

Fair and efficient? How stakeholders view investments to avoid deforestation in Indonesia

Effectively 'reducing emissions from deforestation and degradation in developing countries' (REDD) depends on stakeholder cooperation. The participatory 'fair and efficient REDD value chain allocation' (FERVA) method analyzes stakeholders' views in the negotiation process.

Fairness versus efficiency

Key argument for fairness:



Reward
well-managed
landscapes

Key argument for efficiency:

Maximize
emmission
reduction
per \$ invested



Key Points

1. Negotiations have barely started on how to share REDD incentives along the value chain that generates certified emission reductions.
2. Interviewed stakeholders are realistic, and not overly optimistic, in expecting most funds to support transaction costs, rather than activities on the ground.
3. Considerable nuance exists on how 'fairness' and 'efficiency' are perceived, as debates on fairness focus on moral values and those on efficiency target urgent emission reduction.
4. Meeting REDD goals requires balancing fairness and efficiency, which is seen as allocation of equal fund between direct emission reduction and long-term sustainable development, while reducing transaction costs.
5. The FERVA method is a replicable platform for stakeholder discussions and data collection across diverse settings.

Introduction

Actions to reduce emissions of greenhouse gasses need to be appropriate on global, national and local scales. They need to be efficient in the use of funds, relative to the effectiveness achieved, and fair in terms of balancing rights, responsibilities and incentives. As international agreements on climate change are primarily agreements among countries, the emphasis has been on determining what national commitments to mitigation action are 'appropriate' (which implies being fair and efficient) at a global scale. The successful implementation of 'reducing emissions from deforestation and forest degradation in developing countries' (REDD), depends, however, on

fairness and efficiency at the local scale in the national context.

'Fair and efficient REDD value chain allocation' (FERVA) is an experimental method to negotiate balance between fairness and efficiency across scales. This policy brief discusses initial results from Indonesia, the country with the highest emissions from forest and land-use change globally, and therefore a magnet for attention and funding to achieve emission reduction. Simultaneously achieving the twin goals of: (1) fair and sustainable development; and (2) efficient emission reduction is a matter of managing trade-offs (Table 1).

Table 1. *Typical arguments regarding REDD fairness and efficiency.*

Typical arguments for fairness	Typical arguments for efficiency
<ol style="list-style-type: none"> 1. Those managing carbon stocks effectively in their landscapes deserve reward as a moral imperative. 2. That poverty reduction is the primary Millennium Development Goal and mandates a pro-poor approach. 3. Rewarding only active and credible threats is a perverse incentive to enhance emissions. 4. The traditional practices of local communities must be respected. 	<ol style="list-style-type: none"> 1. Maximizing carbon dioxide emission reduction per scarce dollar invested requires a tight focus on real threats. 2. Markets adequately protected from manipulation seek the 'right' price, which is also the fair price. 3. Maintaining public support for emission reduction requires demonstrable success. 4. Despite being outsiders, experts provide the most reliable and credible information.

Steps in the FERVA method

FERVA engages stakeholder groups in focus group discussions, the details of which must be adjusted to fit the local context. The following is the usual sequence.

1. After a basic explanation of climate change and the role of greenhouse gases, including the 15% or so derived from carbon stocks lost from forests and peat land, participants are exposed to the issues of fairness and efficiency in REDD. The issue is introduced by acknowledging that global REDD interest in Indonesia may be efficient, while asking if it is also fair. What about allocation within Indonesia? Should attention focus solely on the provinces with the largest threatened carbon stocks? Should countries and provinces with stable forests be ignored?
2. According to their affinity for either the fairness or the efficiency side of the argument, participants form two groups to strengthen the case for their point of view being essential to the success of REDD schemes.
3. Using a debating club format, a representative from each group summarizes the arguments, followed by a discussion on how the two perspectives can be reconciled.
4. The concept of a value chain is introduced at this point, using a local agricultural commodity (e.g., coffee, rubber or timber) and discussion of how well or poorly farm-gate, processed and end-user prices reward effort along the chain.
5. The concept of a value chain is then applied to the REDD carbon market for certified emission reductions (CERs).
6. At least eight functions are required before an end user buys a CER. Working in groups, participants allocate shares of benefits to 'value chain' of these eight functions under two scenarios: (1) the currently expected situation and (2) a desirable future situation (Table 2).
7. The differences in perspectives between groups are analyzed and debated to illuminate what it would take to bring 'hope' and 'reality' closer together.
8. The results are summarized and compiled for future reference. If REDD implementation makes progress, divergence in stakeholders' perspectives will likely narrow, as will the gap between hope and reality.

