

REDD+: An incentive structure for long-term performance

Reducing emissions from deforestation and forest degradation¹ (REDD+) was agreed at the UNFCCC as part of the 2010 Cancun Agreements, with an objective to ‘slow, halt and reverse forest cover and carbon loss’.² Many aspects, in particular what determines results for REDD+ and how they will be financed, are still being negotiated. The long-term incentive structure for REDD+ will guide actions not only in the ‘full performance phase’, but also in ongoing ‘readiness’ processes.

There is broad agreement that to ensure sustainable reductions in forest loss and address the drivers of deforestation, there must be structural reforms taking account of key governance, social and environmental aspects. An incentive structure based on a narrow definition of results in terms of carbon is unlikely to prove adequate for these reforms, and could lead to a disproportionate amount of resources in the readiness phase being directed towards costly systems for the measurement, reporting and verification (MRV) of carbon.^{3,4,5} One of the problems with using carbon as the sole determinant of performance is that it is difficult to prove causality, leading to risks of windfall effects, or of not rewarding genuine efforts.⁶ An improved incentive structure, which defines performance criteria more broadly, monitors progress towards a broad range of outcomes, and makes use of existing commitments and monitoring approaches, may help bring about the transformational change needed to reverse forest loss.

In this discussion paper we outline a pragmatic approach to reliable monitoring of performance which could help to deliver effective forest protection with the limited resources available. Drawing on published research, we explain what broader performance means and how it could be monitored cost-effectively, providing a basis for further discussion.

Background

The Durban decision states that results-based actions for REDD+ should be fully measured, reported and verified, and makes the provision of information on safeguards a requirement for accessing performance-based payments.⁷ REDD+ activities are defined as mitigation actions, yet Parties in Durban also acknowledged the potential for promoting poverty alleviation and biodiversity benefits, ecosystem resilience and the linkage between adaptation and mitigation. Policy measures such as improving forest governance and securing the tenure rights of

forest-dependent peoples are effective ways of reducing deforestation,⁸ and there is strong empirical evidence that these activities can help lower greenhouse gas emissions.^{9,10} A recent Centre for International Forestry Research (CIFOR) report described such measures as ‘no-regret’ actions which should be put in place immediately.¹¹

Current discussions on monitoring REDD+ still focus primarily on the MRV of carbon. This may restrict the ability of countries to access REDD+ funds for implementing

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the actions or policies discussed above, which provide the basis for reducing deforestation but may not result in immediately verifiable emissions reductions. That is why a number of Parties are calling for simplified modalities in the procedures for REDD+ financing which recognise the non-carbon attributes of transformative change.¹²

A focus on carbon also requires establishing expensive new systems, rather than building on existing monitoring approaches.^{13,14} The example of Brazil has shown that deforestation can be significantly reduced through national policy measures, without the exact quantification of carbon. Results for REDD+ must be defined so as to minimise transaction costs and channel resources towards actions proven to reduce deforestation.

Sources of finance

Finance for REDD+ is likely to come from a range of public and private sources. The emphasis on carbon MRV in REDD+ arose from the expectation that finance would come primarily from global carbon markets. Yet the creation of an asset to trade on financial markets requires such a high level of accuracy in MRV that transaction costs are raised significantly. With carbon markets in decline, and current emissions reduction commitments unlikely to ensure sufficient market demand,¹⁵ the introduction of simpler monitoring requirements to demonstrate performance opens the way for discussions on new financing sources which will rely on broader monitoring with robust performance parameters, to reduce risk and ensure sustainable results.¹⁶

Safeguards

The wider governance, social and environmental aspects of REDD+ are currently addressed by the Cancun safeguards.¹⁷ The Cancun safeguards provide a set of overarching goals that REDD+ programs should achieve while also achieving emission reductions. The Cancun and Durban decisions state that activities must be consistent with the safeguards, which must be fully respected before results-based finance is provided.¹⁸ They further state that a safeguard information system (SIS) must be in place before entering into results-based payments.¹⁹

Submissions from Parties to the UNFCCC in March 2012 show that many countries see compliance with safeguards as essential for successful REDD+ implementation: necessary for attracting and sustaining investment, and for creating the right conditions for lasting reductions in forest loss. However, adequate international funding is required for implementation of safeguards. Aligning results-based payments with outcomes expected as a result of implementation of the safeguards would reduce the costs of reporting results, help mobilise the necessary funding, and incentivise actions that most effectively reduce forest loss.

