Briefing

Forests

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REDD+ and the private sector: tapping into domestic markets

Policy pointers

REDD+ strategy should engage stakeholders across the private sector, including those in commodity supply chains and especially micro, small and medium sized enterprises (MSMEs) in domestic markets.

Combining income generated by using forests sustainably and productively with carbon credit schemes can help REDD+ initiatives weather the uncertainties of international carbon markets.

Governments can encourage more sustainable investments by applying existing policies, especially by strengthening enforcement of provisions that promote sustainable forest management and equitable benefit sharing.

In particular, securing peoples' rights to regulating services, including rights to carbon, is a fundamentally important step towards incentivising private sector investment.

Uncertainties in the international carbon market make it imperative the UN's REDD+ framework engages a wider spectrum of the private sector than just international companies and investors. Countries with REDD+ programmes should work with their domestic private sector to provide the missing momentum. Micro, small and medium-sized enterprises are crucial, as these usually dominate in forest- and agriculture-based economies. Engaging these businesses needs policy support that builds private and public partnerships. Experience from Tanzania and Mozambique shows existing policies and laws can support national REDD+ efforts to engage the private sector at scale. But strengthening policy and providing more targeted support would accelerate economic and environmental gains.

The private sector has a key role in REDD+,[1] the UN-led framework that aims to ensure standing forests are valued. Private enterprises are heavily involved in land-use activities that must transform in order to reduce pressure on forests. They can also provide innovation, investment in 'climate smart' land uses[2] and are an integral part of carbon markets.[3] Yet, to date, private sector engagement in REDD+ has shown limited effectiveness, for example in providing finance. Between 2006 and the end of 2014, more than US$9.8 billion was pledged for REDD+, only ten per cent of which was from the private sector.[4]

Because of uncertainties in international carbon markets (Box 1), REDD+'s long-term sustainability will depend on domestic demand for goods (such as sustainably produced Non-Timber Forest Products (NTFPs)) and for services (carbon credits). Large companies, such as those in the growing extractive industries, could provide the demand. But governments will have to foster this demand, through new compliance mechanisms.

To increase involvement, the public sector needs to engage with the commodity supply chains that drive deforestation and degradation, and with those that add value to forests (such as by developing NTFPs). Crucially, it is micro, small and medium sized enterprises (MSMEs) that often dominate the forestry and agricultural sectors in REDD+ countries. These need supportive policy, financing opportunities, and technical assistance to develop sustainable forest goods and services.

Domestic markets and MSMEs

Bundling carbon income with other productive activities also broadens the spectrum of private sector stakeholders that can contribute to REDD+. Companies that are changing or being encouraged to change their practices to avoid deforestation and forest degradation, and those who invest in commodities that add value to standing forests (eg NTFPs), can play a significant role, as well as those generating, accounting and protecting and selling carbon credits. This diverse group can range from individuals up to multi-national corporations. They all seek profit but to different degrees, ranging from subsistence life-styles to profit maximisation.[2]

The key to successful REDD+ implementation lies in acknowledging the diversity of private sector businesses

This briefing looks at two countries with REDD+ programmes, Tanzania[6] and Mozambique,[7] where opportunities for further private sector engagement have been identified. As in many countries, MSMEs in the domestic market are the obvious target for governments wanting to foster engagement with REDD+ strategies. In both countries, agriculture, logging and charcoal production are driving deforestation and forest degradation.

Over 80 per cent of Tanzania's population lives in rural areas and depends on traditional agricultural. Farming contributes approximately 50 per cent of GDP and is dominated by smallholder farmers often cultivating farms of 0.9–3.0 hectares (ha). In Mozambique, around 60 per cent of the population relies on agriculture, which contributes 33.5 per cent of national GDP. Family farms use 90 per cent of the cultivated area. Nearly all rural households cultivate small plots (on average 2.4 ha) but only 29 per cent sell any crops. Biomass energy, especially charcoal, is also driving deforestation and forest degradation due to high demand from urban markets. But this industry provides important employment and income to people in MSMEs along the value chain — from rural producers to intermediaries and retailers in the urban areas.

