A Poverty Environment Partnership (PEP) Report

Making REDD work for the Poor

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EXECUTIVE SUMMARY - Policy conclusions

1. **Provision of information** is required at national and local levels to ensure equitable negotiation of REDD agreements. Information should at a minimum contain basic details of how REDD mechanisms work, realistic expectations of benefits and possible implications.
2. **Provision of upfront finance and other mechanisms for reducing costs** to help improve the equity of benefit distribution in REDD. This may help bridge the gap between project/programme initiation and payments for the delivery of emission reductions.
3. **Use of 'soft' enforcement and risk reduction measures:** 'Hard' enforcement measures such as financial penalties are likely to affect the poor disproportionately. Project investors and/or developing country governments should apply 'soft' measures such as non-binding emission reduction commitments where possible.
4. **Prioritise 'pro-poor' REDD policies and measures:** Whilst different REDD options may give rise to similar levels of emissions reductions, impacts on the poor will be varied and should be analysed on a case-by-case basis. To ensure social benefits, a strong 'pro-poor' political commitment is required from the outset.
5. **Provide technical assistance to national and local governments, NGOs and the private sector:** technical assistance will be needed to increase investment and the visibility of the poor. Key areas include: establishing reference scenarios/levels for measuring performance; improved data collection on small-scale enterprise and subsistence values; financial systems and verification services for REDD; and landscape planning approaches.
6. **Support to strengthen local institutions and improve access to legality:** To ensure 'voice and choice' in REDD design and implementation, improved access to appropriate legal support will crucial for poor people. This is especially the case with REDD, where new and unfamiliar legal structures may be required, and where approaches may be experimental.
7. **Maintain flexibility in the design of REDD mechanisms:** Flexibility, for example, including the use of nationally specific standards or regular review processes, will be crucial to minimise risks such as communities being locked into damaging long-term commitments.
8. **Clear definition and equitable allocation of carbon rights:** rights to own and transfer carbon will be essential for REDD emissions trading. As these will govern land management over long timescales, consultation will be needed in their formulation. Where national governments retain carbon rights, equitable benefit sharing agreements will be needed.
9. **Development of social standards for REDD and application of existing extra-sectoral standards to REDD systems** could improve benefits for the poor by ensuring that processes such as public consultation are thoroughly carried out. Standards should also be developed for ongoing social impact assessment at project and national scales.
10. **Balance rigour and simplicity:** Mandating complex standards can have perverse effects in market systems, such as reduced access to markets by small producers. REDD-related standards need to be simple and accessible but also robust.
11. **Ensure broad participation in the design and implementation of REDD,** for example, through improving access to international debates by developing countries and NGOs. It will be important to consider the most appropriate level at which to assign decision making powers over REDD to achieve maximum participation of the poor.
12. **Measures to improve the equity of benefit distribution:** Issues such as risk aversion and cost-effectiveness are likely to lead to highly variable benefit distribution. Use of tools such as taxes to redistribute benefits and strengthening of local institutions may improve equity.
13. **Avoid perverse effects of REDD due to limited direct benefits:** Incentive schemes where benefits are concentrated can create perverse effects such as in-migration and conflict. Benefits will therefore need to be distributed across wide areas and actors, and combined with strong accountability measures to ensure that beneficiaries are legitimate.
14. **Ensure accountability and transparency in REDD processes,** for example through third party verification and strengthened democratic processes. This could help reduce perverse effects such as corruption that can adversely affect the poor.
15. **Alignment with international and national financial and development strategies**, such as Poverty Reduction Strategies. This could help to raise the profile of the poor within REDD and improve sustainability by integrating REDD into wider processes.
16. **Ensure longevity in REDD mechanisms:** Stable and predictable benefits associated with REDD could provide increased security to the poor. At community and individual levels, benefits need to be distributed over the lifetime of REDD projects and assumptions about the sustainability of alternative livelihood approaches should be critically evaluated.
17. **Use of broad definitions** for land use types that can be included in REDD systems could help increase overall coverage of REDD, thereby increasing income and growth potential, and could facilitate inclusion of potentially pro-poor activities such as agroforestry.