Proposal: Defining broader performance for REDD+

A results-based incentive structure that stimulates a broad range of actions necessary to reduce forest loss is needed. Results-based payments for REDD+ should be based on monitoring outcomes of key governance, social and environmental elements, consistent with the Cancun Agreements.

The monitoring of broader performance could be devised to be a simpler, more effective tool to reduce forest loss, without overburdening reporting requirements. We suggest a composite model where performance for results-based payments is considered by simplified monitoring of trends in three broad categories: governance, social, and environmental (including carbon). A composite model would indicate progress across all categories, with a land-use change approach to monitoring carbon sufficient to detect trends in emissions reductions.²⁰

The table on page 3 draws on current research in the field of forest governance monitoring, and suggests a range of sample inputs that could be developed at the national level, in the context of the frameworks being developed for national forest monitoring systems and the SIS. Performance in all three categories would be needed to qualify for results-based payments, but transaction costs would be reduced through simplified monitoring and verification, and by exploiting synergies with existing reporting requirements.

Simplified monitoring

Part of the reluctance to broaden the definition of performance to include improvements in the underlying governance-related, social and environmental drivers of deforestation, is related to the perceived difficulty of monitoring them. Our suggested approach builds on existing work, as many of the indicators/outcomes we describe here are already requirements in existing standards. Hence this is a way of consolidating and defining these as 'performance' standards for REDD+. The requirement for an SIS is also encouraging many countries to develop frameworks to monitor progress over a broad range of non-carbon benefits. These could be harmonised with existing reporting requirements and a composite model of performance for REDD+, such as the one we describe here.

A key way of reducing monitoring costs is to involve indigenous peoples and local communities: an approach that would also contribute to improved governance.^{21,22} Community monitoring can use cheap and simple methodologies which can be regularly repeated, improving data availability,²³ and can be used to assess progress in each of the three categories.

The table below shows sample inputs which can be used to monitor progress towards achieving the objectives of REDD+. Developing the relevant inputs and outputs to monitor is a nationally specific exercise, but should draw on guidance such as the REDD+ Social and Environmental Standards²⁴ and Guidelines on their use, and be in line with existing reporting requirements and international obligations.

Payments that support ongoing performance

A structure for payments based on performance in each area would need to be developed. A composite model where performance in each of the three categories is needed to be eligible for results-based payments would more reliably incentivise broader performance than, for example, premiums on the price of carbon credits for non-carbon performance, as discussed by the Forest Carbon Partnership Facility (FCPF). Addressing non-carbon outcomes only through 'premium payments' implies that they are optional extras rather than integral

to performance. Results-based payments, based on an assessment of performance across all three categories, would allow a better understanding of ongoing performance (short-term results including readiness), and the sustainability of results over time.

One of the key features of the structure we describe is the ability to provide incentives in instalments, which serves to incentivise ongoing performance. A recent report by the Centre for Agricultural Research for Development (CIRAD) recommends redefining performance for REDD+ from ex-post results in carbon, towards results related to sustained investments in the structural and long-term reforms that are needed to curb deforestation. The authors note that 'future progress in REDD+ will require supporting developing countries to carry out legal and policy reforms that lead to long term and sustainable land use and improvements in governance'.²⁵ China has also suggested that results-based REDD+ finance should be paid in instalments to the governments of developing countries.²⁶

