

REDD: a steep learning curve

Notes from a session at the Asia Pacific Forestry Week, Hanoi, April 2008

To some NGOs it is a threat to indigenous rights and community forestry programmes. To some governments it is an opportunity to significantly magnify the monetary value of their forest estates. From any perspective, the new concept of Reduced Emissions from Deforestation and forest Degradation (REDD) has renewed foresters' interest in the carbon market. 'Which countries are eligible for REDD?', 'What is the value of a REDD credit?', 'How will REDD affect forest-dependent communities?'. These are just a few of the questions overheard at the Asia Pacific Forestry Week (APFW) held in Hanoi from April 21-26th, giving an indication of the uncertainty surrounding the topic.

Focussing on the economic and social implications of REDD, an APFW side event attempted to unpack these questions and shed light on the current status of REDD-related issues in Asia. Co-organised by the Hanoi offices of the Dutch and German Development organisations (SNV and GTZ), the event brought together representatives of the World Bank, IUCN and Fauna and Flora International (FFI) to lead discussions.

How will the mechanism look in 2012?

Long acknowledged as a key element in global greenhouse gas (GHG) emissions, deforestation was excluded from the Kyoto Protocol chiefly because the technology was not considered far enough advanced for accurate calculation and monitoring of forest carbon stocks. These hurdles being crossed (or expected to be by 2012), the UN Framework Convention on Climate Change (UNFCCC) achieved consensus in Bali that **REDD will be part of a post-2012 Protocol**. However, there will be vigorous debate over the coming 2 years, and beyond, over the elements to be included in REDD under UNFCCC.

The most likely outcome is that the mechanism will recognise the contribution of reduced forest degradation – the second 'D' in REDD, as well as avoided deforestation. A deforestation-only mechanism (RED) had been advocated by a number of heavily-forested nations, such as Brazil, by virtue of the relative simplicity in calculation and monitoring. Reduced degradation will require more complex, and potentially controversial, calculations and a significantly greater emphasis on ground truthing of data generated by remote sensing. Nevertheless, REDD spreads the benefits wider than RED. Not only nations at risk of large reductions in forest area, but also those in which the threat is chiefly to forest quality, stand to generate revenue under such a system. Hence the broader support for REDD among tropical nations.

Like all other mechanisms resulting in measurable emission reductions, REDD is market-based. APFW delegates therefore proposed that the prospective producers of REDD credits would do well to promote a demand-driven system by encouraging buyer countries to set out their priorities, independently of the UN negotiations. This would give producer countries a clear indication of the measures they need to put in place in order to satisfy the market post-2012.

The long-term shape of REDD will not become clear until UNFCCC negotiations are much further advanced. In the meantime, the world is not standing still. Markets are developing independently of the negotiations and tropical forest nations are preparing to implement their own REDD strategies in a number of ways.

What is the role of the World Bank?

The World Bank has been intricately involved in the development of REDD through their Forest Carbon Partnership Facility (FCPF), generating a degree of controversy in the process. Indeed, such is their prominence in the field that it was not uncommon to hear FCPF and REDD used interchangeably at the APFW, as though REDD was itself a World Bank programme. As the Bank's Dr Joe Leitmann explained, however, the **FCPF is essentially a pilot scheme, not a fixed template for REDD**. It is designed to identify the suite of positive incentives for target countries that will ensure an 'economically effective and socially just' implementation of REDD. The FCPF consists of two funds – a Readiness Fund, which is being rolled out in 2008, and a Carbon Finance Fund to be launched subsequently, probably in 2010.

'Readiness' involves the preparation of target countries for implementation of REDD, including a coherent national strategy, development of skills, infrastructure and legal frameworks. Perhaps most important for an 'economically effective' REDD mechanism is the proposed determination of baselines and reference scenarios for deforestation and degradation. Leitman stressed that this would be done 'ideally following guidance from the UNFCCC' but independent of them if negotiations do not produce guidelines of the required clarity within the necessary timeframe.

The World Bank has not imposed stringent pre-conditions to limit the number of countries applying to the Readiness Fund, beyond stipulating that they be tropical countries which are not listed in Annex 1 of the Kyoto Protocol (i.e. without GHG emission reduction commitments). Countries that can convincingly demonstrate a deforestation and/or forest degradation problem which is likely to continue or further deteriorate in future will be considered for support under the Readiness Fund. By April 2008, 38 countries had embarked on the first stage of application by submitting an Expression of Interest to the Bank.

Delegates at APFW saw an important role for the Bank in using the FCPF to build market credibility for REDD. Countries supported by the Readiness and Carbon Finance funds should therefore be those which are the least challenging, where reliable data on forest trends are readily available and where domestic skills and infrastructure need relatively minor improvements. Countries which are further behind need more time, and more investment, and are not expected to be ready to enter a REDD market by 2012. But whence, in this case, can the assistance be found to prepare such countries to join the market at a later date? If quick, positive results govern the disbursement of FCPF funds it is equally likely that bilateral aid will follow the same routes and bypass those countries perceived as laggards in sustainable forest management.