Box 1: Coping with carbon market uncertainties

Recently, carbon prices (the cost of buying carbon 'credits' to offset pollution) have fallen in both compliance markets (regulated by mandatory national, regional or international carbon reduction regimes) and in voluntary markets (where demand comes from voluntary buyers). Forest carbon offsets are dominantly traded in the voluntary market as few compliance markets accept forest and REDD+ credits.[5] In 2014, the price of voluntary carbon offsets reached a low of US$3.8 per tonne of 'carbon dioxide equivalent', and volatility brings huge risks for investors. So, to make REDD+ viable without a compliance market and despite low carbon prices, many countries and initiatives are looking to leverage other finance mechanisms. In Mozambique, the large scale Mozambique Carbon Initiative (MCI) has changed its business model. It initially intended to sell carbon credits from natural forests across several large landscapes and use the revenues to pay for operational costs. However, it lacked clear strategy on interacting with the myriad land users engaged in subsistence and commercial activities. The MCI has now shifted to promoting sustainable energy use in urban areas by improving people's access to efficient cook stoves. In Tanzania however, experience is illustrating how to strategically combine incomes from sustainable land uses with potential carbon revenue. For example, the Mpingo Conservation and Development Initiative (MCDI) generates incomes from sales of FSC certified timber and this should ensure the project remains viable even when carbon credit prices are low.

Figure 1 shows how supporting MSMEs to supply sustainable goods (food, fuel, and fibre) as well as services (biodiversity, carbon stocks and others) can start a beneficial 'feedback loop' with huge potential to cumulatively generate revenues that scale-up sustainable business models and can improve livelihoods, increase tax revenues and lower emissions.[8]

There is therefore a need for coherent national policy that creates an enabling environment for MSMEs to develop business models that reduce pressures on forests and deliver economic and social benefits. There may be existing financial resources that can be leveraged to support this. In Tanzania and Mozambique, for example, these include the SME Impact Fund for Tanzania, the African Guarantee Fund for Small and Medium-sized Enterprises, and the Forest Investment Programme (FIP) in Mozambique. Government and civil society organisations involved in REDD+ can provide capacity building and guidance to make sure MSMEs adhere to environmental and social safeguards for REDD+. Extension services to rural populations, including technology transfer and capacity building, are similarly crucial.

Building on existing laws and policies

Countries need to look at existing policies and legal frameworks, and identify incentives and opportunities for promoting sustainable land uses that keep trees standing. Established support for MSMEs can also play an important role.

Clarifying regulating services — including land tenure rights and government land use policies — is absolutely fundamental for incentivising long-term investments in sustainable land uses. Encouragingly, land tenure issues have been extensively discussed in many countries with REDD+ programmes and the challenges are often acknowledged in their REDD+ strategies. The opportunity to attract more private sector financing has helped prompt reflections on needed reforms, particularly on the need to clarify who has the legal right to benefit from any financial value associated with forests and trees.

Strategies to engage the private sector must also ensure that enterprises are providing environmental and social safeguards within REDD+ funded projects. Table 1 summarises the existing policies, strategies and long term development plans that can incentivise sustainable investments under the two countries' REDD+ programmes.

In Tanzania, the Public Private Partnership Policy (2010) provides a general framework to guide private sector investments in publicly-owned

Table 1 Policy, legal and 'development vision' support for REDD+ in Mozambique and Tanzania

