	119476
TOTAL	1,00	5 000 000	14934500	4267000	853400

Scenario 3: Underperformance Scenario - 10% performance within the ER Program

69. Under the 10% performance scenario, the ER Program will generate only 1,000,000 tCO₂e between 2018 and 2024. This represent a total of \$5,000,000 of gross payments (based on a hypothetical price of \$ 5 / tCO₂e) to be channeled to Mozambique and around \$ 2,335,000 to be channeled to the beneficiaries as the fixed costs (\$2,415,000) of the program would represent almost half of the gross payments. A total of \$250,000 is expected to be set aside at the buffer performance. Under this scenario, if in the first year, Mozambique generates less than 73,000 of ERs the amount of payments received will not be used to distribute among the beneficiaries as it will only cover the fixed costs and be enough to keep certain amount of the payments within the performance buffer (around \$18,250 if 73,000 of ERs be achieved). Under this scenario, it is expected that only from 2019 on, there will be net payments to be channeled to the beneficiaries since probably the amount or ER payments would not even be enough to cover the operational fixed costs.

Table 10: Repartition of net ER payments among beneficiaries

Year	Calculated ER for the ERPA term (tCO ₂ e/yr)	GROSS ER PAYMENTS	Performance buffer (5% ER gross payments)	Operational costs (fixed)	NET ER PAYMENTS	Direct allocation		Performance-based allocation		
						Provincial Gov. (2% ER net payments)	GNR (4% ER net payments)	Districts (4% ER net payments)	Communities (70% ER net payments)	Private Sector (20% ER net payments)
2018	65393.5	326,968	16,348	345 000	- 34,381	-688	-1,375	-1,375	-24,067	-6,876
2019	130786.9	653,935	32,697	345 000	276,238	5,525	11,050	11,050	193,366	55,248
2020	160764.6	803,823	40,191	345 000	418,632	8,373	16,745	16,745	293,042	83,726
2021	160764.6	803,823	40,191	345 000	418,632	8,373	16,745	16,745	293,042	83,726
2022	160764.6	803,823	40,191	345 000	418,632	8,373	16,745	16,745	293,042	83,726
2023	160764.6	803,823	40,191	345 000	418,632	8,373	16,745	16,745	293,042	83,726
2024	160761.2	803,806	40,190	345 000	418,616	8,372	16,745	16,745	293,031	83,723
TOTAL	1,000,000	5,000,000	250,000	2 415 000	2,335,000	46,700	93,400	93,400	1,634,500	467,000

70. The communities as always, would benefit the most from the ER Payments, and is expected that around \$1,634,500. The provincial government and the Gilé National Reserve would benefit from direct allocation of the ER Payments and around \$46,700 and \$93,400 would be allocated respectively. The amount to be allocated to the Districtal Government based on their performance, would always be equal to the amount allocated to the GNR as they both would receive a share of 4% from the Net payments (\$93.400). The private sector, would be expected to benefit from around \$467,000 representing the second most benefited among all the beneficiaries. **In each of the 9 districts, the relative performance weight of the district is applied to the total amount available for each category (community, private sector, districts).** For instance, the total ER payments available for local communities in the district of Gilé is: $0.26 * \$ 1,634,500 = \$ 424,970$. **The table below describes the respective value of ER payments for each category.** The amount of ERs payments set aside at the performance buffer during will be distributed at the end of the ERPA term among all the beneficiaries and would only be triggered in a case of a non-performance scenario as described below on scenario 4.

Table 11: Performance based ERs distribution among communities, private sector and districts in Scenario 3 (10% performance)

Scenario 3: 10% performance					
Districts	Relative performance weight	Calculated ER for the ERPA term by district (tCO ₂ e/yr)	Community	Private	Districts
Gilé	0,26	260 000	424970	121420	24284
Alto Molocué	0,07	70 000	114415	32690	6538
Pebane	0,07	70 000	114415	32690	6538
Maganja da Costa	0,09	90 000	147105	42030	8406
Ilé	0,04	40 000	65380	18680	3736
Gurué	0,15	150 000	245175	70050	14010
Mulevala	0,11	110 000	179795	51370	10274
Mocuba	0,07	70 000	114415	32690	6538
Mocubela	0,14	140 000	228830	65380	13076
TOTAL	1,00	1 000 000	1634500	467000	93400

Scenario 4: ER Program non-performance for a specific year

71. **In the event of non-performance of the ER program for a specific year, the performance buffer will be triggered** as shown below:

- In the following example, it is assumed that, in 2019, all the districts have had 100% performance (see table 12).
- As presented in table 6 above, at the end of the year 2019, \$ 326,967 are therefore available in the Performance Buffer.
- This set-aside money can be used the next year to incentivize the districts that did reduce deforestation in their jurisdiction but whose performance was to some extent offset by the increased carbon emissions of other districts: despite their own individual reduction of deforestation, the ER Program as whole did not reduce deforestation in a given year (e.g. 2020).
- In the example below, it is assumed that this underperformance situation would take place in 2020: in this scenario, in 2020, the emissions of the 9 districts altogether would exceed the FREL (6,487,447 tCO₂e/yr) by 1 MtCO₂e/yr, reaching a total of emissions of 7,500,000 tCO₂e/yr.
- In that case, the money set aside in the Performance Buffer would be eligible to the Gilé National Reserve (20%), the districts (10%) and local communities (70%) that would have reduced deforestation in their area. *This percentage split is an example* – it will be annually defined by FNDS according to monitored performance and in a way that best values local communities.

Table 12: An example of an underperformance situation within the ER

ERPA term year t	Reference level (tCO ₂ e/yr)	Emissions under the ER Program (tCO ₂ e/yr)	Emissions Reduction under the ER Program (tCO ₂ e/yr)	Emissions set-aside to reflect the level of uncertainties associated with the estimation of ERs during the Term of the ERPA (tCO ₂ e/yr)	Emissions set-aside to reflect the level of possible reversals associated with the estimation of ERs during the Term of the ERPA (tCO ₂ e/yr)	Emission Reductions (tCO ₂ e/yr)
2020	6,487,447	7,500,000	-1,012,553			-1,012,553

72. As shown in the table below, **monitoring will enable to identify the districts that did reduce deforestation albeit underperformance of the ER Program as whole**. In this example, we can see that only four districts did perform in reducing deforestation, while emissions increased in the five others. In this case, the volume of money that has been set aside in the Performance Buffer by FNDS in

the previous years is eligible to those the four districts only. **The relative weight of each district in reducing deforestation would be estimated according to the volume of ERs generated within every single one of them, compared with the total of ERs generated by the four successful districts altogether.** It is really important here to note that the FREL would have to distribute among the 9 districts in order to be able to assess district performance.

73. The volume of ER payments of the Performance Buffer eligible to local communities and to the Gilé National Reserve would then be estimated as follows (hypothetical example):

- Community: 0.7 x Performance buffer in 2019 (\$ 326,967) = \$ 228,877
- Gilé National Reserve: 0.2 x Performance buffer in 2019 (\$ 326,967) = \$ 65,393

Table 13: Detailed calculations in a case of underperformance

District	FREL	Monitored Emissions for 2020 by district (tCO ₂ e/yr)	Calculated ERs for 2020 by district (tCO ₂ e/yr)	5% Buffer
Gilé	900,000	1,300,000	- 400,000	
Alto Mulocue	1,200,000	350,000	850,000	11,402.18
Pebane	487,447	350,000	137,447	1,843.76
Maganja da Costa	1,300,000	450,000	850,000	11,402.18
Ilé	800,000	200,000	600,000	8,048.60
Gurué	550,000	750,000	- 200,000	
Mulevala	250,000	1,550,000	- 1,300,000	
Mocuba	150,000	850,000	- 700,000	
Mocubela	850,000	1,700,000	- 850,000	
TOTAL	6,487,447.00	7,500,000	- 1,012,553	32,696.73

IV – INSTITUTIONAL ARRANGEMENTS

IV-A. OVERALL GOVERNANCE STRUCTURE OF THE BSP

74. The table below summarizes the overall governance structure of this BSP and the responsibility of each institution for the implementation and functioning of the BSP.

Table 14: Governance structure for BSP implementation and supervision

	Institution	Role and Responsibility
CENTRAL LEVEL	Ministry of Economy and Finance (MEF)	<ul style="list-style-type: none"> • Approval authority for receipt of ER Gross Payments
	Bank of Mozambique	<ul style="list-style-type: none"> • Registry of ER Gross Payments in international currency (dollars)
	National Funds for Sustainable Development (FNDS) at Maputo	<ul style="list-style-type: none"> • Funds Recipient and administrator: <ul style="list-style-type: none"> ○ Establishment and maintaining of a Designated Account in national currency (Metical) to operate the BSP; ○ Fiduciary supervision of the flow of funds; • Central operator of the BSP: <ul style="list-style-type: none"> ○ Revision and approval of Zambézia PESOP with specifically included REDD+ activities; ○ Revision and approval of Districts' PESOD with specifically included REDD+ activities; ○ Revision and approval of the GNR REDD+ Plan; ○ Revision and approval of Province, Districts and GNR's financial reports on the use of ER payments; ○ Direct allocation of ER payments to beneficiaries. • Responsible for MRV functions and ER Monitoring Reports, including monitoring and reporting of performance in ER Program area; • Supervision of safeguards policies in ER Program area, including FGRM.
	Matching Grant Unit (MGU) – within FNDS at central level	<ul style="list-style-type: none"> • Selection and approval of private initiatives eligible to ER payments through the window of support to socio-environmental initiatives in Zambézia; • Processing of requests for funds disbursement for those initiatives.