Table 2. The REDD value chain of eight functions that link actual emission reduction with the sale of credits to end users, and the way stakeholders expect and want total value to be allocated over this chain

Functions along the value chain for 'reducing emissions from deforestation and degradation in developing countries' (REDD)	Current situation (reality)	Desirable situation (hope)	Difference
1. Actual emission reduction achieved by protecting existing carbon stocks and offsetting opportunity costs for legitimate options which are voluntarily forgone			
2. Supporting sustainable livelihood pathways with less dependence on land uses that cause emissions			
3. Guarding against leakage with integrated natural resource management at the local scale			
4. Securing additionality by establishing clear baselines through spatial planning			
5. Certifying credits for emission reduction by national standards			
6. Setting up a regulatory framework conducive to multi-scale governance			
7. Verifying emission reduction using international standards			
8. Salesmanship to secure buyers and provide investment when and where needed			
Total	100	100	

Example of results:

Step 1-3: Palangkaraya, Central Kalimantan.

Central Kalimantan Province still has a large area of tropical forest and peat land but also suffers high rates of conversion and emissions, making it a strong candidate for REDD. The provincial government has expressed interest and started administrative arrangements to prepare for REDD implementation. However, there is no clarity yet on how REDD targets will be achieved through changes in emission practices (efficiency) and rewards for those protecting the forest (fairness). In a FERVA workshop in Palangkaraya in March 2009, about 30 participants from governmental institutions, non-governmental organizations (NGOs) and universities discussed the issues.

The local need for both efficiency and fairness was clear (Table 3). After hearing both types of arguments, everyone was keen to balance the focus on efficiency, for the sake of a market mechanism and enhanced fund availability, and on fairness, based on a moral point of view of the people who already preserve the forest. A need therefore exists for tools to negotiate allocations based on fairness and efficiency. The participants recognized the diversity of perspectives and concepts. Stakeholders from the local community and regional government tended to focus more on fairness, while potential REDD investors and brokers tended to place higher priority on efficiency.

Table 3. Fairness and efficiency in group discussion at Palangkaraya, Central Kalimantan.

Fairness group:	Efficiency group:
<ol style="list-style-type: none"> 1. Benefits should not only go to the central government but also to the regional government and, first and foremost, to the local community inhabits areas surrounding the natural resource. 2. Management must be collaborative and participatory, involving every stakeholder in the future REDD implementation area. 3. Ecosystem benefit through sustainable preservation is essential. 4. Avoiding leakage of awarded incentives requires that fairness be observed. 5. A conservation area in good condition faces a low risk of forest degradation, plantation failure or land-use change. 6. Forests will be preserved if REDD incentives are distributed fairly. 7. To replace the lost opportunities to exploit forest due to forest preservation, require fairness concept as its principle. 8. The attitude of future generations hinges on fairness. 	<ol style="list-style-type: none"> 1. The need for REDD effectiveness to be visible demands that schemes be implemented in areas suffering rapid deforestation, where incentives can contribute to cutting carbon emissions. 2. Emission reduction is a free bonus derived from the cost of forest preservation, thereby achieving additionality. 3. Efficiently targeted REDD implementation will be fair in the end.

Table 4. Factors raised regarding fairness and efficiency by group discussion at Jayapura, Papua.