Executive summary

Deforestation and degradation account for around 20% of global anthropogenic greenhouse gas emissions, widely believed to drive climate change. Growing concerns about the impacts of climate change have fuelled international interest in developing mechanisms to slow deforestation and degradation rates. Most proposals for such mechanisms to 'Reduce Emissions for Deforestation and Degradation' (REDD) are still on the drawing board but they are all based on the idea that developed countries would pay developing countries to reduce rates of deforestation or degradation by implementing a range of policies and projects. By linking these payments to carbon markets (i.e. putting a value on the carbon emissions that are avoided), large sums of money could flow to developing countries. With some estimates exceeding $30 billion per year, these could dwarf existing aid flows to the forest sector in developing countries. The potential contribution to rural poverty reduction could be immense, but REDD mechanisms may also entail new risks. This paper presents a framework for understanding the linkages between REDD and poverty, and conducts an initial analysis of the poverty implications of REDD.

Understanding REDD-poverty linkages

Whilst there are many reasons to 'make REDD work for the poor', notably the potential to enhance the sustainability of REDD systems by reducing conflict over resources, there are various interpretations of what this would mean in practice. Two major options include 'no harm' REDD, which aims to avoid increased threats to the poor, and 'pro-poor' REDD, which actively seeks to deliver benefits to the poor. Different stakeholders in REDD may be interested in different options, but there are concerns that adding poverty reduction objectives could reduce the overall effectiveness and efficiency of what is essentially an environmental mechanism.

In practice, it may be difficult to distinguish between these alternatives. This report takes a broad view of the linkages between REDD and poverty. It looks at poverty in terms of risks and benefits from three angles: income and growth (e.g. increased or decreased income from REDD projects); equity (e.g. the distribution of benefits within or between communities; or distribution over time); and voice and choice (e.g. the ability of different individuals or groups to participate in decision making related to REDD). These different aspects of poverty are considered at four scales: individual; community; national; and international.

How REDD works

REDD is based on the idea that funds are provided to developing countries for reducing emissions from deforestation or forest degradation through the implementation of various policies and measures. Examples include strengthened law enforcement, fire management and sustainable forest management, but any approach that reduces deforestation and degradation could in theory be applied. In this paper, 'REDD' is used as a generic term for a range of options and financing mechanisms that can be used to reduce deforestation and forest degradation, with the goal of mitigating climate change.

There are many different ways in which REDD could be implemented. This has led to much debate and alternative proposals to address technical hurdles and political differences. The current high level of uncertainty makes analysis of the poverty implications of REDD more difficult. Nevertheless some key design variables can be identified that are assessed in this paper. These include:

- **Reference scenarios or levels:** In most proposals for REDD, the magnitude of emission reductions is assessed by comparing actual deforestation and degradation rates against a reference scenario (commonly called a 'baseline') of what would have happened in the absence of the policy or measure. These scenarios could be applied at country and/or project level and may be based upon historical data only or include projections of expected future deforestation.

- **Scope of accounting system:** This relates to whether emissions from deforestation *and* forest degradation are included in REDD and whether land use change in other ecosystems is included, such as peat lands which rank amongst the most important terrestrial carbon sinks. The precise definitions of 'deforestation', 'forest', etc. under different REDD proposals are crucial to assess potential social impacts.
- **Framework:** This relates to whether REDD is included within a future international climate regime under the UNFCCC, which is still far from certain. There are proposals for REDD to be included within existing carbon market mechanisms under the Kyoto Protocol; under a separate Protocol (where trading of REDD credits would be isolated from other carbon markets); or as a separate fund or funds under the Convention.
- **Financial mechanism:** This is related to the choice of framework. Finance for REDD could be delivered via an international fund or through market mechanisms, where carbon credits are traded between 'buyer' countries, or companies, and 'seller countries', or project implementers. Market mechanisms could be regulated under the UN system or via voluntary carbon markets using informal standards and verification procedures.
- **Liability:** REDD programmes or projects could involve high financial risks, especially in relation to the possibility that emissions reductions are not permanent, due to fires, conflict, illegal activity etc. Various options have been proposed to deal with these risks, such as paying for credits only upon verification that emissions reductions have occurred, or holding reserves of credits as insurance against potential loss.
- **Spatial scale:** In project-based approaches, REDD finance would be contingent on a reduction in forest loss within a given project or forest area, compared to some agreed reference scenario or level. Credits would be awarded to the project implementer (a private company, local government or community). In national approaches, a national reference scenario or level for reducing forest loss, linked to national accounting and monitoring systems, would be used. The latter approaches imply that payments would be made to national governments, which would determine how to use the funds in order to achieve the agreed emission reductions. A combination of these two approaches would be possible.

