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Nepal's National REDD Framework: How to Start?

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Abstract: This paper examines the Government of Nepal's policy on climate change, especially its recent initiative to join the World Bank's Forest Carbon Partnership Facility (FCPF). The FCPF was established after the 13th Conference of the Parties in Bali adopted Reducing Emissions from Deforestation and forest Degradation (REDD) as the most efficient and effective strategy for mitigating climate change. This paper is based on close observations and insights from the government's attempts to enter the FCPF scheme and the multi-stakeholder consultative process. Despite some genuine concern, REDD may provide opportunities for institutionalizing good governance in the forestry sector. Moreover, it might help build the institutional and technical capacities of the stakeholders to benefit from the emerging global carbon trade. Despite several challenges, it provides a means for preparing Nepal as a potential player in the market. Suggestions are made to make it a successful pro-poor initiative capable of simultaneously addressing climate change and poverty issues.

Key words: FCPF, IEC, REDD, stakeholders, climate change

INTRODUCTION

In its Summary for Policymakers', the International Panel on Climate Change (IPCC) Fourth Assessment Report mentions that global warming is unequivocal (IPCC 2007). The projected climate change, as well as its impact, is much worse than generally believed. Furthermore, climate change, particularly in the Himalayas, is expected to threaten the basic elements of human life and livelihood, including access to water, food production, health, land use and the environment. Consequently, the concept of sustainable development is undergoing a major adaptive transformation as climate change has challenged our ability to achieve the long-term ecological, economic and social objectives (Stern 2007). There is an emerging consensus that, with the current orientation of economic activities, global emissions of Greenhouse Gases (GHGs) will continue to rise over the next few decades. It is increasingly becoming obvious that effective response to climate change demands international collective action. The UN Framework Convention on Climate Change (UNFCCC), Kyoto Protocol (KP) and a host of other informal partnerships and dialogues provide a framework to induce collective action at global level. However, as the implementation of global collective initiatives largely relies on sovereign nation states, national processes towards this end have become crucial. In this context, this paper discusses the recent national processes within REDD.

FORESTS ARE BACK IN BUSINESS

Deforestation and forest degradation are the second leading causes of global warming. Tropical forest clearing accounts for roughly 20% of the anthropogenic carbon emissions and destroys significant carbon sinks globally (IPCC 2007). Over a third of GHG emissions from these sources are from developing countries. In many developing countries, deforestation and forest degradation account as the largest source of carbon

emissions. No regulatory instruments exist under the UNFCCC to compensate REDD in the form of carbon payments. The Clean Development Mechanism (CDM) does not acknowledge the forestry sector's role in climate change mitigation. Although the newly created Afforestation and Reforestation (AR) is qualified for carbon financing, high transaction costs and inadequate technology for accurate calculation and monitoring of forest carbon stocks were some of the apparent deterrents for bringing natural forests under carbon financing.

The Conference of the Parties (CoP) in Bali, for the first time, proposed a more inclusive global climate policy encompassing all countries and emission sources from both land use and energy sectors. If this could be translated into action, it could create opportunities for conserving tropical forests and a host of ecosystem services. This has helped bring forests in the mainstream of global climate change mitigation/adaptation policies.

Providing incentives for forest protection through the REDD scheme involves a number of issues. These include: the objectivity of scientific information, asymmetry of costs and benefits over space and time, differentiation between risk and uncertainty, institutional power over information and the role of ethical judgment in decision making processes (Spash 2007). The carbon markets are a prominent part of the response to climate change and provide an opportunity to demonstrate that they can be a credible and central tool for future climate mitigation. For instance, the carbon market grew in value to an estimated US\$30 billion in 2006 (€23 billion)—three times greater than the previous year (Capoor and Ambrosi 2007). The World Wildlife Fund (WWF) and the World Bank Alliance (2002) projected forest situation in 2050 (expected global forest area: 3 billion hectare) underlines significant potential market for REDD to contribute to increased carbon sequestration in sustainably managed forests. However, problems abound: reduced degradation requires more complex and potentially controversial calculations and a



significantly greater emphasis on generating ground-truth data through remote sensing. Despite these technical problems, the predicted carbon business with forests promises to be a viable financial instrument for combating climate change.