Fairness group:	Efficiency group:
<ol style="list-style-type: none"> 1. Financial compensation from REDD scheme should be given for the environmental services provided by the community as a moral reward. 2. Indigenous rights must be recognized through the legal land ownership rights of the community. 3. Poverty due to the community economic gap will lead to conflict. 4. Carbon stock potential is the deciding factor in choosing which scheme has the best economics. 5. The protected forest has the highest carbon stock potential \pm 87 ton/ha. 6. The community already has the skills needed for effective management 7. Three main points need to be take into account in REDD scheme: a) moral, b) poverty, c) conflict resolution. 8. Forest protection gave promising investment potential. 	<ol style="list-style-type: none"> 1. Emission reduction in highly deforested or degraded area will lead to large amount of REDD financial compensation. 2. Significantly, REDD will decrease deforestation the rate of and forest degradation. 3. The concession system offered advanced management to control deforestation and forest degradation 4. Efficiency in carbon trading can be supported by the efficiency of production forest management (e.g. cutting cycle). 5. There is a replanting policy in the forest concession and industrial plantation forest. 6. Production forest has a higher carbon stock compared to protected/conservation forest. 7. The threat to production forest is higher compared to protected/conservation forest. 8. Multiplier effect value of production forest preservation is higher compared to any other forest type. 9. There are benefits from timber and carbon stock in terms of cutting cycle to add up the total income resulted from a certain forest area.

Step 1-3: Jayapura, Papua

Papua Province contains the largest remaining forest area in Indonesia, with 90% of its land state-designated forest zone. A REDD scheme there could aim to prevent Papua becoming like Kalimantan or Sumatra, where forest conversion has been widespread. Table 4 summarizes the arguments raised on both issues in the focus group discussion in Jayapura.

After each group presented its discussion results, strong debate ensued. The fairness group focussed strongly on moral consideration of people who already protect the forest and provide environmental services, as well as on avoiding forest loss and degradation in protected and conservation forests arising from the welfare gap. The efficiency group stressed highly visible emission reduction in a badly deforested and degraded area. Through discussion and facilitation, each group grew aware that both priorities were important and were mutually dependent, and that successful REDD implementation depended on both.

Step 4-8: Palangkaraya and Jayapura

Workshops were held with environmental NGOs and government agencies interested in developing forest conservation projects within the REDD domain (Figure 1, column A).

In the Palangkaraya, Central Kalimantan, workshop, stakeholders were pessimistic regarding the expected distribution of REDD funds (figure 1, expected, column B). Transaction costs (the top six items, from 'leakage control' to 'salesmanship') were perceived to be very high, at 80–90%, and payment to the local actors ('protecting

