Brief 2: Options for REDD in Tanzania
Key Design Issues for the National REDD Strategy

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Options for REDD in Tanzania: Key Design Issues for the National REDD Strategy

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With the caption: REDD will only work if communities truly benefit from forest conservation. However, the question remains as to how payments will be made and how benefits will be shared (see Issue 1)

REDD presents both risks and opportunities for forest conservation and poverty reduction in Tanzania. It has the opportunity to increase national, district, and local benefits from forests, and to diversify local incomes from natural resource management, but REDD also presents the risk of increased appropriation of community lands and conflicts over resource benefits in ways that could negatively impact local livelihoods and sustainable forest management.

In order to ensure that REDD in Tanzania develops in a way that delivers on opportunities while minimizing risks, a range of choices will need to be made by policy makers about how REDD is designed and implemented. These policy choices will make up a key part of the National REDD Strategy which is expected to emerge following on from the National Framework for REDD which was published in August, 2009.

This is the second 'REDD issue brief' developed by the project 'Making REDD work for communities and forest conservation in Tanzania'. The first brief provided recommendations for the National REDD strategy. This second issue brief discusses some of the key design questions and options in relation to REDD in Tanzania. The aim is to improve knowledge amongst different stakeholders about these key design options, as the basis for further dialogue and discussion amongst policy makers and the public.

Summary

This issue brief on REDD discusses the following design options:

- How to reward local forest managers- through an effort-based or an output-based system of payments?
- Whether to adopt a fund-based or a market-based national approach to REDD?
- Whether to adopt a strictly national system of REDD payment, or a 'nested' approach that also allows for direct interaction between local forest managers and global carbon markets?

ISSUE 1: How to Make REDD Payments: Based on 'Effort' or 'Outputs'?

What is the issue?

The key underlying premise of REDD is that payments will be made to local forest managers, including local communities as well as state agencies or private landholders, which will result in reduced rates of deforestation and forest degradation, and therefore increase the amount of carbon stored or captured by those forests.

A key question for REDD is: on what basis will these payments be made? In other words, how will forest management bodies, including local communities, households or even individuals, be rewarded in a way that ensures that REDD payments lead to reductions in the rate of deforestation and enhancement of carbon storage.

The two main options under discussion are to make payments based on 'effort,' meaning to reward communities for things that they do which are inferred to improve forest condition; or to make payments based on 'output,' or actual performance in terms of improving forest conditions and reducing deforestation in ways that can be empirically verified.

Effort-based – the advantages and disadvantages
The effort-based approach is advantageous because it basically rewards communities equally so long as they take particular actions, such as establishing a Village Land Forest Reserve or carrying out forest patrols. The effort-based option may also be advantageous in terms of reducing transaction costs involved in monitoring small forests at the local level, by being able to monitor at higher scales where transaction costs are lower.

> Transaction Costs are the costs associated with administering REDD. These costs include carrying out monitoring, establishing and making payments to local groups, and implementing changes in forest management.

The major drawback of the effort-based approach is that it does not ensure a strong link between reductions in the rate of deforestation and payments under REDD, and does not take account of variability in the performance of forest managers. It is also difficult to accurately ensure that any actions will necessarily reduce rates of deforestation. For example, government Forest Reserves are presumed to protect forests, but in fact many Forest Reserves are subject to high levels of illegal activities that result in forest degradation and deforestation. For example, in Kazimzumbwi Central Government Forest Reserve almost all of the 4887 ha of forest has been cleared, much of it over the last decade. The effort-based approach may not create strong incentives for communities and other forest managers to actually ensure that their actions result in improved forest condition. Also, in terms of equity, an effort based approach would not take into account differences in opportunity costs between communities. It is likely that communities that are effective at reducing emissions will incur greater opportunity costs than communities that go through the motions of forest conservation but are ultimately ineffective. Communities that are successful in halting charcoal production or shifting agriculture will incur much greater opportunity costs than communities that try to halt these activities, but ultimately fail.

> Opportunity costs are the costs of foregoing alternative uses or time or resources. In the case of conserving forests, opportunity costs include the costs of foregoing farming or other economic activities in a given area of land.

Around Ruvu South Forest Reserve communities have been waiting for five years for the Forestry and Beekeeping Division to sign the joint manaegment agreement and to share benefits.


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Additionally, communities with higher carbon forests may also incur greater opportunity costs than communities in low carbon forests because there are more valuable economic opportunities in areas that have higher carbon forests. Thus, in an absolute sense of equity (taking into account both the cost of actions of communities and the cost of alternative economic opportunities available to communities), effort based payments would not be equitable.

