

Briefing Note

# 06

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## Why Congo Basin countries stand to lose out from a market based REDD



Under a market based REDD scheme, countries with low deforestation rates could lose out.  
Image: Rainforest Foundation UK

**Negotiations at the UNFCCC on reducing emissions from deforestation and forest degradation (REDD) are considering several different options for how this reduction is to be measured, and on what basis payments are to be awarded. In brief, the process involves the setting of baselines, with countries being awarded payments (positive incentives) for making improvements against this baseline; but within this framework there are a number of different possible approaches. Much depends on which model is chosen, and the potential consequences are not straightforward. Nor are they necessarily what advocates of the different approaches would expect or want.**

This briefing paper unravels the implications of setting a historical baseline with a correction factor for low deforestation countries. It also explains why carbon markets are unlikely to raise the anticipated funds for forest protection, due to the unsuitability of applying these policy mechanisms to forests, and why any funds raised are unlikely to reach Central Africa or other regions with low deforestation rates and weak governance. Wider institutional and policy reforms, which are crucial to tackling deforestation effectively, would be better addressed by a funding mechanism which does not involve the trading of carbon.

## Baselines and the development adjustment factor (DAF)

For forest credits to be traded in international carbon markets, the reductions in emissions must be measurable, and they must be over and above what would have happened otherwise. To measure this difference, a reference level must be established, which forms the baseline against which the impact of programmes to reduce deforestation is measured. Most REDD proposals are based on the concept of a historical baseline: the reference scenario is determined on previous rates of deforestation, usually over a ten-year period, with the average forming the baseline. When emissions from deforestation (or any other activities included in a REDD agreement) fall below this rate, forest carbon credits are issued (Figure 1). However, this approach favours countries with high rates of deforestation in the past. Countries with low deforestation rates, such as the Congo Basin countries – and those which have succeeded in reducing deforestation, such as Costa Rica and India – will not be able to claim emission reduction credits under this approach.

A proposed solution to this problem is to include a correction factor, known as the development adjustment factor (DAF), which could adjust the baseline to benefit countries with historically low deforestation rates and include them in a REDD mechanism. This idea has been strongly supported by representatives of the COMIFAC countries, who suggest that the DAF is a negotiated increase to a historical baseline scenario, so that 'forest exploitation development needs can be met in countries with low emissions per capita and low economic development.'<sup>1</sup> Depending on historical deforestation rates and the size of the adjustment, countries would be able to increase deforestation and still receive credits. In this way, the inflated baseline functions as an

allowance to increase emissions. If REDD is designed as an offset mechanism, where tradable credits could be awarded for the difference between the adjusted baseline and the current rates of deforestation, an adjusted baseline could act as a subsidy for historically low deforesting countries to increase deforestation rates, while buying forest offsets allows industrial countries to avoid reductions in domestic emissions.

Without an adjusted reference level, such as the one shown in Figure 2, which provides subsidies for logging industries, COMIFAC countries would not stand to gain financially from a market-based approach to REDD. Through the course of the negotiations, countries such as the DRC and Guyana have revealed that their interests in REDD lie in being able to continue to increase logging, with the DRC stating that they will need to use their forest resources for economic development, unless the agreement contains adequate financial compensation.<sup>2</sup> There is huge concern from civil society in Central Africa that REDD will work in favour of industrial logging, resulting in further negative impacts on communities. To avoid this, it will be necessary to design a mechanism flexible enough to protect intact forests in some countries, while reducing deforestation in others – something that trading in emissions reduction credits cannot deliver.

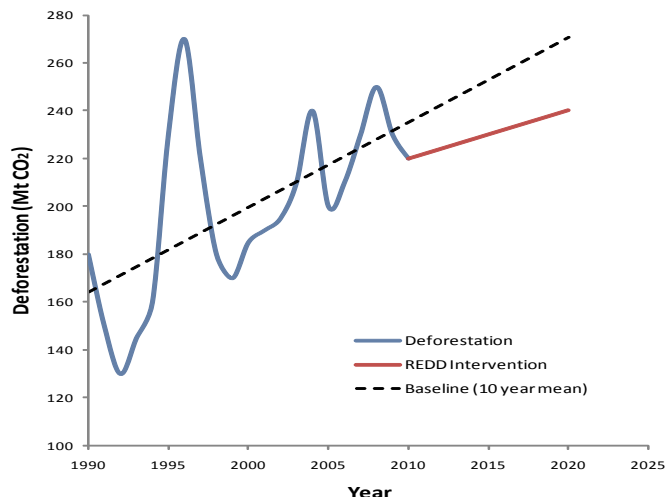
Guyana recently announced that under the agreement with Norway to preserve their rainforests, they will actually increase deforestation rates, sparking off an outcry in the press and among NGOs.<sup>3</sup> This is a good indication that using carbon trading to reward increases in deforestation is unlikely to be accepted by the wider public, leading to the risk that carbon finance investment will not be attracted to areas where it is used to increase deforestation through the application of an adjusted baseline.