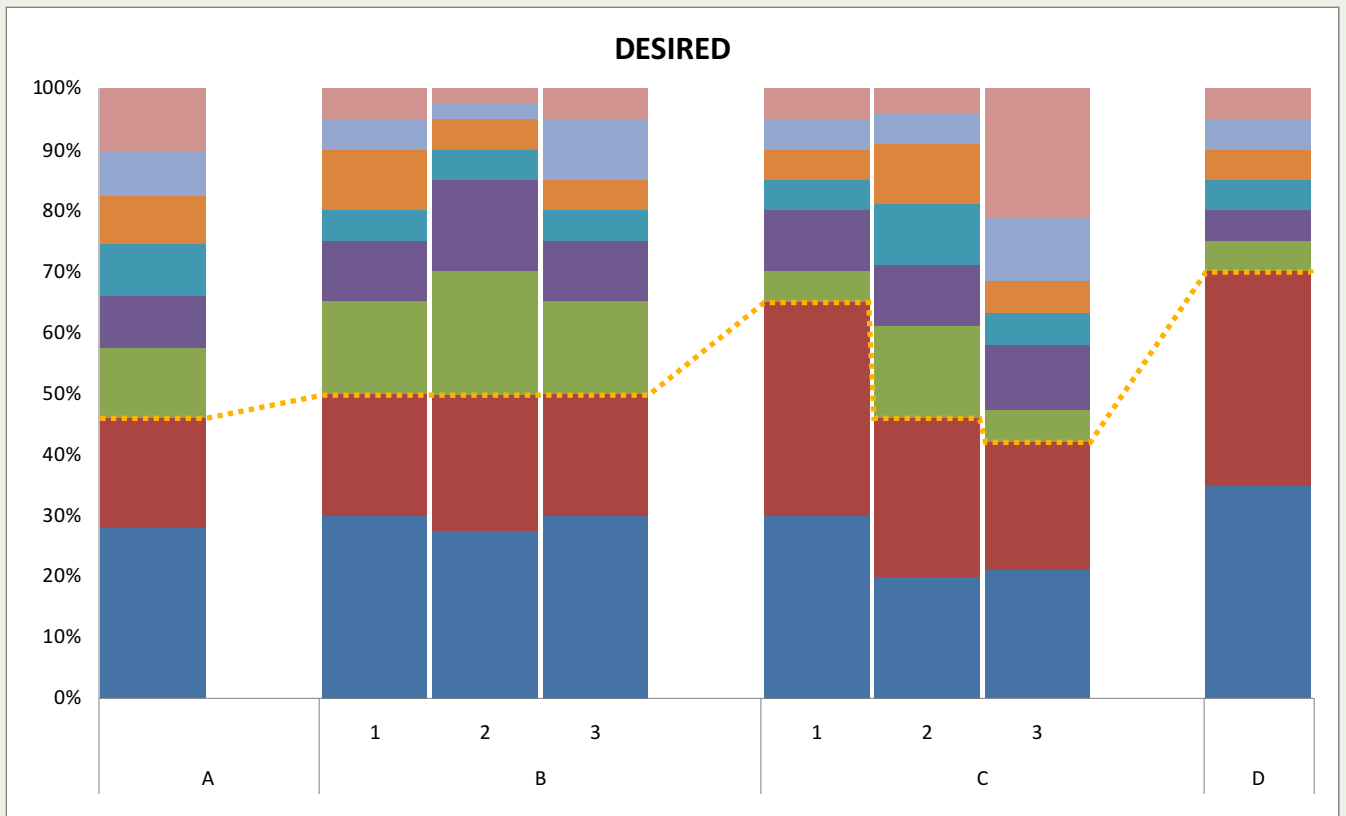
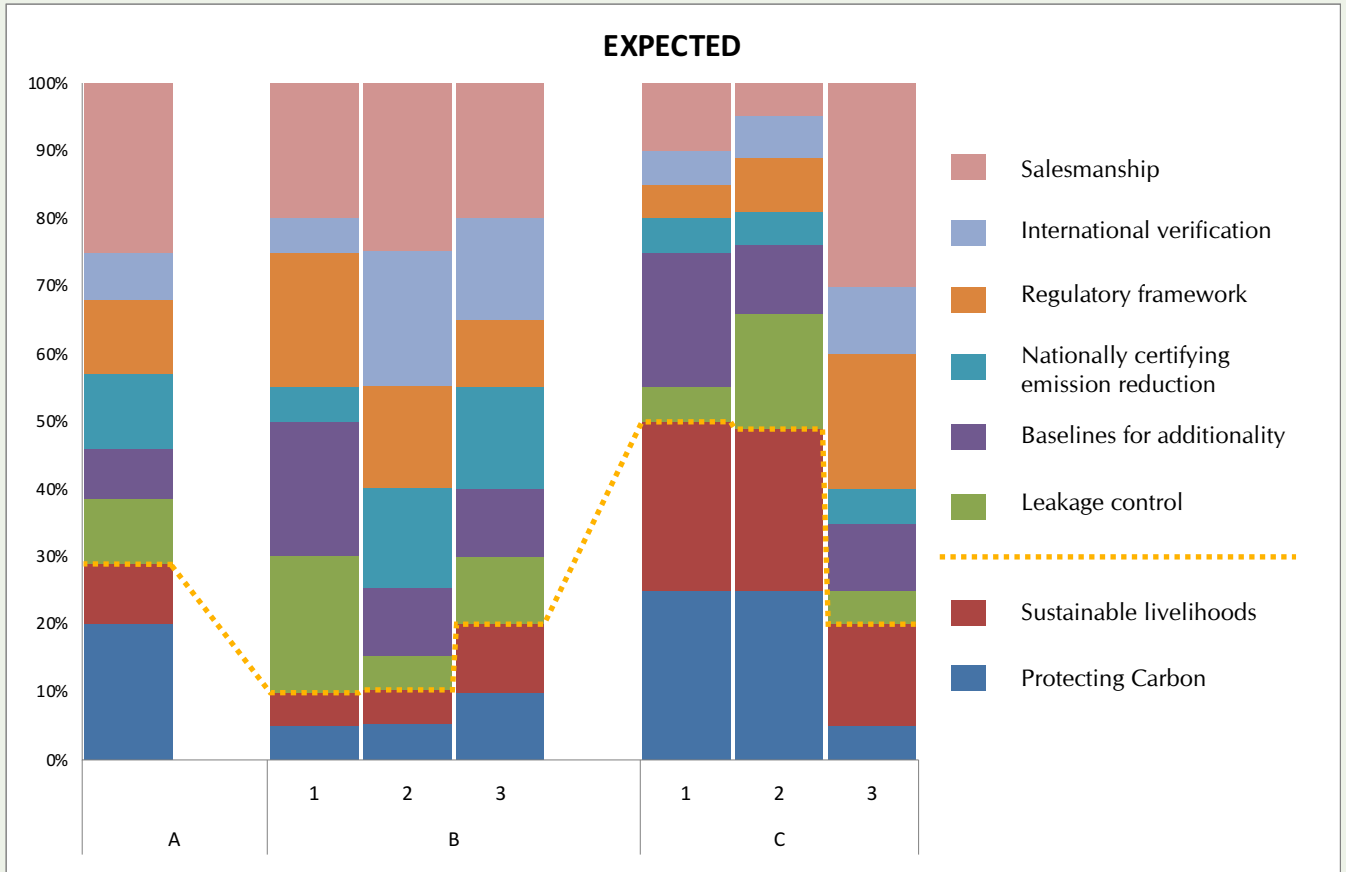
carbon' and 'sustainable livelihoods') was very low, at 10–20%. Participants desired that the money should be distributed at least equally between transaction costs and local actors (desired, column B).

