

CLIMATE CHANGE
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REDD+: will financial incentives make the difference in African “fragile States?”

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REDD+ and the Theory of Incentives

- Deforestation in developing countries seen an issue of opportunity cost (keeping forests has a cost comparing with other land uses)
- Assumptions underlying REDD+ mechanism:
 - The governments ***decide*** to deforest, or not
 - The countries chose to deforest as they earn more compare to conservation or SFM (theory of rational choices)
- REDD+ shall create incentives (compensation for foregone revenues) allowing governments to choose to conserve their forest on a rational (i.e. financial 😊) basis
- Industrial countries do not know exactly the opportunity costs (of conserving forests) of the developing countries candidate to REDD+
- To be certain that developing countries will comply with the ‘rule of the game’, industrial countries will be ready to pay an ‘information rent’ (payment above the real opportunity cost)

The issue of “Fragile States”

- Several expressions (‘failing state’, ‘failed’, etc.) replaced gradually by ‘fragile states’ in international institutions
- Related to international security concerns (e.g. Somalia, Afghanistan...) but also for explaining the limited effectiveness of ODA
- *Fund for Peace et Foreign Policy: “index of failed States”* encompassing a dozen of criteria, such as losing control of portions of the nation territory or failing at enforcing the public order. Among others:
 - Failures of the rule of law, weak judiciary systems and limited government reach, are commonly mentioned
 - Economic structures overwhelmed by the informal sector, with low tax collection level, are also factors of fragility
- OECD : *“lack of political will and/or capacity to provide the basic functions needed for poverty reduction, development and to safeguard the security and human rights of their populations”*
- Another characteristic: almost all these countries are (big or small) “rentiers” (Oil in EG, Gabon, Congo, Mines in DRC and CAR, with a strong influence on the way of doing politics (and the motivation for the political charges)

Two questionable assumptions

- The State is assimilated to any other economic agent...
 - Taking rational decisions by comparing the relative prices associated with the alternatives offered...
 - Then, acting by adopting the appropriate measures for reducing deforestation and modifying its development pathway.
- Two implicit, but challenging, assumptions
 - (i) the idea that the “fragile state” is in a position to *make a decision* to shift its development pathway on the basis of a cost-benefit analysis that anticipates financial rewards,
 - (ii) the idea that, once such a decision has been made, such a state is capable, thanks to the financial rewards, to *implement and enforce the appropriate policies and measures* which could translate into deforestation reduction

The decision issue

- Reduction of deforestation will be possible only if significant changes occur *outside* the forest sector: agriculture, land tenure and land-use planning, transports, mines, energy....
 - Forest-related policies, not forest policies matter principally
 - Agendas of the other stakeholders often very different from the one of the REDD+ community
- Potential losers from REDD+ implementation (farmers, companies....) are not sure to be effectively compensated
- Difficulty, especially in fragile states, to make the general interest prevailing against rooted vested interests well-represented in the political system
 - Examples: the difficulty the Indonesian government had to enact the 2-years moratorium of forest conversion it committed to with Norway, and the revised downward ambition ('primary forests' only, instead of natural forests, numerous conversions permits allocated just before the moratorium...)
 - In Africa and other countries, priority is given for mining over forestry, even on the permanent forest estate and legal forest concessions (e.g. Cameron)
- Governments are (much) prone to negotiate favorable 'baseline scenario' rather to decide and implement policies and measures that are politically costly

The implementation issue

- Taking (possibly) the decision (to reduce deforestation) **would not prevent vested interests and numerous opponents to act for preventing implementation**
- Specific difficulties, in fragile states, for reforming land-tenure systems and clarifying property rights ... in spite of the potential huge benefits emphasized by the economic theory!
- Authoritarian measures (e.g. increase of strictly protected areas) unenforceable: deciding to create more protected areas **without the effective capacity to manage and control them** is simply useless (“paper parks”)
- Judiciary institutions are dysfunctional:
 - Judges are ill-paid and easily corruptible
 - Top politicians highly involved in land grabbing business
- Expected carbon prices (if REDD is market-based) or available funds likely to allow **only for compensation of low opportunity cost** activities
 - Containment of agribusiness expansion (oil palm, soy, etc.) would have to lie principally on law enforcement and regulation
 - Financial incentives might be effective with poor rural populations depending on forest land for food production (swidden cultivation)...
- ➡ **Providing the compensation arrangements not leave them at their current poverty condition!**

The consolidation of “fragile States”: a long but necessary detour

- Reaching REDD+ objectives impossible without (at least) intensifying the agriculture, clarifying and securing land tenure rights, and rebuilding a judiciary system capable to sanction effectively and fairly
 - The market will not pay for this!
 - The level of investment needed goes well beyond the amount of money currently collected for the REDD readiness phase
- Emphasizing the reconstruction of an effective State and legitimate enough for promoting the general interest: is it a prerequisite, or **can REDD+ be a catalyst for these changes?**

Rethinking REDD+ and performances

- The theory of incentives underlying REDD+ (rewarding ‘performances’, leaving the governments the choice of the means) **is inadequate for fragile states**
 - “Performances” may simply be caused by complacent scenarios (“inappropriate” baseline reference and/or politically negotiated)
 - The notion of “performance” relies on the idea that all governments have an equal capacity to curb deforestation, which is illusory: many factors are **beyond** the reach of the government
 - Reconsider the notion of “performance”, moving from physical and measurable **results** in deforestation/degradation reductions to concrete evidences of effective and sustained **implementation** of political decisions that are explicitly designed to reduce deforestation
 - Some indicators can also be considered as “**proxies**” for reduced deforestation and the resultant emission reductions (e.g. reduction of hectares of forest allocated for conversion by the national and provincial governments)

Learning for 50 years' experience of ODA

- Need for ownership: focusing on policies implementation does not mean that donors should “dictate” the content of the policies and measures to be adopted (*“you can’t ‘buy’ the reforms”*)
- But transfers should be conditioned to genuine efforts and political will to reform the forest-related policies (all national policies that impact forests),
 - Not a new issue: discussed at length in the literature focusing of the effectiveness of ODA (Collier et al, 1997)
 - Implementing such conditionalities can be challenging in a multilateral framework

Investments rather than “rewards”

- Put investments at the forefront:
 - Building a **common agenda for REDD+ and food security** for leveraging financial means
 - Investing on large scale in forest **land tenure rights clarification** (mapping of *terroirs*, registering of collective and family-based tenure rights) and **rehabilitation of judiciary institutions**
 - Supporting **national investment-oriented PES schemes programs** allowing for *building sustainable economic alternative* to households and communities (beyond the mere compensation of opportunity costs)
- Create the capacity to reduce the deforestation: the first mean is a state that works and can deliver
 - The priority is probably not to spend so much money to ‘quantify carbon in the forests (that benefits more to Northern expertise than to local populations): need to invest more on the “thorny issues” related to policies and governance.

How to finance this International Public Good?

- The fight against deforestation and the consolidation of fragile states are international public goods and justify the design of corresponding public financing instruments
- International tax schemes are **the only ones that could finance very large investments, predicable and sustained over time**
 - Tax on international financial transactions ...
 - National or European 'carbon tax' with the proceeds of 'border adjustment tax' poured in the Green Fund announced in Cancun
 - ...
 - But, need of large international policy agreements or consensus for most of these measures
- 'Soros Proposal': cluster of countries moving forward by introducing or reinforcing a small tax on air travel tickets (and/or on containers entering sea ports) to fill a fund allowing financing REDD measures

Thank you for your attention