	Government guidance and incentives for private sector investment	Environmental and social safeguards	Support for MSMEs
Tanzania	Public-Private Partnership Policy of 2010; The National Forestry Policy (1998); National Investment Promotion Policy (1997); The Forest Act No 14 of 2002 and the Beekeeping Act (2002); Tanzania's National Vision 2025; The National Strategy for Growth and Reduction of Poverty II (NSGRP)(2011-15) The Southern Agricultural Growth Corridor (a public private partnership established in 2010)	Framework, Criteria and Guidelines for Concession Arrangements in Plantation Forests (2005); National Environmental Policy (1997); Environmental Management Act (2004);	National Land Policy (1997); Land Act (1999) and Village Land Act (1999); The government's Kilimo Kwanza programme, which is focusing on increasing production by modernising farming; Tanzania Chamber of Commerce, Industry and Agriculture's SMEs Business Toolkit and SME Development Policy
Mozambique	The Investment Law of 1993, and the Regulation of the Investment Law and Code of Fiscal Benefits 2009; Mozambique's Agenda 2025, published 2003; Strategies recorded in the Absolute Poverty Reduction Action Plan (PARPA II, 2006-2009); Tax alleviation for Rapid Rural Development Zones: agricultural and forestry operations, transport and trade infrastructure and select other activities can get an investment tax credit of 20 per cent for five years and exemptions from some taxes. These incentives could stimulate investments in mosaic landscapes (where some trees are felled but the forest is protected). Conversely, they may also encourage large scale deforestation.	The Environment Law of 1997 (No 19/97); National Environment Policy (1995) National Forestry and Wildlife Policy (1997)	Government decree No. 8/89 approving the Model for the Statute of Agricultural Cooperative Unions (1989) National Forestry and Wildlife Policy (1997) Local-community- participation in Public Administration (2000) which encourages partnership between investors and rural communities

natural resources. The National Investment Promotion Policy of 1997 provides for tax breaks, user rights and immigration quotas to encourage investment in forestry and beekeeping.

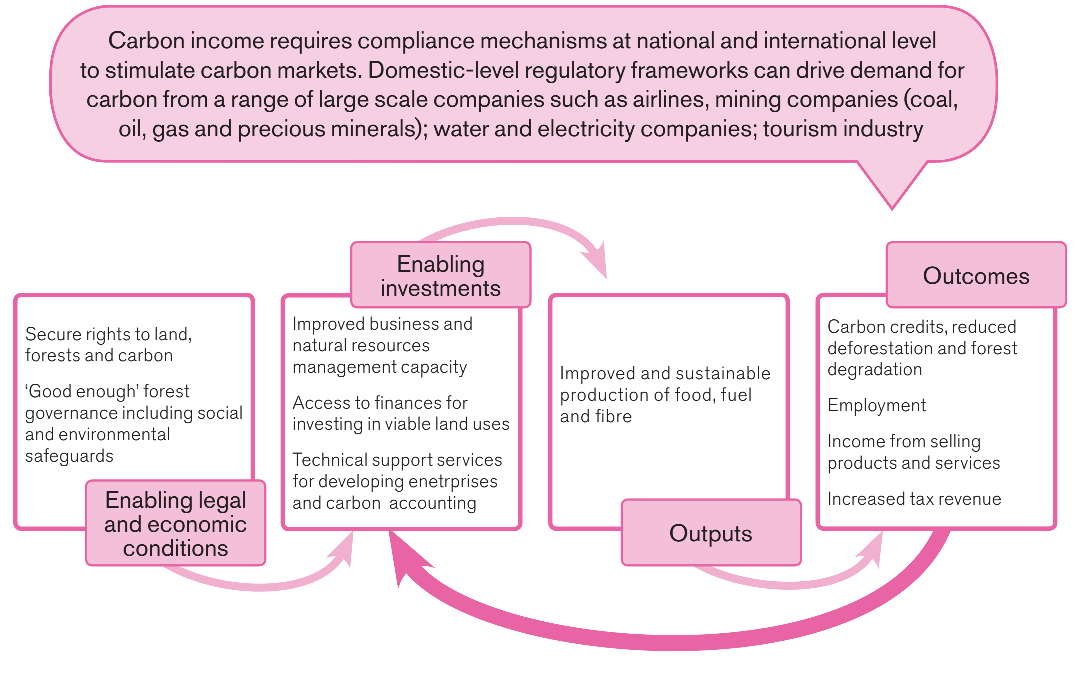
In Mozambique, foreign and domestic investment is regulated by the 1993 Investment Law and accompanying regulations (Law No 3/1993, of 24 June) and investment incentives are governed by the Regulation of the Investment Law and Code of Fiscal Benefits, (Law No 4/2009, of 12 January).These policies include provisions relevant for implementing REDD+ projects, such as:

- Provisions securing natural resources rights, which are needed to enable sustainable investments
- Fiscal policies determining the level of taxes and royalties collected from private sector investment (including provision for tax deductions and tax holidays)
- Guidance on how benefits from any taxes will be shared between the state and local communities
- Requirements for drawing up environmental impact assessments and management plans to mitigate environmental damage arising from investments in natural resources

Clearly, implementing the provisions described above will support environmental and social safeguards for private sector investments in forests, helping achieve REDD+ objectives. But the stumbling block remains weak enforcement of these policies 'on the ground', particularly if there is pressure to promote investments that aim only for rapid economic growth.