PROGRAM LEVEL	<p>Program Implementation Unit (PIU) in Zambezia – Within FNDS at provincial level</p>	<ul style="list-style-type: none"> • Support to the Zambézia province, the GNR and the 9 districts for the definition and inclusion of REDD+ activities in, respectively, their PESOP, HNR REDD+ Plan and PESODs. • Mapping of delimited communities in the ER Program area with forest cover in their area of delimitation; • Management of a list of potential community initiatives eligible to ER payments; • Selection and approval of community initiatives eligible to ER payments; • Management of safeguards policies in ER Program area, including FGRM.
	<p>Zambézia Multi-Stakeholders Landscape Forum (MSLF)</p>	<ul style="list-style-type: none"> • Consultation with multi-stakeholders and recommendations to FNDS on community and private sector initiatives eligible to ER payments.

IV- B. GOVERNANCE STRUCTURE OF THE MATCHING GRANT UNIT

75. **The MGU is established under the FNDS. Within FNDS, the direct Responsibilities of the FNDS Manager with regard to the MGU are to:** (i) authorize the disbursements for the Business Plans that have been approved by the Investment Committee; (ii) accompany the verification on the ground, during the monitoring process of the beneficiaries, the compliance of the acquisition processes and the equipment acquired within the scope of the approved business plans.
76. **The MGU and is composed of:** one MG Manager (who reports to the head of the investment department of FNDS), two Grant Advisors and a Financial and Administrative Officer, as described in the figure below.

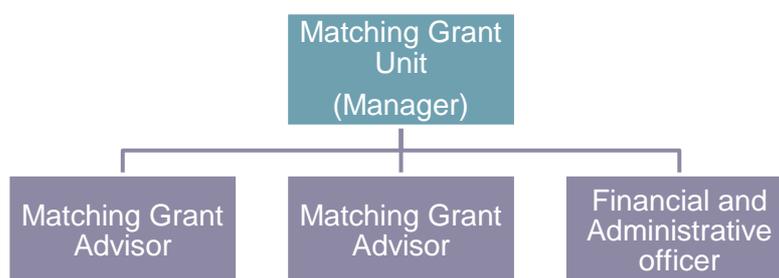


Figure 5: Matching Grant Unit Organizational Chart

77. **The responsibilities if the MGU are:** (i) receiving the submitted Business Plans; (ii) confirming that all items presented in the proposals are in accordance with the eligibility criteria; (iii) analyzing the financial, economic and socio-environmental feasibility of the proposals/business plans; (iv) ensuring that the documentation is completed for the submission of the proposals to the Investment Committee; (v) submitting to the Investment Committee proposals for which the MGU has a positive opinion; and/or

the proposals that have not matched all the requirements to be submitted to the Investment Committee, to be improved by the MSME and subsequent re-submission if deemed appropriate; (vi) Making the disbursements for the Business Plans that have been approved by the Investment Committee upon authorization by the FNDS; (vii) Verifying on the ground, during the monitoring process of the beneficiaries, the compliance of the acquisition processes and the equipment acquired within the scope of the approved business plans.

78. **The MGU will also be responsible for performing due diligence on the use of the funds.** Disbursement applications for the use of the ER payments funds will be channeled through the FNDS, and MG fund will be deposited in a special dedicated Initiative account for the scheme – see section VI for institutional arrangement and flow of funds. Disbursements will be done in tranches based on approved investments. Actual expenditures of the grants will be reported in addition to the disbursed funds to ensure next tranche is liberated for disbursement. The MGU will prepare quarterly financial statements based on the final use of the funds and actual expenditures, and submit them to the FNDS, which will include them in the quarterly reports.
79. **The MGU comprise an Investment Committee, whose responsibilities are:** (i) receiving the proposals submitted by the MGU; (ii) validating the financial, economic, socio-environmental feasibility analysis and investment return rate of the business plans proposals; (iii) after the validation of the evaluation made by MGU, approving (or rejecting) the proposals; (iv) approving conditionally the proposal that meets all eligibility criteria but requires additional funding so that final approval is given as soon as the proposal obtains additional funds.
80. **The Investment Committee is composed of five members:** (i) one MITADER/DINAF representative; (ii) small and medium enterprise association representative; (iii) an independent forest expert whose role will include to evaluate forest investment proposals; and (iv) Business Community Representative. The MG Manager will participate as an observer. The Committee will be guided by the Proposals' objectives, agreed selection criteria, and will be responsible for reviewing and approving the business proposals as well as the quarterly reports. It is important to clarify that this structure is already in place and funded by the Sustenta Project.