WORLD BANK'S INITIATIVE ON REDD

It is in the above context that the World Bank, prompted by a range of developing and developed country stakeholders, proposed the creation of an FCPF in 2006. Several other forest carbon related concepts and funding schemes also emerged in 2008 (e.g. UN REDD). The FCPF, as a pilot scheme, aims to assist developing countries in their efforts to reduce emissions from deforestation and degradation. It has the dual objective of building capacity for implementing REDD activities in developing countries and testing—on a relatively small scale—a programme of performance-based incentive payments in pilot countries. The overall development objective of the FCPF is to set the stage for a much larger system of positive incentives and financing flows for REDD in the future. Although criticized for supporting historically pro-deforestation countries and not being pro-poor, it does provide opportunities to individual countries to develop a customized national REDD framework. The framework and approaches that the FCPF will test and demonstrate may help inform parties to the UNFCCC as they negotiate a future climate regime (e.g. post-Kyoto 2012), which may include REDD. Moreover, the methods and instruments tested by the FCPF, if successful, will help increase the level of confidence of the international community in the credibility of REDD in relation to climate change mitigation so that financial commitment for the mechanism could significantly increase from both public and private sector sources. The FCPF will consist of two separate mechanisms namely Readiness Mechanism and Carbon Finance Mechanism. Each of these will be operated by the World Bank as a trustee (FCPF 2008).

Under *Readiness Mechanism (Readiness Fund)*, the FCPF intends to assist developing countries prepare themselves to participate in a future large-scale system of positive incentives for REDD. This will include, but will not be limited to: a) determining a national reference scenario based on historical emissions from deforestation and degradation and, where needed and feasible, an assessment of how these emissions would evolve in the future; b) preparing a coherent national REDD strategy; c) establishing a monitoring system for emissions from deforestation and forest degradation; and d) capacity-building systems.

Under *Carbon Finance Mechanism (Carbon Fund)*, the FCPF, with the World Bank as a trustee and broker, plans to support a few countries which it deems successful in the Readiness Mechanism to go for actual trade, thereby also evaluating the overall REDD process.

The World Bank is expected to adopt guidelines from the UNFCCC. Nevertheless, it has been speculating whether it needs to do otherwise, particularly if the CoP 15 negotiations (latest by 2009) do not produce guidelines of the required clarity within the necessary timeframe. Like all other mechanisms resulting in measurable emission reductions, REDD is market-based. The Asia Pacific Forestry Week (2008), Hanoi proposed that the prospective producers of REDD credits would do well to promote a demand-driven system by encouraging buyer countries to set out their priorities independently of the UN negotiations. This would give producer countries a clear indication. Nevertheless, markets are developing independently of the negotiations and tropical forest countries are preparing to implement their own REDD strategies in a number of ways.

NEPAL IN REDD PROCESS

Despite Nepal's very low GHG emission, it's Ministry of Forest and Soil Conservation (MFSC) has taken a progressive step towards climate change mitigation through market mechanisms offered by REDD. It has ventured to embark on the World Bank's REDD programme so as to be ready for forest carbon transaction when the tenure of the KP ends in 2012. Preparation and submission of the Readiness Plan Idea Note (R-PIN) is the first step in this direction. The R-PIN process has been characterized by:

- Exploration of potentials, problems and recommendations associated with the future national REDD framework.
- Capacity development package to fulfil the operationalization aspects of the above framework.
- Exploration of the impending governance issues related to the operationalization aspects.
- Setting informal multi-stakeholder processes in motion by developing R-PIN through a consultative process.
- Projecting success in participatory forest management regimes for leveraging on a pro-community forestry REDD concept.

Nepal's R-PIN was sanctioned by the World Bank under its FCPF's Readiness Fund. The whole list of challenges and areas of work were underlined in the screening comments made by the World Bank's technical advisory panel. In spite of the data on the exact deforestation and forest degradation rate being questionable, the government has used the annual forest cover loss of 1.6% between 1979 and 1994 as the basis of accounting (comparison of the National Forest Inventory and Land Resource Mapping Project data). The deforestation and forest degradation rate, however, may have substantially increased over the past decade due to massive encroachments, conversion of forest into farm lands and illicit felling of trees, particularly in the Terai. Similarly,



forest degradation, caused by persistent forest fires and excessive grazing, hardly needs endorsement. It implies that the potential for developing a national REDD framework and subsequently qualifying for a post-Kyoto carbon business model is realistic.

The design and operationalization of a national REDD framework demands active involvement of all relevant stakeholders in the process. It is expected that relevant line agencies, civil society, NGOs, donors and representatives of forest-dependent communities led by the government engage in a consultative process and promote transparency, participation, accountability and equity in forest governance (MFSC 2008). The institutionalization of community-based forest management modalities and consultative forest policy processes adopted by the government has, to some extent, promoted participatory decision-making. Inter-sectoral working groups and task forces across vertical and horizontal level of governance could be mobilized for thematic deliberation, appropriate recommendations and collective policymaking. This has already been tried in some important national action plans, e.g. Biodiversity Action Plan 2002 and Three-Year Interim Plan 2006. The government has shown strong commitment to formulate a Readiness Plan (R-Plan) and a credible and equitable national REDD framework by establishing a functional multi-stakeholder forum at policy level supported by a pool of advisory resource persons.

