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Making REDD work for the Poor

Reduced Emissions from Deforestation and Degradation' (REDD) systems could offer benefits to poor people, particularly in terms of increased, stable and long-term financial and non-financial benefit flows to rural areas.

Considering such issues within the design and implementation of REDD systems is likely to increase their effectiveness as climate change mitigation instruments. But in practice, REDD systems could present new risks for the poor. These could include factors such as loss of access to land, the concentration of power by elites and distortion effects in local economic systems. This paper outlines how the design of REDD could influence its poverty implications and the key requirements for ensuring that REDD works for the poor. It summarises the findings of a much longer analysis recently prepared on behalf of the PEP, entitled 'Making REDD Work for the Poor'

REDD: Protecting forests, saving the climate and reducing poverty?

Offering financial incentives to developing countries to reduce greenhouse gas emissions from deforestation and degradation (REDD) represents a potentially innovative and cost effective mechanism for tackling climate change. It also has clear links to biodiversity conservation and other areas of environmental protection. But can it be implemented in ways that safeguard, and ideally enhance, the welfare of the poor? There are three possible outcomes, which will depend on the design of REDD mechanisms and the context within which they are implemented:

1. REDD could deliver new benefits, for example through employment or increased security of land ownership
2. REDD could 'do no harm', offering no new benefits but presenting no new risks. This could be associated with an approach oriented to defending indigenous peoples' rights or 'poverty safety nets'
3. REDD could pose new risks, such as loss of access to land and conflict over resources

This brief argues that all three of these potential outcomes need to be addressed (and can be addressed) to increase the long term viability of REDD. Of particular interest are issues related to risk management, benefit sharing arrangements, how the activities and interests of the poor are factored into REDD design, and potential distortion brought about by REDD systems.

Why take a pro-poor approach to REDD?

There currently is a view that international action in support of REDD should focus only on climate change, not poverty reduction. This is based on the argument that adding social objectives could overload the agenda, increase costs and possibly deter investment. As a result the poor may ultimately end up worse off.

But there are both moral and utilitarian arguments against this view. Firstly there is a moral argument that the poor should have a right to an equitable share in any benefits where they have a legitimate claim. The more utilitarian considerations include:

1. Improved sustainability of REDD in the long term for example in cases where poverty is linked to deforestation
2. Risk reduction in projects and for investors and buyers by ensuring poor people are supportive of policies and measures
3. Increasing returns by attracting investors interested in ‘pro-poor’ REDD projects or programmes
4. Achieving political objectives, for example in gaining acceptance for such mechanisms amongst a broad constituency at international and national levels
5. Satisfying contractual and legal obligations, for example within the mandates of donors

On this basis it would seem an essential requirement for REDD not just to mitigate risks and ‘do no harm’ to the poor, but also to try to maximise the benefits it may deliver.

Understanding REDD-poverty linkages

Most proposals for establishing REDD as a viable mitigation strategy are based on the idea that developed countries would offer financial incentives to reduce deforestation and degradation (DD) rates through the implementation of policies

and measures, such as strengthened law enforcement, fire management or sustainable forest management. By linking these incentives to carbon markets (i.e. putting a value on the carbon emissions that are avoided), some estimates predict significant financial flows to developing countries. Recent estimates foresee around \$30 billion per year for a 50% decrease in global emissions reductions from DD by 2030.

To understand the potential benefits and risks of these systems for the poor, it is useful to distinguish:

1. Dimensions of poverty, including income and growth, equity, and voice and choice; and
2. Dimensions of scale: from individual, through community and national, to international scales

The interactions between these two dimensions are illustrated in Table 1.

It is also necessary to understand the key REDD design variables that have arisen in the debate, as different REDD proposals attempt to overcome certain technical hurdles and political differences. These include (and are dealt with in more detail in section 4.1 of the full report):

1. The way that performance in reducing emissions is judged
2. The scope of REDD monitoring and reporting systems
3. The framework and financial mechanism
4. The spatial scale of REDD systems

The poverty implications of the key international REDD debates

In most REDD proposals performance is judged by assessing actual emissions reductions (based on deforestation and degradation rates) against a reference scenario of what would have happened in the absence of the policy or measure (Figure 1). These scenarios may be based upon historical data only or could include projections of expected

Table 1: Examples of the poverty implications of REDD using three different perspectives on poverty and at three different scales. Note that this only illustrates benefits, not risks.

