Conditions for Project Success: Economic and Social Feasibility of PES

Michael Richards

Training Workshop on Payments for Ecosystem Services (PES) and Reducing Emissions from Deforestation and Forest Degradation (REDD+)

8 August 2011

Ideal Conditions for PES

- ES supply threat - demand
- Willingness and capacity to pay
- Resource management actions can address supply problem
- Policy, legal & governance framework, especially compliance
- Clear land tenure and ES property rights
- Low land use opportunity costs
- Strong participation and social benefits
- Support from honest brokers

the katoomba group

FOREST TRENDS

Some common pitfalls of PES projects

- Overestimation of gross revenue: demand, price & volume
- Underestimation of costs, especially transaction costs
- Weak understanding of opportunity costs
- Poor understanding of additionality (especially carbon)
- Weak impact assessment and monitoring
- Ignoring better ways of achieving environmental objectives

the katoomba group

FOREST TRENDS

Financial Feasibility of Ecosystem Service Provision

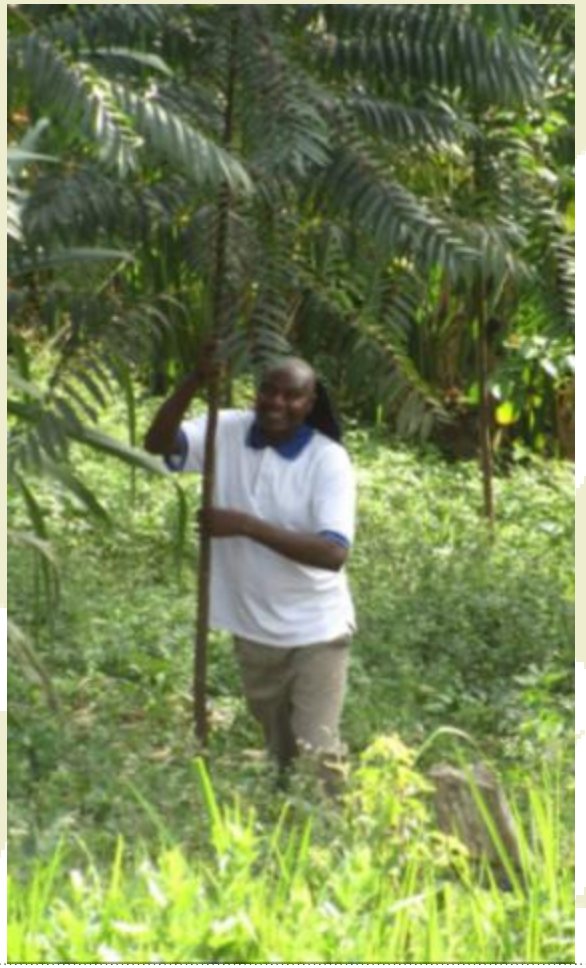
- Net financial value = sale price less project transaction & implementation costs
- Compare to land use opportunity cost (+ profit)
- Resource managers: return to labour and/or capital (resource scarcity?) Effect on risk?
- Cost of alternative source of ES
- Pricing of similar deals

the katoomba group

FOREST TRENDS

Transaction Costs

- Caused by risk or uncertainty – need to mitigate or prevent risks
- Currently high since legal, policy & institutional framework weak or evolving
- Scale is vital - 'aggregation strategy' if lots of small suppliers
- Red tape
- Build on existing projects/institutions
- Cost-sharing, e.g., partnership between private/state/local actors
- Good practice project cycle management especially M & E



the katoomba group

FOREST TRENDS

PES Projects need Honest Brokers to:

- Assess ecosystem service products and values
- Help write project proposal (PDD)
- Establish relationships and rapport with potential buyers
- Ensuring contract is in sellers' best interests (negotiate it?)
- Provide risk management advice / services
- Help ensure equity and other positive social impacts
- Support validation against Standards

