



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.

A side event at the Asia Pacific Forestry Week (APFW), held in Hanoi from April 21-26, attempted to 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?

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 elements to be included in REDD under UNFCCC.

The most likely outcome is that the mechanism will include reduced forest degradation – the second 'D' in REDD, as well as avoided deforestation. Reduced degradation will require more complex calculations and a significantly greater emphasis on ground truthing of data generated by remote sensing. Nevertheless, REDD spreads the benefits wider than a deforestation-only mechanism. 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.

The long-term shape of REDD will not become clear until UNFCCC negotiations are much further advanced. Meanwhile, 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 (WB) is intricately involved in the development of REDD through their Forest Carbon Partnership Facility (FCPF), generating a degree of controversy in the process. As Dr Joe Leitmann of WB 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 'Readiness Fund' is one of two funds under FCPF and covers preparatory measures for target countries. Most important for an economically effective REDD mechanism is the

determination of baselines and reference scenarios for deforestation and degradation. Ideally, this would be done following UNFCCC guidance, but independently if negotiations do not produce guidelines within the necessary timeframe,

Delegates at APFW saw an important role for the World Bank in using the FCPF to build market credibility for REDD. Recipient countries should therefore be those which are the least challenging. However, if quick, positive results govern the disbursement of FCPF funds it is likely that bilateral aid will follow the same routes and bypass those countries perceived as laggards in sustainable forest management.

How Will the Private Sector Contribute?

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. Aceh's war-torn recent past prevented the large-scale exploitation of natural forests but the peace agreement reached in 2005 raised fears that forest clearance would accelerate. The baseline for REDD will therefore not be calculated against past activity, but on assumptions of increased exploitation of forests during peacetime.

The project is financed by Merrill Lynch and the investment bank thus 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.

Prior to 2012, REDD credits will be tradable only in voluntary markets. The development of these markets will certainly affect, and be affected by, the progress of UNFCCC negotiations. The voluntary market will provide the clearest indication of the likely price of credits under the UN-sanctioned compliance mechanism after 2012. The current forestry-based methodology under the Clean Development Mechanism (ARCDM) does not have much relevance to the emerging REDD market. Indeed, an important message for many APFW delegates was simply that **REDD is not, nor is it likely to become, a part of CDM.**

Can REDD Be Pro-poor?

Much of the discussions among APFW delegates in the REDD session centred on this question. The impacts, both positive and negative, that local people can have on achievement of targets for reduced degradation gives them a potentially crucial role. It was widely acknowledged that **local participation is a main pre-condition for effectiveness of national REDD strategies.**

David Huberman of IUCN represented the Poverty and Environment Partnership (PEP), an informal network of development agencies and partners committed to exploring the social implications of REDD. He warned that **REDD risks being seen solely as a technological fix to what is, essentially, a political problem.** It is meaningless to establish market mechanisms for REDD unless governments reform forest governance.

Ultimately, carbon markets will have a key role in determining whether benefit sharing systems in REDD are sufficiently equitable. If local communities are not motivated to participate in REDD measures, this will undermine market confidence in the ability of projects to deliver results. A number of standards have emerged over the past few years to evaluate afforestation projects for carbon markets, several of which could also be used as a basis for evaluating the social and environmental credibility of REDD projects.

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. 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 appropriate areas previously considered uneconomic, to the disadvantage of forest-dependent peoples.

Conversely, the active participation of rural communities may be essential to build market confidence in REDD. 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.

Potential Limitations—Economic and Political

REDD is essentially an attempt to engender sustainable forest management. Like forest certification, it works through financial markets to provide economic incentives to 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. **The success of REDD will be determined to a considerable extent by the market value of REDD credits** relative to the opportunity cost of other land uses or forest management systems.

The method of calculation for REDD baseline scenarios and targets is likely to be influenced by political considerations more than technical issues. Host countries will be tempted to exaggerate baseline trends and thus set low targets, to maximise potential output of carbon credits. This risks fatally undermining the market. 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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The full report of the APFW REDD session, facilitated by SNV and GTZ, and the key presentations, are available to download from the website of the NGO Climate Change Working Group: www.ngocentre.org.vn