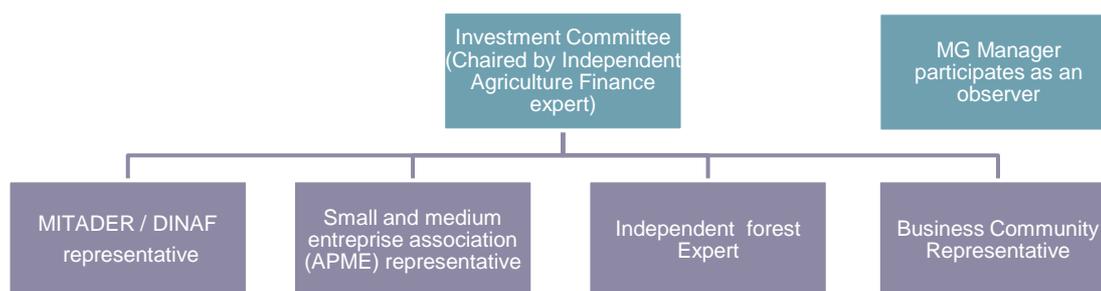


Figure 6: Investment Committee Composition

V – MONITORING

V-A. MONITORING OF PERFORMANCE

81. Successful implementation and monitoring of performance of the ER Program will be done at district level in order to (i) enable synchronization and coordination of ER Program implementation with various institutions; (ii) increases accountability, transparency and efficiency in the ER Program implementation and monitoring; and (iii) incentivize the districts to better perform.
82. **ER payments for districts will be performance-based**, according to the performance of each district. Performance at district level will be assessed against the ER Program forest reference emission level (FREL) and no independent FREL will be used for each district. The district level performance will be estimated as the relative ration of the ERs achieved at district level compared to the volume of ERs achieved at Program level.
83. **ER payments will also be performance-based for local delimited communities with forest cover area.** Five tools are currently being developed in the MRV unit within FNDS that will enable to monitor deforestation at community level. It is important to keep in mind that monitoring results at community level will not be related to the FREL but will be used to check if the community is performing or underperforming by measuring annual deforestation. These tools are:
 - i. **Sen2Mosaic Tool:** Semi-automated pre-processing of Sentinel-2 data for LULC Classification;
 - ii. **Sen1Mosaic:** Semi-automated pre-processing of Sentinel-1 data for LULC Classification;
 - iii. **Biota Tool:** Annual forest biomass change and degradation mapping using the ALOS PALSAR mosaic;
 - iv. **Deforest Tool:** Continuous forest change monitoring with Sentinel-2 data ;
 - v. **Tool 4:** Identifying causes of forest change.
84. **Monitoring at the ER program level and district level will be linked to the FREL so it will be done using a stratified estimator, where forest cover change maps (to be derived using the *Deforest Tool*) will be used for stratification and reference sampling units will be used for estimating activity data and reporting associated confidence intervals.**
85. It is important to keep in mind that monitoring results at community level will not be related to the FREL but will be used to check if the community is performing or underperforming by measuring annual deforestation. This will be used as the means for allocating the 70% of the ER payments already decided to fund community initiatives.
86. For this particular ER Program, land delimitation is crucial to enable the assessment of deforestation levels variability among different years (ERPA Term) since it would be impossible to access communities' performance without knowing the boundaries of each community. These boundaries (shapefiles) will serve as the basis for assessing forest cover losses for each community by first pre-process satellite image prior to the detection of change.
87. The satellite images will be pre-processed using the *Sen2Mosaic Tool* and all satellite data will be studied by assigning per-pixel signatures and differentiating the forest areas on the bases of the specific Digital Number (DN) value of different landscape elements. This will be performed

using the *Deforest Tool*. The delineated classes will be forest and non-forest areas (other land uses) and for each of the predetermined land cover/use type (binary classification), spectral signatures for the respective land cover types will not be derived in this case since the process will be automatized and the tools will already be calibrated. A post-classification change detection technique, will be performed using the *Deforest Tool* for detecting the location, nature and rate of changes within each of the selected communities. In order to determine the quantity of conversions from a forest class to other land use category (non-forest areas) and their corresponding area over the evaluated period, cross tabulation analysis on a pixel-by-pixel basis will be conducted. Thus, a new thematic layer will also be produced (deforestation layer) from the two binary maps, containing two combinations of “from– to” change classes. After having these results, the team within the Government of Mozambique (FNDS) along with the PIU – Zambezia will be able to assess whether there were deforestation or not within a certain community and thus decide whether the community will be eligible for receiving the payments based on performance.