Output-based – the advantages and disadvantages

An advantage of the output-based approach is that it creates much stronger direct incentives for forest managers to actually improve forest condition by paying for performance rather than effort. The output-based approach takes account of differences in the effectiveness of different forest managers, and is thus more likely to create robust links between REDD payments and forest conservation activities.

A disadvantage of the output-based approach is that it rewards forest managers differently based on the results they achieve, which depends not just on their respective levels of performance but also on their respective starting points. Its system of rewards is designed to reward forest managers who conserve forests more than managers who are not able to effectively conserve forests. However, that also ensures a more efficient outcome; those who are best able to conserve their forests will reap the greatest benefits.

An additional disadvantage of an output-based approach to REDD is that transaction costs are likely to be higher, as it requires being able to verify the condition of each local forest and reward local managers according to their performance in managing or conserving the forest. The transaction costs of determining these 'outputs' are likely to be quite high with many small forests.

Issue 2:
Whether to Adopt a 'Fund-based' or a 'Market-based' Approach to REDD

What is the issue?

One of the key design issues facing REDD at both international and national levels, and which continues to be the subject of international negotiations, is how to structure payments under REDD. The two main options are to organize REDD payments through global and national funds, which will be derived from donations from developed countries or tax-derived funds, or to organize those payments through global carbon market.

The Advantages and disadvantages of fund and market-based systems

The main advantage to the fund-based option, is that payments under REDD should, in theory, be more predictable than receipts from international markets, which would make planning and integration with national policy objectives easier.

Another advantage of a fund-based approach is that it does not necessarily rely on carbon offsets. Offsets have been criticized for allowing developed countries to continue with 'pollution as usual' and for acting as a stalling mechanism for implementing radical changes to the global economy which are needed if humanity as a whole is to avoid catastrophic climate change. Offsets have also been criticized due to examples of offsetting projects which have failed to generate permanent and additional emission reductions. A fund-based mechanism may also be more flexible in recognising other ecological values of natural forests such as biodiversity and non-timber forest products.

A disadvantage of a market system is that markets may be exposed to more fluctuations due to changes in the supply and demand for carbon credits and other pressures on global markets. There is also a risk that the price of carbon credits generated under REDD may be lower if REDD is integrated into the global carbon market, than if REDD is treated separately through a fund-based system.

The main disadvantage of the fund-based option, and the advantage of a market-based system, is that the global carbon market is likely to provide much larger sources of revenue, which Tanzanian forest managers could access. A market-based system is more likely to reward effective forest conservation measures that improve forest condition and reward effective local management measures. Decentralized market approaches are also likely to be much more flexible than centralized funds, especially if those funds rely on 'donations' from developed nations, which have often had a poor track record of providing funds promised under such arrangements. Finally, a market-based approach may also better maximize the possible price which forest managers are likely to be able to obtain, thus increasing the benefit to Tanzania.

Issue 3:
Whether to Adopt a Solely National Approach or a 'Nested' Approach to REDD

What is the issue?
A final key design issue which needs to be considered carefully in the National REDD Strategy, is whether to manage REDD through a strictly national structure, or to allow for what is being called a 'nested' approach. Under a centralized national REDD system, payments would only be made from international funds or markets to national government bodies. The body being proposed to fill this role in Tanzania is a 'National Carbon Trust Fund'. This fund would then make payments based either on the 'effort' or 'outputs' of local forest managers (see Issue 1 above). In this way, the national approach is very centralized and depends entirely on the effectiveness of the national central organ which is responsible for making payments to local forest managers.

The 'Nested' approach – advantages and disadvantages

A 'nested' approach is one where the national payment system exists, but it also allows for payments to be made directly from international markets to local forest managers. Accounting provisions then ensure that these emission reductions are excluded from the national payment system so as to avoid 'double counting' of emission reductions. Thus the 'nested' approach allows for a more diverse system of payments to occur and enables local forest managers to access different sources of funds, including, for example, funds from the voluntary carbon market. Diversifying sources of revenue under REDD will also allow for experimentation and learning to see what kinds of systems for sourcing REDD payments work best. Its disadvantage is that it may be more complicated and expensive to implement than a single national approach.

The National Approach – advantages and disadvantages

The main advantage of the national approach is that monitoring and transaction costs are simplified, and national oversight is reinforced. The disadvantage is that the system is entirely reliant on the efficiency of a centralized management body for making payments to local forest managers in a timely and transparent manner and that these payments will reflect the full value of the avoided emissions. Given existing challenges related to national-local sharing of benefits from natural resources in Tanzania, this centralization of REDD payments poses a significant risk (Box 1).

Box 1: Sharing Benefits from Natural Resources in Tanzania- Learning from Experience

Existing benefit-sharing patterns and formulas within natural resource sectors in Tanzania are a major cause for concern in relation to how REDD will actually function, in terms of sharing benefits between national and local stakeholders. For example, in the forestry sector, guidelines for revenue-sharing under Joint Forest Management (JFM) have not yet been released, even after over a decade of JFM, and eight years after the Forest Act was passed by Parliament. As a result, communities have not been able to share in financial benefits from these co-managed forests.

