



# **Tanzania's Policy and Market Environment for REDD+**

An Updated Policy Assessment for the MCDI REDD  
Project

*Combining REDD, PFM and FSC certification in South-  
Eastern Tanzania*

**February 2013**

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# 1 Overview & Summary

This updated policy assessment by the Mpingo Conservation and Development Initiative's REDD pilot project (*Combining REDD, PFM and FSC certification in South-Eastern Tanzania*) provides a review of major policy and market developments and trends shaping the policy environment for REDD+ in Tanzania in 2012. The review covers, in brief, policy developments at national and international level, as well as important policy developments in other countries or regions that may shape the overall global policy environment on REDD<sup>1</sup> in important ways. The review also touches on major market trends that will shape opportunities for MCDI and its partner communities to engage with forest carbon markets as an element of strengthening local livelihoods and economic opportunities for forest conservation in southeastern Tanzania in the future. The review is synthetic and aims to provide a brief and concise overview and set of highlights of key policy and market trends and events during the course of the year.<sup>2</sup> A concluding section looks forward at prospects for policy and market developments around REDD during the year ahead.

The past year has been a challenging one for REDD, and the overall climate change policy and market context within which REDD is situated, on a number of key fronts. At the global policy level, momentum for further advancing international agreement around REDD stalled at the UNFCCC Conference of Parties (CoP) held in Doha in November-December 2012. Even as negotiations around the overall UNFCCC process had made little headway during the past two CoPs in 2010-2011, REDD had continued to advance, remaining one of the few areas of relative consensus within the global discussions. In Doha, though, the consensus broke down around critical final-stage discussions around verification and financing, leaving the REDD negotiating text unfinished and subject to continuing discussions under the Durban platform.

With the general uncertainty around global climate negotiations, which seems likely to persist for the next two years at least, the arena of action on climate regulation and carbon market development increasingly shifted to national or regional (e.g. state) level. Efforts to establish or further develop functional compliance markets including carbon offsets continued in places such as California, South Korea, certain Canadian provinces, and Australia. Even in the United States, 2012 witnessed renewed interest in a carbon tax as a national mechanism for pricing carbon emissions, and some hope for greater US leadership domestically and internationally on climate change issues following President Obama's re-election.

While none of these emerging compliance markets or regulatory efforts present immediate opportunities for entry of Tanzanian REDD credits, these developments are critical to sustaining international momentum of some sort on climate change, including global funding for REDD, as well as bolstering demand within the voluntary market. The voluntary over-the-counter (OTC) market remains the main tangible market opportunity for REDD offsets generated from projects such as those in Tanzania; REDD trading volumes in 2011 declined precipitously from a year

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<sup>1</sup> The formal discourse around REDD in Tanzania has shifted to use of 'REDD+', which signifies the incorporation of social and environmental co-benefits and safeguards. For ease of communication and for consistency with previous documents or international processes where 'REDD' was or is used, this document uses the acronym 'REDD' throughout except where citing a strategy or document that explicitly uses 'REDD+'.

<sup>2</sup> Developments through the first six weeks of 2013 are also mentioned, where relevant, in this review.

earlier, but average prices of REDD offsets nearly doubled. Numerous REDD projects in Africa continued to reach market and sell significant quantities of new offsets, as third-party standards and methodologies continued to develop.

Globally, the overall carbon market experienced a major collapse, with both the European Union Emission Trading Scheme (EU ETS) and the UN Clean Development Mechanism (CDM) markets verging on collapse due to oversupply and a consequent loss of demand. Prices plummeted, with the only hopeful sign being recognition of the severity of the problems on the part of policy makers and some indications that regulatory caps would be altered in order to address the current market and pricing problems.

In 2013, expectations for global policy movements on REDD are limited, and the most likely source of policy innovation will come at the national or regional level, including potentially in the US if the Obama administration opts to renew legislative efforts around carbon regulation and as California's compliance market comes closer to launching, with REDD poised to be included in a major compliance market for the first time on a limited basis. These regional developments may bolster the voluntary market as well, which will remain the market for REDD offsets generated in Tanzania and most other developing countries. Lessons will continue to be generated and shared from pilot initiatives in Tanzania and neighboring countries, as new REDD projects reach the market, gain experience with project development, and interact with the slowly evolving policy setting nationally and regionally.