	Example inputs	Outputs to review	Reporting synergies ⁱ
Governance	Is there transparent participation in decision-making?	All relevant rights-holders and stakeholders participate fully and effectively in the design and implementation of REDD+ programmes	Transparency Int'l indicators on transparency, World Bank indicators on corruption
	Is tenure security in and around forests increasing?	Statutory and customary rights to lands, territories are respected. Communities are given the mandate and resources to manage these rights	Existing research and analysis on tenure situations; UNDRIP; ILO 169
Social	Do benefit-sharing and conflict resolution mechanisms exist?	Benefits are shared among all relevant rights-holders and stakeholders and a process for effective resolution of any disputes concerning benefit-sharing exists	UNDRIP; Agenda 21; North Am. Agreement on Env. Cooperation (for relevant Parties)
	Livelihood improvements, e.g. water quality, access to markets, school, health centre	Long-term livelihood security and well-being of indigenous peoples and local communities is improved, relative to community identified baseline	Millennium Development Goals; UN Declaration on Human Rights
Environmental	Changes in land use categories, using matrix approach, remote sensing and local verification ⁱⁱⁱ	Estimates of emission trends, assessing performance of the five REDD+ activities in a spatially explicit, verifiable manner, incl. identifying IFL and HCVF ^v	Reporting under CBD ⁱⁱ ; Non-Legally Binding Instrument on All Types of Forests
	Ecosystem resilience, e.g. identifying biodiv. categories, biodiv. distribution and threat data	Ecosystem services maintained and enhanced. Protection of natural forests or other categories important to identified biodiv./ecosystem function priorities	National Biodiversity Strategy and Action Plan, Aichi Targets and reporting under CBD

- i) Examples of reporting synergies is an in-exhaustive list which partly draws on ClientEarth/WRI submission to SBSTA: Lessons from International and Regional Instruments. See this submission for further information and references
- ii) UN Declaration on the Rights of Indigenous Peoples
- iii) Bucki et al, (2012) Assessing REDD+ performance of countries with low monitoring capacities: the matrix approach. Environ. Res. Lett. 7 (2012) 014031
- iv) Intact Forest Landscapes (IFL – see <http://www.intactforests.org>) and High Conservation Value Forests (HCVF)
- v) Convention on Biological Diversity

Conclusion

There is broad consensus that focusing on the underlying causes of forest destruction, such as poor forest governance, disregard for ecosystems and lack of clarity around land tenure rights, is the essential first step to reducing forest loss. The current focus of REDD+ on monitoring carbon is unlikely to bring sustainable long-term reductions in forest carbon loss, and may lead to disproportionate allocation of scarce resources. A performance structure that incentivises these activities will require monitoring of progress across a range of actions in order to ensure the efficient allocation of resources.

A wealth of experience and evidence already exists on simple, low-cost monitoring modalities for a broad range of performance indicators, and an increasing amount of research is being done by international organisations, research institutions and NGOs on how to monitor governance, social and environmental performance. States and other national actors are already monitoring many elements of these categories for existing international reporting requirements and systems, and synergies should be found wherever possible. Lessons can be drawn from current and past efforts to reduce deforestation, stressing the need to focus on the governance, social and environmental drivers of forest destruction.

Many elements of the approach outlined here have broad support. Recent submissions from Parties and stakeholders recognised the need to develop MRV processes for results-based actions beyond carbon. The COMIFAC countries note that the full recognition of REDD+ co-benefits may require additional work to establish relevant MRV modalities.²⁷ Colombia, Costa Rica, Honduras and Mexico indicated that results-based actions should include the creation of enabling environments, such as structural readiness reforms and investments that reduce pressure on forests.²⁸ Bolivia has proposed a model for monitoring performance in joint mitigation and adaptation,²⁹ which is compatible with this approach. Further work should be undertaken within the UNFCCC, as well as in the research and NGO communities, to develop the 'composite model' for simplified monitoring of broad performance that we suggest. In particular, we invite comments on our proposals from Parties and stakeholders involved in REDD+ activities.

