

## Is REDD+ an opportunity to support climate compatible development in developing countries?

### Key messages

- There is considerable global interest in REDD+ as an opportunity to support activities in developing countries that reduce forest carbon emissions whilst contributing to climate change adaptation.
- This interest has been matched by significant early international financial pledges of over \$4.5 billion to 2012, although these will need to be scaled up considerably to make a significant impact on emissions.
- REDD+ could raise significant new risks, such as increased vulnerability of forest dependent communities, which will need to be considered in the design of any scheme in order to ensure it is effective and equitable.
- To benefit from REDD+, countries will need institutions in place for monitoring emissions, effective policies to address deforestation drivers and institutions that can manage new and potentially considerable financial flows.

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Reducing emissions from deforestation and degradation, and enhancing forest carbon stocks in developing countries (REDD+) plays a vital part in global efforts to tackle climate change. This has generated interest among the international community and as a result, new policies have emerged in which significant international finance is being provided to developing countries in order to implement REDD+. This policy brief outlines how these processes work and looks at whether these financial flows offer new opportunities to support climate compatible development. The message is that there could be new opportunities, although these require considerable investment in institutions to manage forests and sufficient time. REDD+ could also introduce new risks, especially for forest dependent peoples, so any new policies need to be designed with this in mind to ensure that they are effective and equitable.

The warning from scientists is loud and clear about the speed of human-induced climate change and an ever smaller window of opportunity to reduce greenhouse gas (GHG) emissions. Research also shows that deforestation and degradation (DD) constitute up to 17% of global emissions and play a significant role in climate change.

This is coupled with estimates that indicate the relative cost efficiency of addressing DD drivers as a way of reducing carbon emissions; and also with the availability of potentially large new financial flows to the forest sector in developing countries as the international community attempts to implement ambitious global climate change policies.

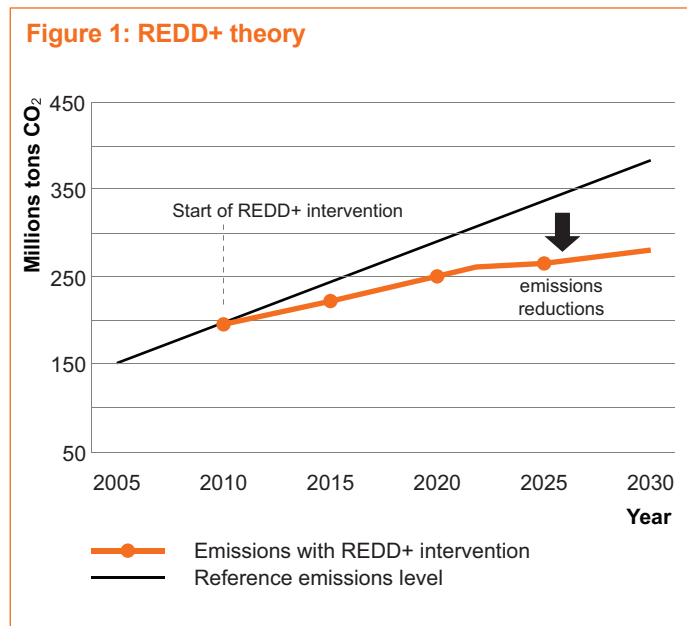
The result has been an exponential growth in interest at international and national levels surrounding policy approaches to reduce emissions from DD. One example is Norway's 'Letter of Intent' with Indonesia for \$1 billion (Box 1, overleaf).

### What is REDD+?

REDD+ is a mechanism being negotiated through the United Nations Framework Convention on Climate Change (UNFCCC) to mitigate climate change by supporting the implementation of policies in developing countries that aim to reduce emissions from deforestation and forest degradation, as well as forest enhancement and sustainable management of forests.

Most of the debate has focused on the idea of achieving REDD+ by using international financial transfers to incentivise and support the implementation of forest policies in developing countries. The theory is simple: developing countries are rewarded for emissions reductions that result from their policies (fig. 1). In practice, this process is extremely complicated. It raises questions about: how to generate and deliver finance; appropriate policies for tackling deforestation drivers; how to measure performance; and how to ensure that there are no perverse effects, such as negative impacts on forest dependent people.