In the wildlife sector, which also lies within the Ministry of Natural Resources and Tourism, revenue sharing has also presented many challenges for local communities. For many years, it has been official policy that 25% of revenues from hunting blocks, many of which are situated outside of state protected areas on village lands, should be returned to the districts where hunting takes place. However it is well documented that this sharing of revenue has often not taken place and that even where it has returned to the Districts, it does not go directly to the communities where the hunting blocks are located. In Wildlife Management Areas (WMAs), which are areas established on village lands where communities are supposed to benefit directly from wildlife so that they will want to conserve wildlife, benefit-sharing is the most problematic issue. The WMA Regulations state only that benefit-sharing will be determined by circulars issued by the Minister 'from time to time'; this benefit-sharing formula in WMAs has never been formally clarified. Local communities that have spent years establishing WMAs still do not know what proportion of total revenues they are entitled to in activities taking place in the WMAs located on village lands.

For many years some villages, mainly in northern Tanzania, have received revenues directly from tourism companies through contracts agreed to between those companies and Village Councils. These contracts allow the companies to access village lands for purposes of tourism, in exchange for set contractual payments. In 2007, the Ministry of Natural Resources and Tourism released 'Non-consumptive tourism' regulations. These regulations required that companies engaging in tourism outside national parks, pay fees to the Wildlife Division, which effectively meant that payments which had been negotiated with and paid directly to villages now had to be paid to central government. The villages, which stood to lose much of the revenue they had been receiving directly, were assured by Ministry officials that they would receive a proportion of the funds collected, so that they would still receive benefits from tourism. However, to date, revenue has not been dispersed as promised, with delays of many months in returning funds to villages. Villages which had been earning significant incomes from tourism are now questioning what future tourism has as a form of land use in their communities because revenues are being captured at higher levels of government. Under the current policy, land use options such as agriculture and livestock which provide direct revenues to the communities look more attractive than the uncertainties of accessing a share of revenues from the Ministry of Natural Resources and Tourism.

This provides important lessons for any payment structures or benefit-sharing mechanisms established under REDD. If communities are to forego the benefits of deforestation they need to receive direct incentives to maintain forest cover. Communities are increasingly frustrated with and wary of policy promises of revenue sharing from MNRT. Writers of the REDD strategy should take note and develop firm and transparent strategies which will guarantee local forest managers the ability to benefit from their actions.

Making REDD work for communities and forest conservation in Tanzania

The Tanzania Forest Conservation Group and MJUMITA - the Tanzanian Community Forest Conservation Network - are leading a group of civil society organizations to make REDD work for Tanzania through a new project funded by the Royal Norwegian Embassy.

The project aims to reduce greenhouse gas emissions from deforestation and degradation in Tanzania in ways that provide direct and equitable incentives to communities to conserve and manage forests sustainably. The project will achieve this by supporting the development of a Community Carbon Cooperative hosted within the existing Network of Tanzanian communities engaged in participatory forest management. The Cooperative will aggregate voluntary emission from its members and market them according to internationally recognised standards. Project funds and carbon market revenue will be channelled directly to the communities based on results, thereby maximising incentives to maintain forest cover and reduce deforestation.

This publication forms part of the project's strategic advocacy component aimed at forging a smooth path for REDD in Tanzania by engaging in the formulation of REDD frameworks and processes at national and international level.

The Tanzania Forestry Working Group

The Tanzania Forestry Working Group (TFWG), has met regularly since August 2005. The TFWG was formed to address advocacy and awareness raising on critical forest management and governance issues in Tanzania. The TFWG is supported and facilitated by TNRF, but depends on the members of the group to set the agenda and carry out activities.

Members of the group are all involved in forest management issues, either as organisations or as individuals interested in forest management in Tanzania.

As part of its work, the group has developed a series of collaborative projects to advance its goals of improved forest management and governance. These collaborative projects include a major campaign on promoting awareness at local and national level on forest governance - in response to pressing issues, such as illegal andunsustainable logging and charcoal making. Other related issues include the need to expedite the implementation of participatory forest management, and tracking the reform of the forestry sector in Tanzania.

The TFWG worked for and has taken on facilitating Independent Forest Management - as a means for better understanding how much progress is being made in improving forest law enforcement and governance.

TFWG also holds roundtable discussions on 'Reduced Emissions from Deforestation and Degradation' which provide practitioners in Tanzania with the opportunity to share experiences and learn from each other about how best to advance their projects benefiting forest conservation and rural livelihoods.