	Individual	Community	National	International
Income and growth	<ul style="list-style-type: none"> • Labour/Non-labour income • Enhanced land and carbon rights • Access to subsistence products • Small Enterprise development 	<ul style="list-style-type: none"> • Infrastructure improvements • Local spending • Improved public services • Improved environmental quality 	<ul style="list-style-type: none"> • Infrastructure improvements • Skills and knowledge • Small and Medium Enterprise development • Attaining the Millennium Development Goals 	<ul style="list-style-type: none"> • Simultaneous attainment of development, climate change and biodiversity conservation targets
Equity	<ul style="list-style-type: none"> • Level and distribution of income/resource access from REDD within household 	<ul style="list-style-type: none"> • Level and distribution of income/resource access in community 	<ul style="list-style-type: none"> • Regional distribution of REDD investment 	<ul style="list-style-type: none"> • International distribution of REDD investment
Voice and Choice	<ul style="list-style-type: none"> • Effective participation in community discussions of REDD project design and implementation 	<ul style="list-style-type: none"> • Effective participation in decision making (e.g. with companies; government.) • More viable and representative local government 	<ul style="list-style-type: none"> • Effective participation in national REDD processes 	<ul style="list-style-type: none"> • Effective participation in global REDD negotiations

future deforestation. Such ‘baseline’ establishment is likely to result in equity issues, most obviously at international levels. Countries with low historic rates, either for reasons of policy (e.g. India) or commercial marginality (e.g. DRC) would tend to lose out in baseline and credit approaches based on historic rates of DD, while countries with high deforestation rates (quite possibly because of poor forest governance) would tend to be rewarded. Similar considerations apply at sub-national level, for example, between the Brazilian states of Mato Grosso and Amazonas, each of which currently experience very different deforestation trends and rates. Monitoring and reporting systems for REDD could either be narrow in scope, for example only including limited forest categories, or could be broader to include degradation or wider land categories such as peat lands (which rank amongst the most important terrestrial carbon sinks). Inclusion of degradation or broader categories has the advantage of recognising a significant proportion of forest emissions. This could be beneficial to the poor, as it could open up the possibility of direct benefits for small forest users. It could also encourage recognition of beneficial agroforestry systems that might otherwise be classified as ‘non-forest’. However, there is a concern that some ‘degradation’ activities that can be crucial for the poor (such as shifting cultivation) may be disrupted by REDD systems without adequate compensation.

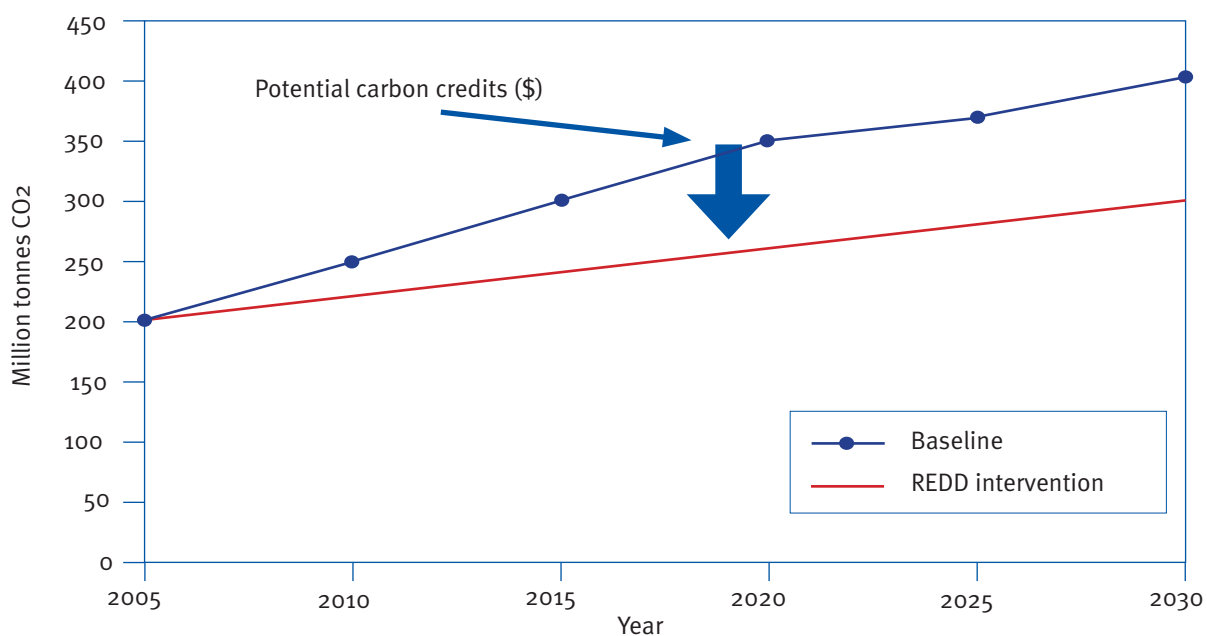
The institutional framework for REDD could include it within a future UNFCCC Protocol, a separate REDD Protocol, under the Convention, or it could exist outside the climate convention completely. This is likely to affect the rules of operation such as the stringency of standards. Related to this is the financial mechanism, which could either be based on market mechanisms, with trading between buyers and sellers (who could be governments, the private sector or NGOs) or use international funds with more traditional donor-recipient