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This is crucial because REDD+ is unlikely to be sustainable without linking REDD+ strategies into broader low carbon development, ensuring that they are economically attractive in order to incentivise participation and action, and that they help with adaptation to climate change impacts.

### How can REDD+ support climate compatible development in developing countries?

#### REDD+ as an opportunity to support a transition to a lower emissions land-use sector

REDD+ is about changing economic incentives which drive deforestation. These may be direct drivers, such as agricultural expansion and wood extraction or more indirect drivers, such as economic crises driving high unemployment and greater reliance on forest products. Recent studies have estimated that in order to counter these drivers and reduce global deforestation rates by 25%, the costs of REDD+ would be \$22 to \$36 billion between now and 2015, although these are highly dependent on assumptions. With financial pledges that have already reached around \$4.5 billion by 2012, REDD+ shows some potential for meeting these costs, but more finance will be needed. With its focus on drivers across whole landscapes, it also has the potential to move away from dispersed and uncoordinated project mitigation activities towards approaches which better address the core drivers and are linked into broader low carbon development.

Despite the challenges and the long term uncertainty about REDD+ due to stalling international climate negotiations, REDD+ ‘demonstration activities’ (i.e. pilot projects), as well as a series of initiatives supporting the development of national REDD+ systems, are already under way in more than 30 countries.

It is important that these processes support the broad objective of ‘climate compatible development’. As it applies to the forest and land-use sector this entails:

- lowering GHG emissions by reducing DD and increasing the removal of GHGs through forest enhancement, taking account of the fact that many of the drivers of emissions/removals occur outside the forest sector, whilst
- maintaining and enhancing economic opportunities linked to forests for the wide range of stakeholders that rely on forest products and land, and
- contributing towards climate resilience at national and local scales.

Concerted effort will be needed to get this right. There is a risk that the incentive to focus forest management on GHG reduction could in practice drive less integrated management practices that neglect other values of forests. The focus on north-south international financial transfers could concentrate attention on the ‘supply’ side of the issue and neglect important drivers stemming from the international demand for forest products. Finally, there is the question of whether countries can absorb the large scale of finance that is projected to be needed. Early experience indicates that this could be challenging in many countries in the medium term (up to 2015) as the institutions are not in place to manage finance and REDD+ activities.

#### Box 1: Norway’s REDD+ ‘letter of intent’ with Indonesia – new opportunity or economic threat?

In May 2010 Norway signed a ‘letter of intent’ (LOI) with the Indonesian government to provide \$1 billion for REDD+ finance between 2010 and 2016. This will fund three phases of REDD+ development including a preparatory strategy and institutional development phase (e.g. for monitoring and finance) (by end 2010); a ‘readiness phase’ supporting activities such as land tenure reform and a ‘moratorium’ on new concessions (2011-2013); and a ‘contributions-for-verified-emission-reductions’ phase which will allow for international emission reduction payments through a fund mechanism (2014 onwards).

The financial pledge illustrates the considerable international interest in REDD+ and provides a good opportunity for rapid action on reducing emissions in the world’s third largest emitter. However, the LOI is also illustrative of some of the challenges which need to be overcome, such as how to establish appropriate institutions to manage the process within government, ensuring harmonisation with national development and wider low carbon development strategies, and overcoming resistance from the private sector who feel threatened by the moratorium.

**REDD+ as an economic opportunity**

Whilst the move towards low carbon development in the forest sector entails significant costs, there could also be new economic opportunities from REDD+. By some estimates, carbon markets could provide around \$7 billion of new finance for the forest sector by 2020 – relatively small in terms of the overall finance required to reduce forest emissions, but nevertheless a considerable figure compared to current public and private financial flows to the sector in many countries. REDD+ could also provide opportunities for enhanced private sector engagement in the forest sector, in areas such as in financial management services, training and the creation of ‘green jobs’ (table 1).

In order to realise such opportunities similar barriers to those affecting existing forestry and carbon investments will need to be overcome, such as: complex or unclear land tenure systems; corruption and lack of transparency; lack of expertise in institutions dealing with investments, leading to a reliance on external consultants; high costs (e.g. for certification); and lack of clarity on carbon asset ownership, tax and revenue sharing laws.