## **2 National Policy Developments in Tanzania**

In November 2012 the National REDD+ Task Force released a final draft of the *National Strategy for Reduced Emissions from Deforestation and Forest Degradation (REDD+)*. Only an Executive Summary of about 25 pages has been publicly released to date, and posted on the National REDD+ Initiative web site. The full final draft of the Strategy is expected to be released and posted soon.

This document is the latest iteration in a series of earlier national policy documents and drafts on REDD+, including the National REDD Framework and several prior drafts of the National REDD Strategy. A considerable amount of civil society feedback, largely provided by the various executing organizations of the REDD pilot projects, has been involved in the process of strategy development and finalization.

Any analysis of the final National REDD+ Strategy based on the Executive Summary currently available is preliminary. However, presuming the Executive Summary is a consistent representation of the rest of the strategy, a range of issues may persist in this final draft that were noted in earlier commentary. MCDI will produce a fuller review of the final draft of the Strategy when it is officially posted on the National REDD+ Initiative web site; at present therefore this review should be taken only as an initial and provisional commentary.

The treatment of key issues surrounding forest governance and drivers of deforestation (which are critically related to a range of interrelated governance, institutional and market issues) remains fairly thin based on what is presented in the Executive Summary. Participatory forest management (PFM) remains at the forefront of the strategy (Section 3.2), but the reasons for PFM's limited reach are attributed only to 'lack of funds and capacity' and deeper institutional

barriers are not featured. Key policy level constraints to PFM, such as the issues surrounding benefit-sharing under Joint Forest Management (JFM), are not alluded to or addressed.

Similar constraints apply to the treatment of ‘drivers of deforestation’; only proximate drivers are listed in the Executive Summary and there is no articulated strategy for addressing them beyond very broad issues related to resources, capacity and monitoring. Similarly, Chapter 6 of the Strategy (again, based only on what is provided in the Executive Summary) on ‘Strategic Implementation Options’ remains in essence a long list of issues and goals with no clear articulation of strategy- i.e. what exactly needs to be done to address the specific issues noted.

Like earlier drafts, the Strategy seems to focus primarily on technical and organizational issues surrounding REDD+, particularly forest monitoring systems and the development of new institutional arrangements and relationships, rather than underlying issues of governance, incentives, and behavioural choices and different scales that are central to deforestation processes.

One significant positive change noted in the Executive Summary of the final draft of the National REDD+ Strategy, which has been the subject of considerable dialogue and engagement by the REDD pilot CSOs, pertains to the classification of forests outside protected areas. Previous drafts of the National REDD Strategy had referred to these forests as existing on ‘General Lands’, which CSOs pointed out effectively served as a challenge- based on a questionable legal interpretation of the Land Act and Village Land Act- of community rights and tenure over forests found on Village Land, where most of the country’s formally unprotected forests are found. The new Strategy has modified its language on this important point relating to forest tenure and governance, now referring to these forests as occurring on ‘Village and General Lands’ rather than solely as forests on ‘General Lands’ as was previously the case. This is an important modification of the Strategy given the importance of community level tenure to forest governance and conservation in relation to REDD+.

Even while the National REDD+ Strategy has been finalized, additional supporting policy elements continue to be developed. Notable among these are social and environmental safeguards for REDD+, which the National REDD Task Force is planning to launch in mid-2013 and which will include a process of stakeholder consultation. This safeguard process will provide another opportunity to raise critical issues for the design of REDD+, particularly in relation to community rights and tenure, which is a major concern in the design of adequate safeguards under REDD+, both nationally and internationally.

## **3 International Policy Developments**

### ***3.1 Global Climate Policy: COP 18, Doha***

The 18<sup>th</sup> Conference of the Parties to the UNFCCC was held in Doha, Qatar in late 2012. While the previous two UNFCCC CoPs in Durban and Cancun had at least maintained some momentum for global climate change negotiations following the disappointment of Copenhagen in 2009, with advancing consensus around REDD being a particular point of progress, the Doha CoP has been regarded as largely a failure for both the wider negotiations and for moving forward with REDD. While significant agreements were reached on REDD at the previous two CoPs, this did not take place in Doha.