Randomly, some points detected as deforestation, will be selected for a further ground truthing within each of the communities. This will replace the traditional accuracy assessment since this exercise is only to assess whether the community performed or not and at any point, these results will be associated with the pre-established FREL. V-B. MONITORING OF SAFEGUARDS

Safeguards regarding ER Program activities

88. As previously stated, all the activities of the ER Program are funded by the World Bank, through four investment projects¹². **These projects are all safeguards compliant.**
89. Various safeguards instruments were prepared for the implementation of the ER Program interventions that will generate the ERs – see table 15. The application of these instruments mitigates the social and environmental risks from the investments projects that make up the ZILMP. *See ERPD (section 14) for more details. In order to assure compliance with the social and environmental aspects of implementation of the BSP, the monitoring will be aligned with safeguards instruments adopted within the framework of the World Bank projects funded, respectively MozFIP, MozDGM, SUSTENTA and MozBio as well as the national legal framework.*

Table 15: Safeguards instruments

Projects	Instruments	Approval date
MozBio	ESMF PF	July 2014
Sustenta	ESMF RPF PMP	March 2016
MozFIP, MozDGM,	ESMF	January 2017

¹² Mozbio, Sustenta, MozFip and MozDGM projects – see introduction and ERPD for more details.

REDD+ initiatives	PF Addendum	
National REDD+ Strategy	SESA	November 2017

90. In compliance with the principles of implementation of REDD+, in the context of the UNFCCC, a **Safeguards Information System (SIS)** is being designed at the National level and will also be used to report on the progress of the ER Program. **The SIS will provide information on how the safeguards will be treated and respected throughout the implementation of the ER Program.**
91. **The SIS will complement the existing Feedback and Grievance Redress Mechanism (FGRM)**, a system created to answer questions, clarify issues, and complaints from individuals or groups affected by the activities under the program. Among other utilities the FGRM serves as an instrument for pursuit of harmonious relationship between the parties concerned and interested in the areas of implementation of projects and programs. The information about registration and complaints attendance will be available via online platform and updated continuously.
92. A **safeguards team**, composed by social and environmental experts, at the central and landscape level will implement the safeguards instruments and will monitor activities on the ground. The community development officer of Gilé will also support monitoring activities in the GNR.
93. **Every year, supervision activities will be carried out on the ground** to check compliance with the contractual obligations relating to implementation of safeguards activities by service providers, private companies and other direct beneficiaries of the BSP.
94. **External auditing processes are expected at 2 years intervals**, through a consultant accredited services by the national environmental agency, DINAB.

Safeguards regarding communities and private sector initiatives

95. **WB safeguards instruments will also apply to community and private sector activities implemented with ER payments.** Communities will implement two types of activities: (i) activities aiming to reduce deforestation - such as the adoption of agro-forestry practices - to be chosen from a menu (please see section II of this document); and (ii) social activities (education, health, water and sanitation) that will benefit the community as a whole. Private sector will only be eligible to implement activities that aim to reduce deforestation in the ER Program area – *eligibility criteria for community and private sector initiatives to be financed by ER Payments are provided in section II of this document.*
96. **MozFIP safeguards instruments will be applied to activities implemented by both communities and private sector that are related to reforestation, agroforestry, among other, while MozBio safeguard instruments will be applied to social initiatives.** The existing GRM will also be used by individuals and communities who believe they are adversely affected by the community and private sector activities.
97. **The FNDS has a team of five Safeguards Specialists (four at national level and one provincial Safeguards Specialist in the Zambezia office) to oversee both the WB-financed investment projects and community and private sector activities implemented with ER payments.** These specialists, together with other provincial technicians from governmental institutions, have benefitted from the previous and ongoing safeguards training initiatives carried out by the World Bank and continue to gain competency in implementing World Bank safeguards requirements.
98. **It should be noted that the application of World Bank safeguard requirements to the community and private sector initiative may generate additional costs** for running the BSP that may have to be included in the operational costs to be deducted from gross ER payments – *see section I on Benefits.*