Clearly, which REDD options are chosen and how they are implemented will have enormous potential implications for the poor. Additional issues, which could have significant implications for the poor, include: who manages REDD funds; how authority is distributed in the REDD 'supply chain'; the nature of benefit sharing systems; the form of monitoring, reporting, verification, compliance; and legal mechanisms relating to REDD. The specific policies and measures chosen by governments or project implementers to address the drivers of deforestation and degradation will also have significant poverty implications.

The poverty implications of REDD

The poverty implications of REDD may be assessed from two perspectives: first, in terms of the key REDD design variables, listed above, and second, in terms of cross-cutting concerns which are likely to arise in any REDD scheme:

Poverty implications relating to the main REDD design variables

Given the current uncertainty over the future form of REDD, it is difficult to say which options for REDD are more likely to be 'pro-poor'. However, some general conclusions include:

The way that reference scenarios are established will have significant equity implications at all scales. If REDD focuses narrowly on reducing rates of emissions, and if reference scenarios are based primarily on historical emissions, then countries and areas exhibiting higher emissions rates are likely to benefit most from REDD financing. High-Forest Low-Deforestation countries such as the Democratic Republic of Congo, for example, are unlikely to benefit much, because such countries have historically suffered less deforestation or, like Costa Rica or India, they have a better track record of forest conservation.

Volumes of finance are likely to vary significantly between different options. Market-based schemes are likely to raise more funds, which might bring income and growth benefits

for developing countries and the poor. However, they might suffer from greater efficiency-equity trade-offs (i.e. favouring least-cost strategies that maximise emission reductions) than alternative funding arrangements with a 'pro-poor' remit. Large volumes of finance could also result in negative impacts on the poor, if they lead to rent seeking by officials or other forms of elite capture, or by overloading institutions with limited capacity to manage finances.

Risk management mechanisms, particularly relating to the delivery of emission reductions, could have large poverty implications. Payment on delivery could have adverse equity effects by reducing access to REDD revenues for smaller producers, due to lack of upfront funding, or deter forest nations from implementing 'pro-poor' REDD measures because of perceptions that such approaches are high cost. Hard enforcement mechanisms, such as penalties or fines, could also disproportionately affect the poor.

Decisions on rules governing REDD could have significant equity implications. For example, the definition of a 'forest' or technical constraints on measuring and accounting for land degradation could prevent some land-use options from being included in REDD systems, including those options with large potential benefits for the poor, such as agroforestry or community forestry. Highly complex rules and reporting requirements could also act as a barrier to countries with low capacity to implement such systems. How definitions are interpreted will also be important. For example, there is a danger that some 'degradation' activities that can be crucial for the poor (such as shifting cultivation) may be penalised in REDD systems without adequate alternatives provided.

National versus project-based approaches may have different impacts on the poor. National approaches where governments receive REDD finance may be more centralised, and poverty implications are likely to depend on whether structures are in place to devolve finances and authority to lower levels. There is a risk that the poor will have a smaller role in the design and implementation of REDD, in national systems. On the other hand, national REDD may be better aligned with existing financial systems, and could enhance efficiency by lowering transaction costs relative to multiple independent projects, as well as helping to strengthen government systems.

Cross-cutting concerns relating to REDD

Experience from similar systems (such as existing carbon markets or payments for ecosystem services) and the wider development literature raise a number of issues that are likely to arise in REDD schemes, regardless of the type of system that is established.

Effects on food and commodity prices: Large-scale implementation of REDD could have implications for food prices, if it takes land out of food production. Higher food prices would positively affect net producers but would negatively affect net consumers. In addition, REDD may affect local commodity prices by increasing the price of land (with either positive or