At the local level, it is possible that there could be downstream economic opportunities for communities involved in REDD+ (e.g. in project monitoring and sustainable forestry). However, they are likely to face barriers in accessing opportunities due to issues such as more complex or uncertain land tenure on communal lands, which could increase investment risks and costs. A greater concern is that the drive by governments or investors to secure rights over land, forests and carbon in order to benefit from REDD+ could undermine the (often weaker) rights of poor and indigenous peoples.

**REDD+ as an opportunity to support climate resilience and adaptation**

Forests provide important ecosystem services that are necessary for maintaining human resilience to climate change shocks and stresses, and supporting adaptation. By financing forest protection, REDD+ could therefore contribute to climate resilience and adaptation. At the national scale, for example, forest protection can increase the resilience of highly vulnerable sectors, such as hydropower, drinking water and coastal tourism, which are particularly dependent on forest goods and services.

Recent analysis estimates that planting and protecting nearly 12,000 hectares of mangroves in Vietnam cost just over \$1 million but saved annual dyke maintenance expenditures of over \$7 million. At the local scale, ecosystem services preserved through REDD+ could act as safety nets to reduce vulnerability of forest dependent communities to climate shocks and stresses. Non-timber forest products (NTFPs), such as fuelwood, water and medicines support the livelihoods of an estimated 0.25-1 billion people, and forests contribute to clean water provision and erosion prevention.

Although it is often assumed that REDD+ will automatically contribute to climate resilience, this is not necessarily the case. Policy approaches such as those that restrict access to land and forest assets could protect forests and reduce emissions, but also increase the vulnerability of forest dependent communities to climate change impacts.

**Table 1: Potential business opportunities in REDD+ and forest carbon<sup>1</sup>**

Type of opportunity	How business could contribute
Finance	Provision of equity investment and project finance; creation of funds and their management
Governance	Development of registry services to trade and trace emissions reductions; capacity building; validation and verification services
Project development	Planning and managing projects; providing technical support
REDD+ related opportunities	Indirect benefits from REDD+, such as improved efficiency of forestry operations
Market activity	Purchase and sale of emissions reduction credits; provision of market intelligence and brokerage services



## Recommendations for countries wanting to engage in REDD+

REDD+ is unlikely to provide the same opportunities for all countries. Most effort is currently concentrated on tropical developing countries with large forest estates and high deforestation rates, because these are where carbon emissions are greatest.

Some of the key requirements for engaging in REDD+ include:

- The development of monitoring, reporting and verification (MRV) systems that enable better evaluation of emissions reductions and removals in land use systems, and the establishment of reference levels to assess performance. Building these systems may take up to a decade in some countries and are fundamental for developing national REDD+ approaches, which means that these processes need to start now.
- The elaboration of legal and institutional frameworks that enable improved forest management and investment. This will involve time and effort in working through the establishment of new sets of rules, for example over who has rights to REDD+ 'credits'. Securing early public funding to build institutions to build local capacity and test innovative financial mechanisms may help to enhance future investments.
- Cross-sectoral planning, coordination, and harmonisation of REDD+ with existing forest reform processes. This is important to ensure that new incentives do not negatively impact on forest governance, that REDD+ policies are integrated into wider low carbon development processes, and that they contribute to climate change adaptation goals (which may require screening of REDD+ policies to determine their links to climate vulnerability).
- Development of effective mechanisms that safeguard the interests of vulnerable groups such as the forest dependent poor and indigenous peoples, and also ensure that REDD+ contributes to biodiversity protection. These include effective consultation and recourse mechanisms, strengthening of rights to land and natural resources, and provision of support to access REDD+ benefits.

## References, useful links and notes

### References and useful links:

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- PwC and Conservation Finance Alliance, (2010). National REDD+ Funding Frameworks and REDD+ Readiness: Findings from Consultation.
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### Notes:

1. Adapted from PwC table for The Economics of Ecosystems and Biodiversity D3 report for business, (2010).

## How can CDKN help developing countries?

The Climate and Development Knowledge Network (CDKN) aims to help decision-makers in developing countries design and deliver climate compatible development. We do this by providing demand-led research and technical assistance, and channelling the best available knowledge on climate change and development to support policy processes at the country level.



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