IS REDD WORTH FOR NEPAL?

What should outweigh the disadvantageous aspects of REDD is simply the recognition that climate change is a global problem and that Nepal cannot escape from its negative impact. There is no option but to immediately embark on mitigation and adaptation measures, although its own contribution to global carbon emission is very small. At the same time, it should be noted that the decade-old political unrest has hampered the progress on decentralized forest governance, forest law enforcement and, most importantly, the massive illegal logging and encroachment in the Terai. In this context, the REDD initiative can be used not only to reduce carbon emission but also to address many unsettled forest governance issues.

The advantages of the World Bank's FCPF scheme are that, each country is free to design its own REDD framework suitable to its socio-political and geographical situations. The baseline/reference scenario and the credible monitoring system--the two key aspects of the R-Plan--can be developed considering the key issues of impending forest policy changes, land tenure, concerns of forest dwellers and institutional capacity to operationalize REDD. It should also consider alternative energy initiatives, non-forestry livelihoods and the broader development framework such as the one envisaged in the Three-Year Interim Plan (2008-11).

Hence, it would be an interesting opportunity for policymakers developing the REDD framework to use it as a 'Trojan horse' that can help conceive mitigation and adaptation measures as part of the broader development framework of Nepal. Apart from enabling the forest sector to address a wide range of issues within the sector, it can also help address several emerging national and global agenda. Carbon trading can be seen only as complementary to a host of intangible benefits at national and sub-national level that can arise through REDD implementation beyond 2012. Concurrently, it provides an opportunity to the government to explore private sector involvement in carbon business. In a nutshell, an equitable, accountable and participatory REDD framework would allow: a) mitigation of climate change; b) addressing of biodiversity, governance and livelihood issues; c) strengthening of monitoring systems; d) conceptualization of carbon business model for mountainous regions; e) giving additional benefits to community forest users groups; and f) reducing Nepal's carbon footprint.

Despite the evident challenges, REDD should be seen as yet another opportunity to promote sustainable forest management in Nepal. REDD indeed can complement the current governance as well as technical forest management issues, which have stalled the progress on addressing third generation issues, e.g. tenure security, equity and inclusiveness in benefit-sharing, value addition of forest products for greater income and employment, etc. Whichever design REDD adopts, the building of capacity for, and commitment to, political, institutional and technical aspects would be inevitable. Hence, it provides a great opportunity to propose and implement a sub-national and national level Information, Education and Communication (IEC) package. An IEC package should be designed in a simple and understandable language to show viable estimations of tangible and intangible benefits of REDD for climate, community and conservation. Furthermore, multi-stakeholder processes involving wider circle of actors will have to be kept transparent and accountable for getting effective and desirable outcomes from the institutionalization of REDD.

STARTING POINT FOR REDD

The current REDD initiative in Nepal aims to establish an enabling framework for promoting transparent, accountable and equitable service delivery in carbon business. The emphasis within the FCPF is clearly on capacity building across a host of stakeholders on institutional, technical and operational aspects to institutionalize good governance and carbon trading in forestry. While it is evolving through 'learning by doing' approach, there are some apprehensions about REDD from some quarters, its purpose and operational modalities. The key questions are whether REDD can supplement good forest governance initiatives, e.g. pro-



poor and inclusive participatory forest management, equitable benefit-sharing, etc. These questions and concerns can be addressed through adequate IEC on the REDD process. Development of customized information package for mass communication on climate change and the significance of REDD in mitigation is advisable. This would help ensure greater stakeholder involvement in designing a pro-poor and inclusive national REDD framework.

However, the IEC package should not only be REDD-specific but must have a broader coverage of climate change in general. Therefore, it should include innovations and lessons gained on mitigation and adaptation measures in different parts of the globe. Diverse types of media, such as audio visual and print media and direct interactions could be used according to the nature of the target group, nature of message and resources available.

CHALLENGES

There are four major challenges in implementing the REDD strategies in Nepal: a) policy and institutional aspects, b) financial instruments, c) capacity development, and d) equity and inclusiveness. Although the FCPF allows individual countries to propose a REDD framework based on their specific needs, it expects that the principles of efficiency, effectiveness and equity are not compromised. These aspects are especially important for Nepal as it is currently undergoing a political transition in which power-sharing between different levels of governance is yet to be finalized. The transition towards a federal structure and restructuring of the forest sector within it will have huge implications for the operationalization of REDD. In this context, Nepal faces the key challenge of the absence of a formalized governance structure that deals with REDD. Nevertheless, efforts are on to formalize a multi-stakeholder process at national level, which has been working as a 'think tank' in preparing a national framework.