relationships. There are potentially large differences in poverty effects particularly between regulated markets, voluntary markets and fund based systems, as follows:

1. Regulated markets are likely to involve much larger financial flows, but they will probably be risk averse and more focussed on efficiency than equity goals. This is likely to result in trade-offs between the potential income and growth benefits and the equity of benefit distribution as markets seek situations where risks are low (e.g. where land rights are clearly defined) or introduce high standards and rules that could act as market barriers to smaller landowners.
2. Voluntary markets tend to have a clearer ‘Corporate Social Responsibility’ (CSR) goal with greater interests in delivering social benefits and less bureaucratic procedures. However, existing markets are much smaller in scale than regulated markets and standards are more variable. In addition, there is a danger that well-intentioned CSR driven activities could impose top-down and northern driven agendas which misread the dynamics of livelihood systems and distort local economies.
3. Fund-based approaches may have a more ‘pro-poor’ mandate than market-based approaches, though the volume of funding is likely to be much lower, based on evidence from existing forest sector aid.

Finally the spatial scale of REDD systems could vary from individual projects to national systems. 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

Figure 1: REDD baseline and credit theory



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 also be possible. 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 poverty concerns in REDD systems

In addition to benefits and risks that stem from the different REDD design variables, there are some more generic poverty implications that could arise in any REDD system (these are dealt with in more detail in Section 4.2 of the full report). These concern:

1. The way investment risks are managed in REDD schemes
2. The form of benefit sharing mechanisms
3. The visibility of poor people within the design and implementation of REDD schemes
4. Indirect destabilisation effects due to REDD systems

Risks such as non-permanence are important factors in determining investment decisions in carbon markets, as they can affect carbon prices and returns to investment. Various options have been proposed to deal with these, such as:

- paying for REDD credits only upon verification of emissions reductions; and
- holding reserves of credits as insurance against potential loss.

In general, tools used to control risks (and the related verification procedures) could increase the complexity of procedures and costs, and delivering financial incentives after verification of emissions reductions introduces requirements for upfront funding. Both could disadvantage poorer countries and people, depending on how financial systems are structured. It is possible that verification mechanisms could increase revenue generation for example, through improved law enforcement or by creating local employment from verification services. However, poor people are unlikely to benefit directly in either case and evidence indicates that they could actually be subject to increased risks if they are engaging in illegal activities. This may be particularly pronounced in national REDD systems where national governments would have the incentive to push for high performance in reducing deforestation in order to access benefits.

'Carbon rights' are a key issue in the design of REDD benefit sharing mechanisms. They define a new form of tradable

commodity linked to land and forest, and are likely to be particularly important within market-based REDD schemes. They may influence how land is managed over long timescales and who receives the benefits from REDD. There are concerns about how this might restrict long term land use options for the poor and possible conflicts between legal land owners, those who assert a claim to land, and governments. Where land ownership is unclear or disputed, it is unlikely that REDD can deliver significant benefits to the poor.