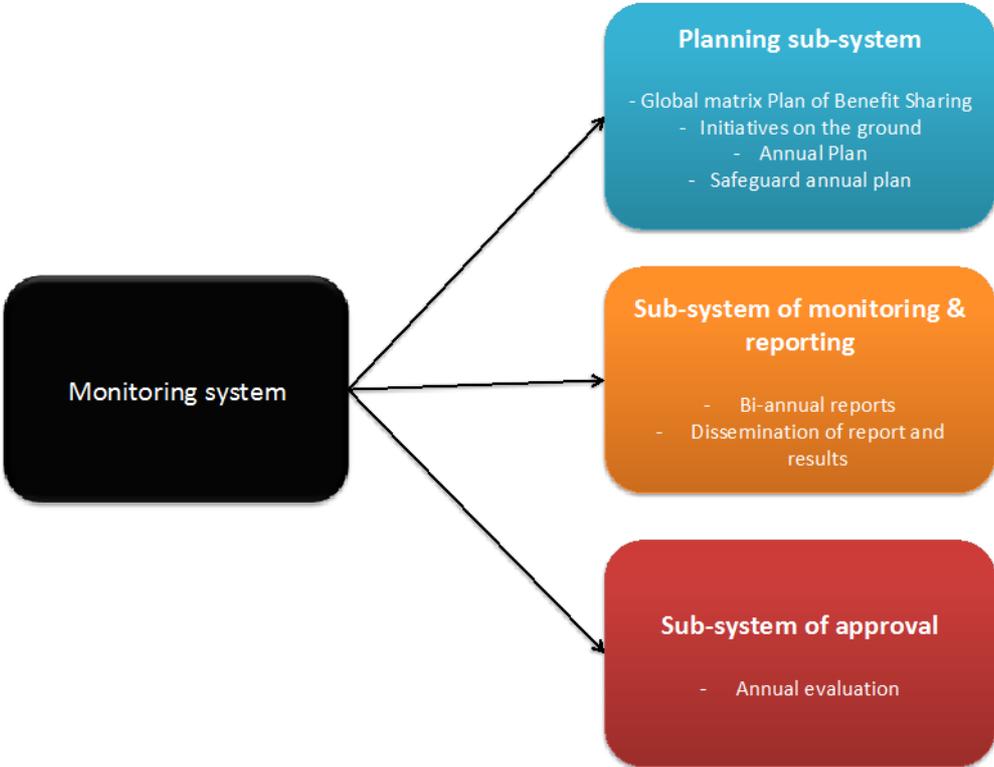


Figure 7: Monitoring system and reporting

VII – CONSULTATION

VII-A. SUMMARY OF CONSULTATION

99. In Mozambique, the necessity to consult with stakeholders for matters related to REDD+ is embedded in national law: both the Mozambican Constitution and Environment Law establish the rights of citizens to have information about and to participate in decision-making about activities which may affect them and the environment. **This advanced draft of BSP was therefore designed in compliance with national procedures and with criterion 31 of the FCPF MF** (FCPF, 2016a), requiring that it shall be elaborated in a «consultative, transparent, and participatory manner».
100. **In order to ensure transparent and participatory processes, the benefit sharing mechanism to be applied to the ZILMP has been at the center of discussions in various forums:** during Readiness phase, an extensive consultation process was undertaken at national level to design the ER Program and its BSM. Between February 2010 and July 2011, more than 1,500 participants took part in consultations and training workshop. From March 2013 to November 2016, 61 public consultation meetings on REDD+ and associated projects were organized. 10 of them were community consultations. Along those consultation, 3,370 participants were recorded, 29% of which were women.
101. **Recently, from February to April 2018, a total of 4 consultations were carried out in the framework of the preparation of this very BSP,** respectively: (i) at the integrated landscape development platform of Zambézia, 2 (two) meetings involving representatives of local government, communities, private sector, NGOs; (ii) at the central level 1 (one) meeting with government representatives in the sectors of Land, Conservation Areas, Agriculture, Forestry, Mineral Resources and Energy, Rural Development, State Administration and representatives of the World Bank and; presentation during the V National Conference of Community Management.
102. **In these events, 445 individuals participated, 30% of them were women.** The main objectives of the meetings were to discuss the percentages of benefit allocation, allocation models/processes, priorities areas and benefits sharing challenges of the BSP.
103. **The contributions resulting from this consultation process was integrated into the BSP plan.** The distribution percentage of the allocation was a consensual subject, considering the community as the main beneficiary with 70% of the payment of ERs results and Benefit Sharing proportional to the reduction of deforestation by district. The following table provides a summary of the aspects discussed.

