Conditions for Project Success: Economic and Social Feasibility of PES

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

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**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
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
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
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
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
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
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
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
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
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
<table>
<thead>
<tr>
<th>Ecosystem type</th>
<th>Institutional-tenure basis</th>
<th>Main DD driver(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tropical high forest (well-stocked)</td>
<td>Nature Reserves/National Parks, Private, CFM</td>
<td>Unregulated pit sawing, Unregulated pit sawing, farming</td>
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<tr>
<td></td>
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<tr>
<td>Tropical high forest (low-stocked)</td>
<td>Collaborative Res. Manag., private, Customary/communal</td>
<td>Pit sawing, agric./grazing, Agriculture, firewood &amp; poles</td>
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<tr>
<td>Woodland</td>
<td>Collaborative forest management, Community Wildlife Areas, private, Customary/Communal</td>
<td>Agriculture, logging, Charcoal, grazing, agriculture, Charcoal, agriculture</td>
</tr>
</tbody>
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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)
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
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
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
Resources on Carbon Project Feasibility/Standards

- Verified Carbon Standard (VCS)  [www.v-c-s.org](http://www.v-c-s.org)
- The Clean Development Mechanism (CDM)  [http://cdm.unfccc.int/Reference/index.html](http://cdm.unfccc.int/Reference/index.html)
- USAID Forest Carbon Calculator Tool  [http://winrock.stage.datarg.net/m3/CarbonReporting/Welcome](http://winrock.stage.datarg.net/m3/CarbonReporting/Welcome)
Asante sana!

Questions and Discussion

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