*Ecosystem Marketplace* reported that REDD ‘limped’ out of the Doha CoP, and provided the following summary of the CoP outcomes at its closing:

*Climate talks wrapped up...with the irrelevant Kyoto Protocol extended to 2020 and little faith in the ability of the United Nations Framework Convention on Climate Change (UNFCCC) to deliver a global solution to the climate-change challenge in time to avert disaster.*

*Several negotiators, speaking on condition of anonymity, said countries were beginning to view the UNFCCC as a framework that can provide guidance for national and regional programs rather than as a foundation upon which a global solution can be built.*

*REDD talks remained far ahead of overall negotiations but bogged down in a disagreement over how to verify and validate emission-reductions – in part because negotiators feel REDD talks can coast until the larger talks catch up to them.*

*Meanwhile, attention has begin to shift towards the creation of landscape-based mechanisms that are more comprehensive than REDD but also more difficult to quantify.<sup>3</sup>*

Debate over the details of verifying emission reductions achieved under REDD was a key issue in the breakdown of the negotiations over the REDD text, with Brazil and Norway being at odds over some critical details. In general, the breakdown of negotiations at Doha was prompted by the fact that many of the main technical issues surrounding REDD have largely been addressed at the prior CoPs, and more contentious issues around verification and long-term financing remained in order to finalize the agreement around REDD. Set against the backdrop of an increasingly uncertain UNFCCC process, northern and southern countries were unable to find agreement around these critical points.

Negotiations over REDD will continue under the Durban platform, which will carry forward the process of attempting to reach a new global climate treaty by 2015. Most observers, however, do not expect major changes in the international policy arena during the next two years.

The Rights and Resources Initiative, in its 2012 annual review, notes that even while REDD has stalled at the global level, there is a renewed emphasis on investments supportive of REDD that have wider social and environmental benefits, such as strengthening local land and forest tenure, eliminating perverse incentives, building forest monitoring capacity, strengthening governance, and considering wider landscape benefits:

*REDD has stalled with the stalemate in the climate talks. Consensus is emerging over “no regrets” actions such as securing land tenure and reversing subsidies for deforesting agricultural activities to ensure that the funds committed to REDD goals generate emissions reductions, even if there is no offset market for forest carbon.<sup>4</sup>*

### **3.2 National and Regional Policy Developments**

Much of the positive momentum for policy action on climate change issues, which in turn lends some continued momentum to voluntary carbon markets and REDD’s opportunities therein, is

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<sup>3</sup> Zwick, S. December 10<sup>th</sup>, 2012. ‘REDD inches through Doha Gateway as national, regional solutions ascend.’ [http://www.ecosystemmarketplace.com/pages/dynamic/article.page.php?page\\_id=9478&secthion=news\\_articles&eod=1](http://www.ecosystemmarketplace.com/pages/dynamic/article.page.php?page_id=9478&secthion=news_articles&eod=1)

<sup>4</sup> Rights and Resources Initiative. 2013. *Landowners or Laborers: What choice will developing countries make?* Washington, D.C.: Rights and Resources Initiative.

presently occurring at the national and regional scale.

Perhaps most notably for REDD, California's compliance carbon market kicked off at the beginning of 2013. Preparations continued, led by the REDD+ Offset Working Group, for the incorporation of REDD offsets under the cap-and-trade scheme. These offsets will initially be restricted to Brazil's Acre state and Chiapas state in Mexico, but nevertheless this is a major development as this represents the most significant integration of REDD offsets into a compliance market.

Elsewhere in the US, the Northeast Regional Greenhouse Gas Initiative (RGGI), which includes New York and New England, recently issued a proposal to change its regulatory cap to bring it in line with actual emissions, which are well below the current cap.<sup>5</sup>

Nationally, some hope for greater American action on climate change and carbon regulation was restored following President Obama's re-election in November 2012, and in particular by an inaugural address in January 2013 that emphasized the importance of acting on climate change. The past six months have witnessed a flurry of policy discussion and debate about various climate policy options, including a national carbon tax, and these will likely continue through the first year of the second term as the Obama administration charts its course on climate issues.