REDD mechanisms offer the possibility of providing stable benefit flows over long timescales, which could be beneficial for poor people, given their susceptibility to economic and natural shocks, such as sudden food price increases or droughts. However, if there is a long time lag before benefits are delivered, this could disadvantage poor people as they may have much shorter time horizons than investors. In addition, the type of benefits delivered will need to be carefully considered in REDD schemes. For example, in the common situation where poor people use forests for subsistence production, the potential welfare benefits derived from financial payments from REDD (with payment size based on the estimated value of subsistence production) may well be much less than those derived from subsistence production itself. This is because they cannot easily substitute payments for subsistence products where markets work imperfectly.

A crucial aspect in overcoming these issues will be an understanding of the local economic realities of the poor and involving them in decision making processes. This may be challenging where economic data on opportunity costs is lacking. Eliciting opportunity cost information can also be difficult. For example if poor people are engaging in illegal activities and do not want to reveal information or if a lack of technical expertise required to understand complex markets, prevents them from making meaningful estimates of the value of their existing or future activities.

Finally, evidence from similar incentive mechanisms (e.g. PES), commodity markets and international aid transfers, indicates that REDD mechanisms could also have a series of more indirect destabilising effects at different scales which will have to be prevented. These include:

- local economic effects, especially in relation to food and fuel commodity prices could occur in areas where access to markets and product substitution is limited (as in much of Africa);
- high levels of funding could destabilise institutions, increase the tendency for central institutions to maintain tight control over resources and encourage rent-seeking behaviour;
- a lack of alignment of financial flows and regulatory systems with existing processes or between different REDD systems could decrease overall efficiency;
- diversion of funds into REDD systems from other areas such as spending on healthcare and education could occur without clear rules over the sources of finance;
- carbon finance could privilege individual land ownership, and thus progressively erode communal tenure systems which are integral to the wellbeing of those with low purchasing power.

Ten requirements for making REDD work for the poor

The issues highlighted in the previous two sections indicate a number of important requirements for making REDD work for the poor.

1. Information provision

Information will be required at national and local levels to ensure equitable negotiation of REDD agreements, given the likely technical complexity of REDD systems. Information should at a minimum contain basic details of how REDD mechanisms work, realistic expectations of benefits and possible implications of different approaches. It will also be important to improve access to international debates for governments and NGOs in developing countries. There are a number of existing 'platforms' for sharing information, such as UNEP's 'CD4CDM' initiative which provides information through the Internet as well as in-country support on carbon markets.

2. Provision of upfront finance and use of mechanisms for reducing costs

Provision of upfront finance could significantly improve equity of benefit distribution in REDD. At international levels, donors and IFIs could play a crucial role in providing this upfront financing in a similar way to some existing carbon funds (e.g. Biocarbon Fund); at national levels, developing country governments and the private sector could also help individuals and communities access capital through, for example, bank credit schemes in local development and commercial banks or micro-credit schemes; and at community and individual levels, some options for self-financing could be explored such as through improved agricultural production, non-farm employment and revolving credit programmes.

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 emissions reduction commitments where possible. Payment on delivery of emissions reductions could also reduce risks, but could also reduce the provision of upfront finance, as noted above. Risk spreading instruments such as investments in portfolios of projects or withholding a reserve of credits in a reserve account (e.g. similar to those recommended in the Voluntary Carbon Standard) may also reduce the burden of responsibility on particular individuals or communities. However, careful evaluation of the possible effects on overall project financing will be required.

4. Prioritise 'pro-poor' REDD policies and measures and long time horizons

Whilst different policies and measures for reducing deforestation and degradation rates may give rise to similar levels of emissions reductions, impacts on the poor will be

varied. To ensure social benefits, a strong 'pro-poor' political commitment will be required from the outset. 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.

5. Provide technical and legal 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 within decision making processes. 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;
- legal issues surrounding REDD systems, such as carbon rights, contract law and trading modalities.

To ensure 'voice and choice' in REDD design and implementation, improved access to appropriate legal support will be 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. Approaches such as mobile legal units that exist in Brazil, Ecuador and Costa Rica may be useful in REDD.

