

Not easy, fast or cheap: A
framework for identifying the
real cost of REDD+

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Presentation based on:

Hans Gregersen, Hosny El-Lakany, Alain Karsenty and Andy White (2010),

Do Opportunity Costs Indicate the Real Compensation for Successful REDD+ ? : Rights and Realities of paying for REDD+.

http://www.rightsandresources.org/publication_details

Objective of presentation

- **To examine whether the opportunity cost (O C) approach used in many of the major global climate change studies provides realistic estimates of what payments will be needed to achieve a successful REDD+ program.**
- **To help guide the international debate about a REDD+ scheme**

Outline

- **What is Opportunity Cost (OC)?**
- **What are the issues in using it to estimate what payments will be needed?**
- **Discussion of the contextual issues**
- **The way ahead**
 - **Dealing with governance**
 - **Using the three main tools available to governments: laws/regulations, subsidies and government investment**
- **Conclusions**

**Opportunity cost of deforestation or degradation:
the net value foregone by the owner of the
rights to the forest if the forest is protected
instead of being removed and the land used to
produce other outputs.**

Example:

**If the forest owner intends to deforest a ha. and
produce palm oil on the ha. that would give the
forest owner a *net* return of \$ 600 per ha./yr.,
then \$600/ha./yr is the owner's OC.**

OC is *theoretically* satisfactory indicator.

However, there are major contextual and governance issues that make it less useful:

- 1. controlling corruption and illegal activity,**
- 2. increasing transparency and accountability,**
- 3. resolving basic property and use rights issues,**
- 4. getting adequate technical and financial capacity,**
- 5. figuring ways to avoid leakage and “environmental blackmail.”**

DETERMINING WHEN OC IS A USEFUL INDICATOR IN THE REAL WORLD

- Without resolving these issues, we could be underestimating the real costs and misguiding the debate and design of REDD+ programs.
- ***To determine usefulness, we need to look at drivers of deforestation and the legality of their deforestation: 3 situations:***
 - Clearly ***illegal*** to remove the forest
 - Clearly ***legal*** to remove the forest
 - Legal use **rights not clearly defined** and assigned

WHEN DEFORESTATION IS ILLEGAL:

- forbidden by zoning laws/regulations, or
- those deforesting have no legal rights to the forest

IN THIS CASE:

- OC is not appropriate
 - *You don't pay someone not to commit a crime*
- Instead, either
 - enforce the law or
 - Change the law (e.g., tenure reform)

WHEN REMOVAL OF FOREST IS LEGAL

Appropriateness of using O C depends on:

- kind of forest owner/agent and**
- socio-political context.**

Four main relevant groups:

- (1) Government entities,**
- (2) Entities with clear use rights but mainly operating outside the market economy**
- (3) Private entities with clear title to their land and operating in the market economy**
- (4) Public corporations, e.g., corporate logging, livestock, soy bean, biofuel crops, etc.**

1) Governments

Governments can deforest, indirectly or directly, through, for example:

- 1. resettlement or land reform programs;**
- 2. forest concessions;**
- 3. lack of adequate means to halt illegal logging and corruption;**
- 4. laws that lead to deforestation, (e.g., some agricultural development laws/subsidies, etc.)**
- 5. Building of infrastructure (roads, dams, etc.)**

Governments (cont.): payments needed to halt:

1. Resettlement/Land reform

- ***Relevant cost:* economic development foregone. How calculate that? If politically driven, halting it may be unacceptable to govt. Thus OC irrelevant**

2. Forest concessions:

- ***Relevant cost:* loss of concession fees, log taxes, employment lost, export taxes, and other benefits to country associated with economic development.**

Governments (cont.): Payments needed to:

3. Develop adequate enforcement of laws against illegal logging and corruption;

- **Relevant cost: is cost to government of adequate enforcement to stop illegal logging and corruption**

4. Get rid of perverse laws

- **Relevant cost: the benefits foregone by not stimulating the activity being subsidized.**

5. Stop infrastructure projects

- **Relevant cost: economic development benefits foregone. How estimate?**

2) Individuals, Communities with clear *legal land rights* but existing *outside* the main market economy