Table 16: Consultation process – synthesis of discussions

Subject	Result/comments
Districts of the Zambezia landscape	<ul style="list-style-type: none"> Zambezia landscape: The landscape is composed of 9 districts: Gile, Alto Molocue, Ile, Pebane, Mocuba, Mocubela, Mulevala, Maganja da Costa and Pebane

Current Challenges of BSP Implementation

- Communities shall be considered as part of the solution to problems of sustainable management of natural resources (MISRN) and not the problem.
- Issues of gender mainstreaming should be taken into account. Check cultural and local customs.
- The community has many weaknesses in the management of 20% allocated as a result of forest exploitation. It is suggested to reinforce support in the management of the 20% allocated to the community.
- The process to access the funds must be simplified and differentiated according to the beneficiaries, Private Sector and CBOs.
- One of the challenges has been the complexity of processes to access the funds, high levels of eligibility criteria in the face of local reality with low levels of illiteracy.
- Urbanization and population growth should be analyzed as a relevant factor for community development.
- Lack of effective legal instruments for sharing benefits in the community; Suggests the need to develop a conceptual framework on benefit-sharing
- Recommends the revision of diploma 93/2005 so that the 20% is attributed on merit of participation in the protection of natural resources.
- Promote partnerships between communities and the private sector

Mangroves in the ER initiatives

- Mangrove recovery, maintenance or enrichment are eligible initiatives.
- There is no information available on mangrove deforestation data in the region.
- Initiatives that do not contribute to the reduction of deforestation will be eligible under the Benefit Sharing Plan for the Zambézia Program as long as they are community priorities and are not on the list of ineligible initiatives

The National Reserve

- Administration of the Gilé National Reserve will receive direct funds
 - Funds will be used to support the implementation of the annual plan of activities includes ER initiatives.
 - The Management Council of Gile National Reserve is composed of district authorities (district administrator of Pebane and Gile, district services of economic activities (SDAE), heads of administrative posts, local community leaders, religious leaders, Gile reserve administrator, community officer, CGRN's of the buffer zone, and as observers, representatives of the tourism activity, wood exploitation that operate in the vicinity of the reserve.
-

initiatives under
the BSP

- Promotion of ecotourism (Example: Nzou camp in the Chimanimani National Reserve, central region of Mozambique)
- Support the sustainable initiatives of forest value chain
- Promoting agroforestry systems and conservation agriculture
- Ensure investment in the following pillars: Natural resource management, institutional development & governance and investment in livelihood improvement.

VII-B. CONSULTATIONS PLAN

104. **This BSP has been presented to local communities and to the multi-stakeholder forum of Zambezia, and the inputs of those consultations improved this document.** All consultations that took place are available at the website <http://www.redd.org.mz>.
105. **Targeted communities were also consulted and will continue to be consulted, to collect information like their population, agenda comunitaria, and the activities each community would like to implement of the menu that will contribute to generate additional ERs.** This information will be part of a database at the FNDS and PIU level. For this purpose, a series of community consultations will be held in strategic locations (communities delimited, with forest cover area) in the 9 districts that make up Zambezia's landscape. The information collected for this database will be part of the ToR of the Service Providers that will implement the activities in the community level.

VIII – COMMUNICATION

106. **Communication on this BSP will aim to be ensure that stakeholders are aware of the scope of this program and of stakeholder's role in reducing deforestation.** The communication process will be developed on a multi-sectoral approach, which seeks to involve all stakeholders: Communities / NGOs / Academia / Private Sector / Partners / Journalists and media / Public in general and etc. The message can vary according to the interested party, for example:
- *Communities:* What is climate change and how does it affect us? Why are forests important and what is their role in climate change? What are greenhouse gases? What is the importance of forests in reducing the emission of these gases? What can I / my community do to contribute to preventing deforestation and reducing greenhouse gas emissions? What is Result Based Financing (RBF)? (make clear that payment is only made by reaching the predefined results). How can I benefit from this? Mention here the FCPF, making it clear that the payment will only be made if they are able to reduce greenhouse gas emissions resulting from deforestation, according to the agreed target.) How will deforestation be monitored in my community?
 - *NGOs / Academia / Private Sector / Partners / and other general stakeholders:* What is REDD +? Opportunities and benefits related to the program. What is Result Based Financing (RBF)? How will the forest cover monitoring system work?
107. **Available means of communication will be:** Radios: Spots in community and provincial radios;

Printed Material: Banners, A3 Posters, Roll ups and Brochures; Web: Electronic dissemination in portals of partners, the Government and the World Bank; Videos: Production of explanatory video about the ER program / Video with success stories; Theatrical pieces: to be produced with the main message of the ER Program and transmitted in the communities involved; Field Stories: Collecting success stories for blog postings and etc.; Newsletters: to send to partners and other stakeholders about the progress of the ER program, telling success stories that have already occurred; Events: Workshops with the media to know the ER program; socialization with educational institutions of the communities / provinces; promote outreach sessions in local communities - focus on opinion leaders and influence figures; Training.