## Abbreviations

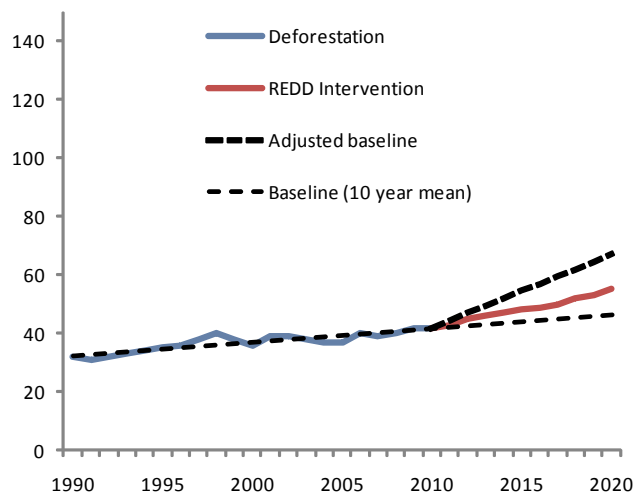
|         |  |
|---------|--|
| CDM     | Clean Development Mechanism  |
| COMIFAC | Central African Forests Commission (Cameroon, Central African Republic, Congo, Equatorial Guinea, Gabon, Democratic Republic of the Congo) |
| DAF     | development adjustment factor  |
| DRC     | Democratic Republic of Congo   |
| EU      | European Union   |
| GNP     | gross national product   |
| NGO     | non-governmental organisation  |
| REDD    | reducing emissions from deforestation and forest degradation   |
| UNFCCC  | United Nations Framework Convention on Climate Change  |
| VCM     | voluntary carbon market  |



**Figure 1:** How the historical baseline is determined



**Figure 2:** How the DAF works: credits awarded for increasing emissions for deforestation



## Investment and risk

As the debate on REDD has gained momentum, there has been a growing consensus that private sector finance is the only viable way to deliver the scale of funds needed to reduce deforestation, yet it is often overlooked that a basic principle of investment economics is risk analysis. Experience shows that carbon finance to date, from the Clean Development Mechanism (CDM) and the Voluntary Carbon Market (VCM), tends to be directed towards countries where there is a strong enabling environment for private sector investment,<sup>4,5</sup> meaning that the bulk of investment has gone to the larger, more industrialised developing countries. Just two per cent of all investments made under the CDM have taken place in Africa, and mainly in South Africa.<sup>6</sup> While forest carbon markets have been presented as an opportunity for Africa to redress the missed opportunities of the CDM, a REDD mechanism which is modelled on the finance structure of cap and trade may in fact mirror the distributional issues seen in carbon trading mechanisms to date. Different barriers have been identified preventing Africa from successfully attracting private sector investment. Some can be regarded as general barriers to development, while others are more specifically linked to carbon markets, and to forests in particular, with several efforts to model the distribution of potential REDD finance from carbon markets indicating that these funds will not go to Africa.<sup>7</sup> In Africa, the combination of low deforestation rates and increased project uncertainty discourages private investment, with climate change further increasing conflict and instability.<sup>8</sup>

Africa may have more to gain from a fund-based agreement, where the crucial distinction is that the raising of finance is separated from the distribution mechanisms. This avoids the need to develop national baseline scenarios, and means that finance can be targeted to the broader range of structural reforms at the national level that will be needed to address the drivers of deforestation, and to support communities threatened by deforestation.<sup>9</sup> This approach would allow differential criteria to be applied as needed, increasing the success rate of reducing or preventing deforestation, because funding would not be limited to countries where deforestation emission reductions are cheapest, or countries with the institutional capacities to attract private sector investment. There is growing support for the idea of an international forest fund, rather than relying on carbon trading to secure forest protection. Several avenues of raising finance have been identified, including proposals for taxes and levies on a wide range of financial flows, and auctioning the emissions allowances of Annex 1 countries, as put forward by Norway and the EU. Further to this, several government proposals now feature fund-based ways of achieving financial flows, such as the Mexican fund, the Swiss proposal and the call by the G77/China for a levy on the GNPs of Annex 1 countries.<sup>10</sup>

There is also increasing bilateral and multilateral funding targeted specifically at forest reduction activities, especially in Central and West African countries. All of these options have the potential to raise financial flows on the scale required to reduce or halt deforestation, and are flexible enough to tackle a much wider range of policy reforms.



## Conclusion

Many of the historical barriers to private sector investment on the African continent remain unchanged. The promise of money from carbon trading may therefore lock many COMIFAC countries into focusing scarce resources into technical measuring and monitoring activities, with the aim of achieving verifiable emission reduction credits. These activities do not directly contribute to forest protection, development goals or an improved investment climate within the country. Improving the investment climate and reducing deforestation both require a focus on improving local and national institutional capacity, which can be defined as transparent and enforceable laws and stakeholder involvement in decision-making processes.

Past experience shows that successful forest protection will result from focusing on the activities and interventions required to halt deforestation. Local ownership is key

to any efforts to protect forests and to ensure that use is sustainable. It is well documented<sup>11</sup> that no scheme to prevent deforestation will work unless property rights are clarified and forest peoples' rights and customary laws secured, which requires strengthened forest governance built on broad and effective participation of all stakeholders.

Negotiators from southern countries need to demand funding for forest protection which is environmentally credible and has the best chance of securing permanent emission reductions, in both forested nations and industrial countries. Market-based solutions, which allow emission increases in the north, will only further undermine the climatic and political stability of many African regions, and will not lead to the fundamental reforms needed to protect both development and the forests.

### END NOTES:

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