- **OC is only a starting point for determining needed payments.**
- **Other likely needed costs would include significant investments in new livelihood options, housing, etc. Otherwise leakage is bound to occur.**
- **Transactions costs can be high.**

3) Individuals, Communities and Private firms with *clear legal land rights* and existing *within the market economy*

- **OC could be a relevant indicator as a starting point for REDD+ payments negotiations.**
- **However, additionality criterion needs to be considered. “Environmental blackmail” is a big risk (i.e., they say they would deforest without the payment when in fact it would not have happened).**

4. Corporations with legal rights to land or forest

- Have fiduciary obligations to their shareholders to keep operating or make a better return by not operating or operating in a different way.**
- If other, better non-forest investments opportunities are available, then potential forest sale price is relevant starting point.**
- However, if only other forest options available, leakage will take place, (possibly in another country),**
- Then OC is irrelevant, since the corporation should not be paid not to deforest, (applying the additionality criterion).**

LEGAL USE RIGHTS NOT CLEARLY DEFINED AND ASSIGNED

(Indigenous Peoples, Forest Comm., Migrant farmers with only *traditional* land rights and generally outside the market economy).

- If RIGHTS not legally recognized, they cannot make REDD contracts; thus their OC is irrelevant.**
- Need is to legally assign and recognize rights through tenure reform.**
- Even if legal rights are given, payment equal to OC is not enough: would need massive complementary investments in housing, alternative livelihood creation, education, etc. to avoid leakage**

In summary:

- **The concept of OC has widespread appeal and is widely used, particularly in global assessments that include consideration of REDD+.**
- **However, it is evident that it probably will be of limited use in deciding what actually needs to be paid to forest owners and users not to deforest.**
- **If forest owners become involved in carbon offset markets, market price is the relevant figure, not the owners' individual OCs.**

The way ahead: Helping governments craft the right REDD+ response framework

REDD+ debate should shift to focus on:

(a) costs and issues involved in improving forest governance; and

(b) longer term institutional investment costs that will need to be incurred to ensure effective REDD+ programs that also protect biodiversity and help forest dwellers move out of poverty.

These needs require a focus at the country level.

In the context of forest governance, three broad categories of instruments are available to governments and useful in influencing those who own or control forests:

- 1. Laws and regulations**
- 2. Fiscal mechanisms (taxes and subsidies)**
- 3. Public investments of various sorts.**

In what follows, we look at the options for each of these three policy tools.

1) LAWS AND REGULATIONS

- A) Tenure reform: Assigning and clarifying forest tenure and rights**
- B) improving the enforcement of forest laws**
- C) rationalizing forest harvest contracts for harvest on public lands and encouraging low impact logging where feasible;**
- D) Rationalizing intersectoral policies and laws to discourage deforestation.**

2) FISCAL MECHANISMS – TAXES AND INCENTIVE PAYMENTS:

A) Eliminate perverse subsidies,

B) Subsidies and tax incentives to encourage:

- restructuring of some industries**

- the agriculture sector to improve productivity on existing agricultural lands**

C) expanding micro credit programs

D) using fiscal mechanisms to encourage industries to source their inputs from legal sources.

3) PUBLIC INVESTMENT IN:

- A) forest tenure reform programs as needed.**
- B) education, extension, research as needed.**
- C) design and distribution of fuel efficient stoves and charcoal production systems.**
- D) afforestation, reforestation and rehabilitation of degraded lands (ARRDL) as a necessary complement to REDD.**
- E) programs to ensure maximum co-benefits.**
- F) Programs to ensure fair sharing of REDD benefits/payments.**

Conclusions

- 1. Good governance is a prerequisite for success.**
- 2. Resolving institutional issues is key.**
- 3. OC is not a very useful indicator on payments needed except in a few cases.**
- 4. Governments should draw on all three sets of instruments available to them. (laws/regulations, fiscal and public investment).**
- 5. Make sure that co-benefits to REDD are considered as well as benefit sharing;**
- 6. Be flexible: this is a dynamic not static world. Costs change over time.**

Thank you