ANNEXES

Annex 1 – Context and FCPF CF Processing

108. In 2015, the Government of Mozambique (GoM) successfully presented to the Carbon Fund of the Forest Carbon Partnership Facility (FCPF CF) the Early Idea and the Emission Reductions Program Idea Note (ER-PIN) of the Zambézia Integrated Landscape Management Program (ZILMP). **The ER-PIN was selected into the Carbon Fund’s pipeline in October 2015 (Resolution CFM/13/2015/6)**, and a Letter of Intent (LOI) was signed during the Paris Conference of Parties (COP 21) in December 2015 between the Ministry of Land, Environment and Rural Development (MITADER) and the Carbon Fund.
109. **In January 2017, the GoM submitted its Readiness Package, which was approved by the Participants Committees Meeting (PC23) in March 2017 (Resolution PC/23/2017/5).**
110. Mozambique issued its draft ERPD in July 2017. The Technical Advisory Panel (TAP) reviewed it and issued its TAP Review document in August 2017. The Carbon Fund Participants reviewed the draft ERPD and the TAP Review document and submitted their consolidated comments to the FCPF Facility Management Team (FMT) in October 2017. **Based on the findings of the TAP Review and the comments of Carbon Fund Participants, Mozambique submitted to the FMT a final ERPD in December 2017.** The TAP reviewed it and issued its final TAP Review document to the FMT in December 2017.
111. On January 30, 2018 Mozambique presented its final ERPD at the FCPF Carbon Fund meeting. It was provisionally included into the portfolio of the Carbon Fund in February 2018, through Resolution CFM/17/2018/1. **The provisional inclusion of Mozambique’s ERPD into the portfolio of the Carbon Fund was deemed approved upon fulfillment of several conditions, including the provision of additional information on its Benefit Sharing Mechanisms (BSM),** in particular on: eligibility of beneficiaries to receive monetary and non-monetary benefits; criteria and process for the distribution of such benefits (including clarification on the roles and responsibilities of relevant entities involved in the benefit sharing arrangement); monitoring of the benefit sharing arrangement; consultations that have been held to date on benefit sharing arrangement; and the roadmap and timeline for further development of the benefit sharing arrangement including the preparation of the Benefit Sharing Plan.

Annex 2 – Non-Carbon benefits

112. **The ER Program is expected to generate significant non-carbon benefits, generated during its implementation and which is expected to continue long after the terms of the ERPA.** All the ER Program interventions (ERIs) are associated to pre-identified non-carbon benefits, including a genuine improvement in livelihood, the strengthening of forest management and governance, as well as long-term environmental benefits. They are summarized Table 2, and detailed in sections 4 and 16 of the Final ERPD.

Table 17: Outline of all potential non carbon-benefits associated with the ER Program

Direct non-monetary benefits improving rural population's livelihood
◆ Sustainable use and long-term access to forest resources
◆ Increase and diversification of income and employment opportunities
◆ Alternative and sustainable energy sourcing and health benefits
◆ Adaptation of agricultural practices to climate change to increase agricultural production
◆ Clarified land tenure
Strengthening of forest management and governance
◆ Increased transparency in the forest sector
◆ Long-term engagement of multiple stakeholders in forest management with strong role of Local Communities
◆ Reduction of unsustainable practices and illegal logging
◆ Improvement of business environment in forestry sector
Long term environmental benefits
◆ Soil conservation
◆ Protection of ecosystems
◆ Maintenance of high-value biodiversity
◆ Rehabilitation of degraded lands

Annex 3: Cash flow model for ER Program Under different performance scenarios

Scenario 1: 100% performance within the ER Program

100%							
	2019	2020	2021	2022	2023	2024	Total
Verification	NO	YES	NO	YES	NO	YES	
ER acquired by the Carbon Fund	2000000	0	3000000	0	3000000	0	8000000
Payments Upon Verification	0	12000000	0	13000000	0	17000000	42000000
Cash Payments	2000000	12000000	3000000	13000000	3000000	17000000	50000000

Scenario 2: 50% performance within the ER Program

	2019	2020	2021	2022	2023	2024	Total
Verification	NO	YES	NO	YES	NO	YES	
ER acquired by the Carbon Fund	1000000	0	1500000	0	1500000	0	4000000
Payments Upon Verification	0	6000000	0	6500000	0	8500000	21000000
Cash Payments	1000000	6000000	1500000	6500000	1500000	8500000	25000000

Scenario 3: 10% performance within the ER Program

	2019	2020	2021	2022	2023	2024	Total
Verification	NO	YES	NO	YES	NO	YES	
ER acquired by the Carbon Fund	200000	0	300000	0	300000	0	800000
Payments Upon Verification	0	1200000	0	1300000	0	1700000	4200000
Cash Payments	200000	1200000	300000	1300000	300000	1700000	5000000