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Notes

1. Including the role of conservation of forest carbon stocks, sustainable management of forests, and enhancement of forest carbon stocks
2. Decision 1/CP.16
3. Karsenty, Tulyasuwan, Ezzine de Blas, (2012) Financing options to support REDD+ activities – Report for the European Commission. CIRAD Agricultural Research for Development
4. Karsenty and Ongolo, (2011) Can 'fragile states' decide to reduce their deforestation? The inappropriate use of the theory of incentives with respect to the REDD mechanism. *Forest Policy and Economics*, 18, pp. 38-45
5. Vatn and Vedeld, (2011) Getting ready! *Noragric report* 59
6. Op. cit. 3
7. Decision 2/CP.17, paragraph 64
8. Rights and Resources Initiative, (2012) *Recognizing Rights; Delivering Development*
9. Chhatre and Agrawal, (2009) Trade offs and synergies between carbon storage and livelihood benefits from forest commons. *PNAS*, vol 46, no 2, pp 11660-11667
10. Nelson and Chomitz, (2011) Effectiveness of strict vs. multiple use protected categories in reducing tropical forest fires: a global analysis using matching methods. *PLoS ONE* 6(8): e22722
11. Angelsen et al (eds), (2012) *Analysing REDD+: Challenges and choices*. CIFOR
12. Technical paper on financing options (FCCC/TP/2012/3), paragraph 61
13. An analysis of 'Readiness Preparation Proposals' to the World Bank and UN-REDD shows that designing and setting up a national monitoring system represents about 40% on average and up to 80% of readiness costs. See Simula M, (2010) Analysis of REDD+ Financing Gaps and Overlaps
14. For a project-level case study, see Densham et al, (2009) Carbon Scam: Noel Kempff Climate Action Project and the Push for Sub-national Forest Offsets. Greenpeace Int.
15. A large number of articles for the past 6 months have cited the continued decline in carbon markets. Recent articles include: Carbon trading: Up in smoke? *Financial News*, 28 August 2012; Singapore publishes climate plan, delays decision on ETS, *Point Carbon*, 14 June 2012; Camco ditches fixed price CER contracts, books big losses, *Point Carbon*, 21 May 2012; Analysis: No Asia-Pacific carbon market in sight, *Point Carbon*, 3 May 2012; Buyers default on carbon credits, *China Daily*, 9 February 2012; CERs hit record low on oversupply, weak demand, *Point Carbon*, 16 Jan 2012
16. See, e.g., the approach suggested in Munden et al, (2012) INARI: A proposal for financing sustainable land use at scale
17. The safeguards in Annex II to Decision 1/CP.16 were agreed in Cancun in December 2010
18. Decision 2/CP.17, paragraphs 63, 66
19. Decision 1/CP.16, para. 71(d), and Decision 2/CP.17, para. 64
20. Bucki et al, (2012) Assessing REDD+ performance of countries with low monitoring capacities: the matrix approach. *Environ. Res. Lett.* 7 (2012) 014031
21. Danielsen et al, (2011) 'At the heart of REDD+: a role for local people in monitoring forests?' *Conservation Letters*
22. Danielsen et al, (2008) 'Local participation in natural resource monitoring: a characterization of approaches.' *Conservation Biology*
23. For a description of simple assessment techniques in the forest context, see Lawson, (2007) *Illegal logging and related trade: measuring the global response*, London: Chatham House
24. <http://www.redd-standards.org/>
25. Op. cit. 3
26. Technical paper on Financing options, paragraph 124
27. Technical paper on Financing options, paragraph 85
28. Technical paper on Financing options, paragraph 67
29. The mechanism for joint mitigation and adaptation activities is defined in Decision 2.CP/17, paragraph 67. For Bolivia's proposal, see The Plurinational State of Bolivia, (2012) Proposal for the development of the joint mitigation and adaptation mechanism for the integral and sustainable management of forests