Another important challenge is that, globally, the REDD-related projects are still in the test phase and it is not yet demonstrated whether carbon financing and poverty objectives are mutually addressable. Clarity of ownership, right to benefits from carbon and designing pro-poor benefit-sharing mechanisms pose further challenges. The knowledge emerging from the implementation of the REDD-related concepts clearly shows a huge possibility of involving the private sector in carbon business. For example, the Ulu Masen Ecosystem Project, Aceh, Indonesia and the Noel Kempff Mercado Climate Action Project, Bolivia provides encouraging cases of private sector involvement in carbon trading (SNV 2008). However, there is a stark gap in the capacity required to enter into such schemes. Preparing the government agencies, stakeholders and the local

communities is a daunting task. Some specific challenges include:

- Creating political support to introduce REDD initiatives. The initiatives include introduction of some immediate measures to combat deforestation.
- There is also a paucity of detailed and reliable carbon stock data, forest inventories and deforestation rates. However, lack of such information should not prevent pilot projects from moving forward.
- Given the large scale of some of the proposed REDD projects, there is need for multiple partners with a range of expertise. The range of expertise includes resource inventory, monitoring, assessment and reporting; understanding of carbon markets; biodiversity protection; forest policy process, development of carbon offset projects, carbon accounting and community development. Any project will, therefore, need to bring together a host of strategic partners having expertise in these disciplines.
- The existing regulatory framework may require amendment. The existing regulatory framework and institutional arrangements should be informed by the climate change agenda. Rethinking is required on the current stereotyped understanding of the causes and consequences of deforestation and degradation. Moreover, the tenure arrangements may require redefining.
- It is too early to predict the net benefits for local communities under participatory forest management regimes, which are the main strength of Nepal's forest sector. These communities are not aware of what carbon business entails for their involvement, what types of capacity need to be built and what is the range of net additional benefits expected for communities through carbon business at the cost of restrictive use of forests.

Much remains to be learnt regarding the eventual nature of the voluntary and compliance markets in REDD, but, despite the hype, the mechanism is certainly no panacea for reversing the deterioration in the condition of forest ecosystems. The success of REDD will be limited by the market value of REDD credits relative to the opportunity cost of other land uses or forest management systems. Leitmann (in Vickers 2008) estimates that the price will be sufficiently high to be effective in many areas where timber production is the main opportunity cost, but is unlikely to match the economic benefits of ranching or soya cultivation in the Amazon, for example (Ibid). Nevertheless, while designing an IEC package on REDD, the fact will have to be considered that carbon business with forests is still in an infancy stage and the current global financial crisis has market uncertainties imprinted on a big business REDD and its pro-poor/inclusive qualities.

Of particular significance is the method of calculation for REDD baseline scenarios and targets. Political



considerations are likely to be at least as important as technical issues in the determination of historical baselines and future projections of national deforestation and degradation trends. Host countries will be tempted to exaggerate the baseline trends and thus set low targets to maximize potential output of carbon credits. This risk would undermine the market. REDD credits generated by countries which are still experiencing high rates of deforestation are bound to bring the whole REDD philosophy into disrepute. The lesson of the Forest Stewardship Council (FSC) forest certification shows that setting targets by producers themselves can lead to a race to the bottom in terms of credibility of accounting. Last but not least, the current understanding of REDD will have to face the major challenge of unclear markets and prices for carbon in the future, if carbon credits flood the market.

CONCLUSION

The concept of REDD may still appear a programme for countries having devastated their forests in the past. It nevertheless, engages country like Nepal to be creative and innovative in addressing the global agenda of climate change without compromising the interests of the poor and disadvantaged people. One of the greatest opportunities Nepal can leverage on is its proactive community approach when it comes to forest management. It provides a clear opportunity for converting REDD into tangible incentives, generating a value addition, good enough to motivate the state and its forest communities. Furthermore, a financially stressed country like Nepal must explore financial instruments and attached good governance elements that bring a self-sustainable forest sector to the fore. It would be difficult for any country to continue with a subsidized development package to its masses as clearly signalled by the ongoing global financial crisis. Hence, it can be recommended that a customized pro-poor national or

sub-national IEC package, focusing on participatory forest management regimes, can be designed from the FCPF's Readiness Fund as soon as possible. This would prepare a wide range of actor constellations linked to climate change mitigation or adaptation for generating the maximum of carbon business as and when it comes. REDD certainly promises to become a part of it as it has the potential for complementing on a socially equitable, economically viable and environmentally feasible development pathway.

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