6. Maintain flexibility in the design of REDD mechanisms

Flexibility in REDD systems will be crucial in order to minimise risks such as communities being locked into inappropriate long-term commitments. The use of nationally specific standards (e.g. similar to those in Forest Stewardship Council (FSC) certification processes) and including iterative processes in REDD agreements could help to achieve this. Broad definitions could also help increase overall coverage of REDD, thereby increasing income and growth potential by helping to facilitate the inclusion of potentially pro-poor activities such as agroforestry. However, the interpretation of definitions relating to 'degradation' will have to be carefully monitored in situations where the poor are engaging in activities that are seen to be degrading forest resources.

7. Clear definition and equitable allocation of carbon rights

Rights to own and transfer carbon will be essential for most REDD schemes. Close consultation will be needed in their formulation, as such rights are likely to govern land management over long timescales. Where national governments retain carbon rights, equitable benefit sharing agreements will be needed. Legal experience in existing carbon market and avoided deforestation schemes, such as those in New Zealand and Australia, could provide useful insights for the design of REDD in developing countries.

8. Development of social standards and application of existing extra-sectoral standards to REDD systems

Social standards could improve benefits for the poor by ensuring that processes such as public consultation are thoroughly carried out. Existing standards such as the 'Climate, Community and Biodiversity Standard' (CCB) or FSC could be used in REDD schemes but these may need to be adapted (or new standards developed) due to the potentially national focus of REDD. Standards should also be developed for ongoing social impact assessment at project and national scales. However, complex standards can have perverse effects in market systems, such as reduced access to markets by small producers. These may need to be countered, for example through simplified procedures similar to those in small-scale CDM projects or cost savings through bundling of projects.

9. Applying measures to improve the equity of benefit distribution

Issues such as baseline setting, risk aversion and cost-effectiveness are likely to lead to highly variable benefit distribution in REDD. Use of tools such as taxes to redistribute benefits may help improve equity. Such systems are in place in China and Brazil in relation to carbon markets, but there is little information about their wider implications, for example on the competitiveness of the sector. Concentration of REDD incentives in particular areas could also create perverse effects such as in-migration and conflict. Benefits will therefore also need to be distributed across wide areas and actors, and combined with strong accountability measures, such as 'paper trails' to ensure that beneficiaries are legitimate. Third party verification of both carbon and financial flows will be crucial in helping to reduce perverse effects such as corruption that can disproportionately affect the poor.

10. Alignment with international and national financial and development strategies

Aligning REDD schemes with existing development processes such as Poverty Reduction Strategies (PRSPs) and Medium Term Expenditure Frameworks (MTEFs) could help to raise the profile of the poor within REDD schemes and improve sustainability in the long term.

Conclusions

Much uncertainty remains over the ultimate design of international REDD mechanisms, making it hard to gauge their implications for the poor. As outlined in this brief, numerous trade-offs exist between different options that need to be evaluated on a case-by-case basis. Nevertheless, it is clear that decisions at the international level will have a large effect, particularly in terms of the volume of finance for REDD and its international distribution. In particular, the integration of REDD in carbon market systems under a future international climate framework would appear to have enormous potential income and growth benefits for developing countries. Under certain conditions, and in certain contexts, these benefits could be passed on to the poor.

The potential risks to the poor from REDD are also large, and include issues such as elite capture of benefits, potential loss of access to land, and a lack of voice in decision-making. These are all familiar issues in the forest sector but they may be particularly prevalent in REDD systems. This is because of the likely scale of the systems envisaged, the complexities of monitoring and tracking carbon in the landscape, and the strong environmental, private sector and developed country interests to establish REDD mechanisms quickly.

Considering these issues in REDD design and implementation will be a crucial factor in ensuring its viability as a climate change mitigation instrument. Key places to start will include: the conversion of existing knowledge on forest-poverty linkages into practical methodologies for understanding the poverty implications of REDD; systematic analysis of voluntary market and demonstration REDD activities from a poverty perspective, to gather experience; and concerted and sustained effort to bring the interests of the poor into debates about REDD at local, national and international levels.

References

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PEP REDD Working Group Members

Maria Berlekom (SIDA), Joshua Bishop (IUCN), Jill Blockhus (The Nature Conservancy), Tim Clairs (UNDP), Lisa Curran (Yale University), Barney Dixon (UNEP WCMC), Elspeth Halverson (UNDP), David Huberman (IUCN), Izabella Koziell (DFID), David McCauley (ADB), Charles McNeill (UNDP), Leo Peskett (ODI), Susanne Von Walter (SIDA)