Ready or not – REDD markets are here to stay

Dr Mark Infield of FFI presented an outline of a project in Aceh, Indonesia, which demonstrates that **private investment is already creating a market for REDD credits** independent of both the UN negotiations and the FCPF. The project aims to reduce deforestation by 85% over 30 years in the Ulu Masen ecosystem, which covers 750,000 ha of forest land in the province.

Containing the largest remaining contiguous forest block on the island of Sumatra, the Ulu Masen project is feasible partly because Aceh's war-torn recent past prevented the large-scale exploitation of natural forests experienced in other parts of the country. The peace agreement reached in 2005, however, raised fears that forest clearance for timber and oil palm plantations would accelerate. REDD credits will be calculated, therefore, not on projections of past unsustainable extractive activity, but on assumptions of how a loosely-regulated peacetime economy would affect the decisions of forest industry stakeholders. Incidentally, as Leitmann pointed out, this closely resembles the rationale behind the FCPF applications of some recently stable African nations such as Liberia. **The quickest wins for REDD, in contrast to popular perception, may not be in areas of the highest past deforestation levels, but in those with some of the lowest.**

The partnership between government, non-government and private sector bodies bodes well for the sustainability of the project. Carbon Conservation Pty Ltd secured a multi-million dollar financial commitment from the investment bank Merrill Lynch, while FFI provides technical advice to the project implementers, the government of Aceh. As an early adopter of the market for REDD credits, Merrill Lynch exposes itself to the risks, but also the high potential benefits, common to all untested new markets. But **this investment in itself will serve to build confidence** within carbon markets that REDD will be a significant element in 'green' portfolios of the future.

Can markets allay civil society concerns?

FFI advice will focus on land use planning and benefit sharing mechanisms. As Infield pointed out, one of the main risks of the project is the failure to provide sufficient financial incentives to secure the engagement of all stakeholders. Chiefly, these concerns revolve around forest-dependent communities and those with traditional tenure or use rights over forests. Equally important for success of the project is adequate remuneration for local forest officials and monitors.

David Huberman, an environmental economist with IUCN, participated in the APFW session as a representative of the Poverty and Environment Partnership (PEP), a group comprising civil society organisations committed to exploring the social implications of REDD and to ensuring that the mechanism delivers benefits to poor communities in the target countries. Huberman warned that **REDD risks being seen solely as a technological fix to what is, essentially, a political problem.** The business of determining baselines and targets and establishing market mechanisms for REDD will be

meaningless unless governments implement the key reforms to forest governance, usufruct rights and tenurial systems that are at the root of poor forest management.

Ultimately, carbon markets will have a key role in determining whether benefit sharing systems in REDD are sufficiently equitable. Except in very remote areas, the failure to motivate local communities to support or participate in REDD measures will undermine market confidence in the ability of projects to deliver on their projected results. Underperforming projects will not produce tradable credits and investment will dry up. It is therefore in the interests of early investors to ensure that market-based systems are in place to verify the credibility of projects. A number of standards have emerged over the past few years to evaluate afforestation projects for carbon markets, such as Plan Vivo, CarbonFix and the Climate, Community and Biodiversity Alliance (CCBA). The Ulu Masen project has been evaluated according to the CCBA standard. APFW participants advised that the principles and criteria of the Forest Stewardship Council (FSC) could also be used as a basis for evaluating the social and environmental credibility of REDD projects. FSC is, indeed, already exploring this possibility.

Will REDD markets learn from the past?

Prior to 2012, REDD credits will be tradable only on voluntary markets. The development of the voluntary market for REDD will certainly be affected by the pace and nature of progress in UNFCCC negotiations but, if projects such as Ulu Masen continue to emerge, the balance of influence may shift as UN parties find that emerging market conventions render some of their discussions obsolete.

Certainly, the voluntary market in REDD credits will provide the clearest indication of the likely price of credits under the UN-sanctioned compliance mechanism after 2012. The current methodology for afforestation and reforestation projects under the Clean Development Mechanism (ARCDM) does not have much relevance to the emerging REDD market. Indeed, one of the simplest but most important take-home messages from the APFW could be that **REDD is not, nor is it likely to become, a part of CDM.** Both REDD and ARCDM are based on trade in carbon sequestered by forest ecosystems but they are very different products. ARCDM involves forest plantations, which are explicitly excluded from REDD.