Participants in the Jayapura, Papua, workshop differed. The expectations of the university group (Figure 1, expected, column C3) were similar to those in Palangkaraya, with transaction costs reaching 80%. But NGO and government representatives were quite optimistic, expecting a 50–50 allocation of payments to local actors and transaction costs (expected, column C1–2). In the 'desired' situation, university and NGO participants hoped that payment to the local actors would exceed 40%, while government representatives hoped it could be 65% (desired, column C).

In the run-up to the 13th Conference of Parties to the United Nations Framework Convention on Climate Change in December 2007 in Bali, a group of national and international researchers in the Indonesian Forest Climate Alliance expressed the hope that transaction costs could be kept to less than one third of the value chain, with the remainder split equally between direct emission reduction (efficiency) and long-term livelihood options (fairness) (Figure 1, desired, column D).

Policy implications

All stakeholders involved in the discussions so far see the relevance of both fairness and efficiency and that both are needed in REDD incentives. All are concerned, however, that most of the money will go to paying transaction costs. All stakeholders' preferred allocation along the value chain



A = NGOs and government agencies 1 = Government agencies
 B = Palangkaraya 2 = NGOs
 C = Papua 3 = Universities
 D = Indonesian Forest Climate Alliance

Figure 1. Workshop participants' allocations to the REDD value chain in both expected and desired scenarios.

differs considerably from their expected allocation, indicating the need for continued negotiations and other efforts to reduce transaction costs.

Most stakeholders seek a balance between efficiency in emission reduction and the medium- and long-term benefits of fair support for sustainable livelihood options. Differences between locations appear to be larger than the differences among stakeholder groups in a given location. FERVA provides a way to quantify the baseline inclination of stakeholders to share and cooperate and can be used for future impact assessment. Quantitative conclusions need further corroboration.

Suggested citation:

Suyanto, Muharrom E, van Noordwijk M. 2009. Fair and efficient? How stakeholders view investments to avoid deforestation in Indonesia. Bogor, Indonesia: World Agroforestry Centre, ICRAF Southeast Asia Regional Office.

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Acknowledgements:

The initial applications of FERVA were supported by the David and Lucile Packard Foundation, European Union (EU) through ALLREDDI project and REDD ALERT Project (European Community's Seventh Framework Programme [FP7/2007-2013] and complemented by the Ford Foundation and the Federal Ministry for Economics Cooperation and Development. Wider application will be through the ASB Partnership for the Tropical Forest Margins, supported by the European Union. The views expressed in this brief are not those of the funder. The World Agroforestry Centre encourages the free dissemination of this document provided the source is acknowledged.

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