And while large scale investments can be 'pushed' by international demand for sustainable land use, MSME investments in REDD+ require incentives that build demand for sustainable products and services among both the enterprises themselves and the wider domestic market. Domestic-level regulatory frameworks can drive such demand; one social enterprise exploring this is Carbon Tanzania, who are looking in particular at demand from the tourism sector and education institutions.

Figure 1. How investment in MSMEs creates a positive feedback loop of improved livelihoods, increased tax revenue and reduced deforestation and degradation, adapted from Fig 3 in Elson, 2012.[7]



Strengthening supporting legislation and practical incentives, and particularly 'enabling conditions', could bring huge benefits for REDD+ programmes as the economies of countries like Mozambique and Tanzania rely heavily on natural resources including forestry, agriculture and mining sectors. For example, this could be: policy measures that clarify land tenure; taxation schemes that favour reduced deforestation businesses; environmental and social safeguards that guide private sector investments; coherent land use policies; monitoring, reporting and verification (MRV) systems that promote transparency; and law enforcement that penalises illegal activities will all reap benefits. The private sector, both international and domestic, will be more likely to engage in REDD+ discussions if there is a clear indication from the public sector that REDD+ strategy includes policies that impact businesses and that 'level the playing field' for sustainable investments.

Policies that support MSMEs wanting to invest in natural resources are emerging. For example, in 2009 the Government of Tanzania launched the Kilimo Kwanza programme, aiming to rapidly transform Tanzania's agriculture by bringing together small, medium and large scale investments to modernise and boost productivity. In Mozambique, a National Forestry and Wildlife Policy empowers communities to develop MSMEs.

However, the key to successful REDD+ implementation lies not just in creating a conducive environment for one type of private sector or another, but rather in acknowledging the diversity of private sector businesses and providing them with opportunities to adopt more sustainable land uses for which both domestic and international markets can pay a premium.

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Knowledge Products

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Notes

[1] Reducing Emissions from Deforestation and forest Degradation + the roles of conservation, sustainable management and enhancing forest carbon stocks [2] Henderson et al. (2012) The Role of the Private Sector in REDD+: the Case for Engagement and Options for Intervention UNREDD Policy Brief 4, www.un-redd.org/privatesectorpolicybrieflaunched/tabid/106428/default.aspx / [3] Nhantumbo, I and Camargo, M (2015) REDD+ for profit or for good? Review of private sector and NGO experience in REDD+ projects. *Natural Resource Issues*, No 30. IIED, London. http://pubs.iied.org/17570IIED.html / [4] Norman, M and Nakhooda, S (2015) The State of REDD+ Finance. *Working Paper 378*, CGD and ODI, Washington DC, www.cgdev.org/sites/default/files/CGD_Climate_Forests_5-State_REDD_Forests-Norma_Nakhooda.pdf / [5] Hamrick K *et al.* (2015) Ahead of the curve: state of the voluntary carbon markets 2015 Forest Trends and Ecosystem Marketplace, Washington DC, http://forest-trends.org/releases/p/ahead_of_the_curve_state_of_the_voluntary_carbon_markets_2015 / [6] Unless referenced otherwise, information on Tanzania in this paper is based on a 2013 working paper produced by FORCONSULT, commissioned by IIED, entitled Private sector engagement in REDD+ in Tanzania. / [7] Unless referenced otherwise, information on Mozambique in this paper is based on a 2014 working paper produced by Mario Paulo Falcao, commissioned by IIED, entitled Private sector engagement in REDD+ in Mozambique. / [8] Elson, D (2012), Guide to investing in locally controlled forestry. *Growing Forest Partnerships in association with FAO, IIED, IUCN*, The Forests Dialogue and the World Bank. IIED, London, http://pubs.iied.org/13565IIED.html