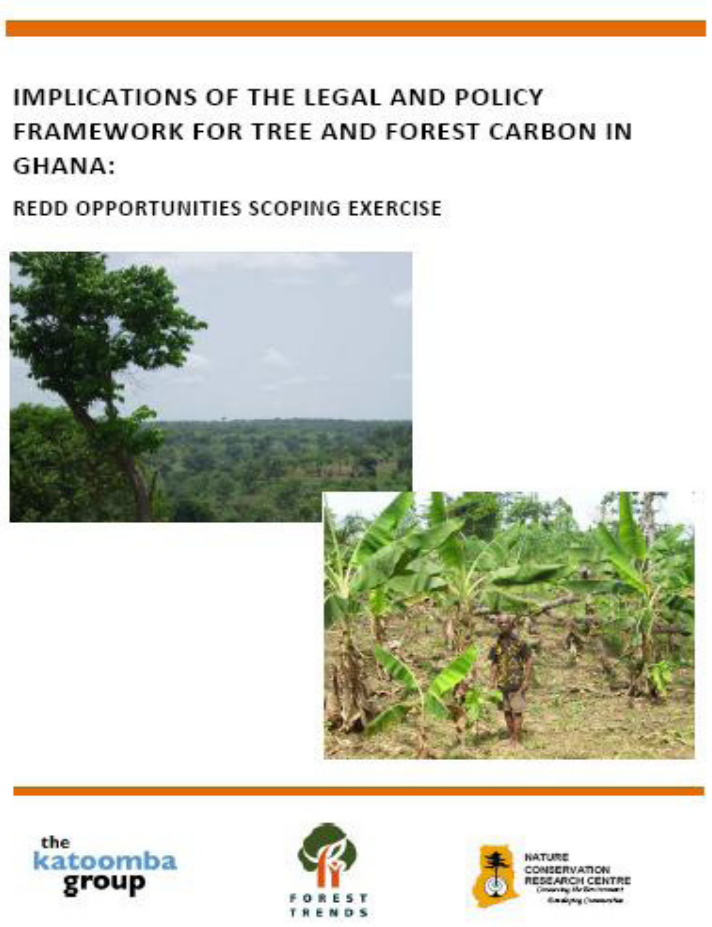
the katoomba group

FOREST TRENDS

REDD Opportunity Scoping Exercise -ROSE

What is ROSE?

- Tool to prioritize types of REDD+ projects - pre-feasibility analysis
- Expert workshop followed by research of key legal and policy constraints to project development
- ROSE studies conducted in Ghana, Tanzania and Uganda



the katoomba group

FOREST TRENDS

ROSE expert workshop

- 2-3 day meeting of 15-20 experts from range of sectors and institutions
- Not a representative group of stakeholders – not appropriate for community representatives

FOREST TRENDS

ROSE stages

- Define “REDD+ project types”
- Decide criteria
- Score or rank project types against criteria
- Identify highest potential project types
- Brainstorm legal, policy and institutional constraints
- Brainstorm responses to constraints
- Brainstorm potential project sites
- Research study into legal and policy constraints
- Write integrated ROSE report

FOREST TRENDS

Define “REDD+ project types”

- Combination of:
  - ecosystem type
  - land tenure and institutional basis
  - main deforestation or degradation threats

For example:

- Tanzania: miombo woodland under Community Based Forest Management in Morogoro region with charcoal and farming as main threats
- Uganda: well-stocked tropical high forest under Collaborative Forest Management and where illegal logging is the main threat

FOREST TRENDS

Criteria – participants should decide about 10

- Level of deforestation threat (additionality)
- Opportunity cost of alternative land use
- Clarity of carbon property rights (tree tenure)
- Security/clarity of land tenure
- Size of forest areas/ aggregation potential
- Biomass or carbon level of forest
- Poverty reduction or community benefits
- Potential for replicability or scaling up
- Governance issues
- Others

the katoomba group

FOREST TRENDS

Uganda ROSE – 7 high potential project types

Ecosystem type	*Institutional-tenure basis*	*Main DD driver(s)*
Tropical high forest (well-stocked)	Nature Reserves/National Parks	Unregulated pit sawing
	Private, CFM	Unregulated pit sawing, farming
Tropical high forest (low-stocked)	Collaborative Res. Manag., private	Pit sawing, agric./grazing
	Customary/communal	Agriculture, firewood & poles
Woodland	Collaborative forest management	Agriculture, logging
	Community Wildlife Areas, private	Charcoal, grazing, agriculture
	Customary/Communal	Charcoal, agriculture

Social Feasibility - participation is in project self-interest

- Environmental goals depend on social feasibility
- Participation: local knowledge in project design; ownership – support; leakage mitigation
- Free, Prior and Informed Consent (FPIC) increasingly demanded
- Market access via CCB and other multiple benefit standards
- Ethical/legal: complying with international laws and conventions
- Reduced transaction costs
- Publicity (PR)

the katoomba group

FOREST TRENDS

UN Declaration on the Rights of Indigenous Peoples

- Full participation in all project stages
- Respect for rights of autonomy and self-determination
- Free, Prior, and Informed Consent (FPIC)
- Customary management practices on traditional lands

the katoomba group

FOREST TRENDS

Free, Prior, and Informed Consent (FPIC)

CONSENT: Communities' right to give or withhold consent to measures affecting their lives, resources, livelihoods, etc.

FREE: independent of project influence

PRIOR: before any project implementation

INFORMED: Communities must be provided with:

- project information in native language
- independent legal and technical advice
- ex-ante social impact assessment

the katoomba group

FOREST TRENDS

Some Challenges for FPIC

- Who has right to give consent? (can be unclear)
- Cost
- Time
- Independent information and advice
- Community representatives – how representative?
- Difficulty of consent to uncertain outcomes

FOREST TRENDS

Resources on Carbon Project Feasibility/Standards

- Verified Carbon Standard (VCS) www.v-c-s.org
- The Clean Development Mechanism (CDM) http://cdm.unfccc.int/Reference/index.html
- The Katoomba Incubator: Feasibility Assessments http://www.katoombagroup.org/incubator/resources.php
- ROSE: http://www.forest-trends.org/documents/files/doc_2431.pdf
- USAID Forest Carbon Calculator Tool http://winrock.stage.datarg.net/m3/CarbonReporting/Welcome
- The Climate, Community, and Biodiversity (CCB) Standards http://www.climate-standards.org/
- Guidance for forest carbon (REDD+) projects:

http://forest-trends.org/publications/building_forest_carbon_projects

the katoomba group

FOREST TRENDS

Asante sana!

Questions and Discussion

Michael Richards

The Katoomba Incubator

mrichards@forest-trends.org

www.forest-trends.org

the katoomba group