However, ARCDM and the market for voluntary emission reductions (VERs) based on forest plantations do hold relevant lessons for REDD markets. ARCDM has not been taken up by countries with commitments under the Kyoto Protocol because of the high perceived risk of project failure and the temporary nature of the credits, making them intrinsically much less valuable than credits from other CDM projects. **REDD credits should, if possible, be classed as permanent and methodologies kept simple** to reduce the risk of project failure. It will be a challenge for UNFCCC negotiators to achieve this without compromising on social equity and environmental sustainability, particularly in the measurement of reduced forest degradation.

Forestry VERs have developed a dubious reputation for double accounting and environmental probity, resulting in the emergence of the CCBA and other industry standards mentioned above. Consequently there is now huge variation in the price of forestry VERs (from below \$1 to >\$30 tCO₂e), depending on the quality of the product. A similar pattern is likely to emerge for REDD markets but this poses a dilemma for many NGOs, as described by Infield. Civil society organisations will prefer 'deluxe' credits which use higher standards to guarantee socially equitable and environmentally sound outcomes, which will fetch a high unit price. Many investors, however, will be looking for no more than the most basic standards and the lowest risk. **NGOs will need to develop a certain degree of marketing skill** to persuade private sector partners to invest in the deluxe varieties of REDD.

Can REDD be pro-poor?

Much of the discussions among APFW delegates in the REDD session centred on this question. Local communities and rural poor are often considered merely as objects of development but REDD provides an opportunity for them to become constructive actors. The extensive work required to verify reductions in forest degradation, in particular, gives them a potentially crucial role and hence a claim to a large stake in the decisions over strategy development and benefit sharing. From the World Bank perspective, however, it is not possible for the FCPF to oblige states to ensure a broad consultative process for REDD, but, with the encouragement of APFW delegates, they can stress that **stakeholder buy-in is a main pre-condition for effectiveness of national strategies**.

The delegates further underlined the importance of formalising traditional or customary land tenure and use rights as an intrinsic part of any REDD strategy. However, one of the most common fears concerning REDD is that it will in fact act as a disincentive for governments to press forward with formal decentralisation. The instinct of most forest authorities is to focus decentralisation programmes, such as community forestry or co-management, on areas which are of less intrinsic value. REDD increases the potential value of natural forest areas, irrespective of timber quality or accessibility, and thus the temptation for state and private sector actors to stake their claims to areas previously considered uneconomic, to the disadvantage of forest-dependent peoples.

Conversely, as mentioned above, the active participation of rural communities may be essential to build market confidence in REDD, particularly for effective monitoring of reduced forest degradation. It is therefore possible to envisage **REDD as both a driver for and against forest decentralisation and social equity. It is not yet clear which it will be**. But the importance of the question is now accepted by the most influential stakeholders in the development of the process. Consultation with civil society groups after an unexpectedly hostile response to the launch of the FCPF at Bali in December 2007 led the World Bank to significantly expand and refine the Readiness Fund application template. The majority of the changes increased the burden of proof on applicant countries to show that their REDD strategy guaranteed socially equitable outcomes.

A steep learning curve ahead

What precisely are the measures that will contribute to a REDD strategy? Those mentioned during the APFW session included strengthening forest governance, improved conservation measures, environmental education, community forestry, land use planning, forest zoning, improved tenure security, to name but a few. In short, **REDD is essentially an attempt to promote sustainable forest management**. Like forest certification and payment for environmental services, it works through financial markets to provide economic incentives to forest managers and stakeholders in natural, tropical forests. The difference is in the direct link of the scale of those incentives to measurable results, in the form of forest carbon stocks.

Much remains to be learned regarding the eventual nature of the voluntary and compliance markets in REDD but it is important to note that, whatever the current hype, the mechanism is certainly no panacea for reversing the deterioration in the condition of forest ecosystems. **The success of REDD will be limited by the market value of REDD credits** relative to the opportunity cost of other land uses or forest management systems. Leitmann estimates that the price will be sufficiently high to be effective in many areas where timber production is the main opportunity cost, but is unlikely to match the economic benefits of ranching or soya cultivation in the Amazon, for example.

Of particular significance is the method of calculation for REDD baseline scenarios and targets. Political considerations are likely to be at least as important as technical issues in the determination of historical baselines and future projections of national deforestation and degradation trends. Host countries will be tempted to exaggerate baseline trends and thus set low targets, to maximise potential output of carbon credits. This risks undermining the market. REDD credits generated by countries which are still undergoing high rates of deforestation will bring the whole system into disrepute. The lesson of FSC forest certification shows that control of targets by producers can lead to a race to the bottom in terms of quality.

The existence and unrestricted availability of high quality satellite data means that non-government agencies are perfectly capable of monitoring global forest trends and exaggerated claims will be easily uncovered. Even so, the surrender of such a politically sensitive task to an external body will be resisted by nation states. It bears repeating, however, that REDD, like climate change in general, is a global issue and will inevitably involve some dilution of national sovereignty to ensure effective results.

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