Also notable in 2012, Australia put in place a national carbon tax on certain industries, although the opposition threatens to revoke this if it wins upcoming elections. Even in China a number of cities will be rolling out their own cap-and-trade pilot programs in 2013.

These regional developments are significant not only because they maintain some level of momentum for international collective action on climate change, but also because they generate some positive price signals for the voluntary carbon market, which is what generates demand for REDD offsets. Notably, in 2011, forest carbon project developers reported, for the first time, growing demand for offsets due to regulatory market signals in North America, including the emerging or established carbon markets in British Columbia, Alberta, and California.<sup>6</sup>

## 4 Forest Carbon Market Trends

2012 witnessed a profound collapse in the overall global carbon market. Oversupply of credits in the EU Emission Trading Scheme (ETS), by far the world's largest carbon market at a value of about \$73 billion, and under the Clean Development Mechanism prompted crashes in the price of offsets and of the total transaction value of both markets. Credits under the EU ETS dropped in price to under \$5, compared to prices over \$20 in 2008, due mainly to declining emissions and industrial activity in Europe to well below regulatory cap requirements, which results in a severe drop in demand for emission reduction credits in the market.<sup>7</sup> By the end of 2012, consensus among both market participants and policy makers pointed towards the view that the EU carbon

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<sup>5</sup> Plumer, B. February 9<sup>th</sup>, 2013. 'Cap-and-trade is still alive in New England- is it working?' *The Washington Post*. <http://www.washingtonpost.com/blogs/wonkblog/wp/2013/02/09/cap-and-trade-is-still-alive-in-new-england-is-it-working/>

<sup>6</sup> Peters-Stanley, M., K. Hamilton and D. Yin. 2012. *Leveraging the Landscape: State of the Forest Carbon Markets 2012*. Washington, D.C.: Ecosystem Marketplace.

<sup>7</sup> The Economist. 'Complete disaster in the making'. September 15<sup>th</sup>, 2012. <http://www.economist.com/node/21562961>

market either needed to be reformed- and specifically with new emission reduction requirements to lower the regulatory emissions cap and incentivize further emission reductions- or it might collapse entirely. As of early 2013, EU policy makers are developing proposals to reform the basic structure of the EU's carbon regulatory and market system, but as with all major EU policies forging agreement among member states on such reforms is far from guaranteed.

Influenced partly by the trends within the EU market, the value of CDM credits also crashed to around \$1 by late 2012, leading UN officials to acknowledge that the CDM market had effectively collapsed.<sup>8</sup>

While the much larger global compliance carbon markets teetered on the brink of dissolution, trends in the voluntary market, and particularly for forest carbon offsets, provided at least some cause for sustained optimism and momentum. The most recent *State of the Forest Carbon Markets* report from Forest Trends records that in 2011 the total value of the forest carbon market was \$237 million, a 27% increase from 2010. Offset prices also increased markedly, to an average of \$9.2. The average forest carbon offset price on the voluntary over-the-counter (OTC) market nearly doubled, from \$5.6 to \$10.3.<sup>9</sup> Thus, even as prices in global compliance markets crashed, prices for forest carbon offsets on the voluntary market surged considerably.

In Africa, trading volume of forest carbon offsets increased from 1.9 MTCO<sub>2</sub>e to 4.7 MTCO<sub>2</sub>e; 97% of all offsets were sold to voluntary market buyers in Europe.<sup>10</sup>

With respect to REDD specifically, credit transaction volumes declined by 62% in 2011, from 19.5 MTCO<sub>2</sub>e in 2010 to 7.4 MTCO<sub>2</sub>e. The decline is attributed to recession in Europe, complexity of design and delivery of REDD projects, and challenges related to new methodologies.

With more and more projects under developing and reaching the market, third-party standards and methodologies continued to be developed and refined. The Climate, Community and Biodiversity Alliance Standards and the Verified Carbon Standard, which are increasingly used in conjunction as the leading verification standard for REDD projects with significant co-benefits, developed a unified project development template which should reduce some transaction costs for project developers (including MCDI).<sup>11</sup>

## **5 Outlook for 2013 and Implications for MCDI REDD Pilot Project**

In the year ahead, the key arenas for policy movement around climate issues, and the incorporation of REDD into significant compliance markets, will continue to be regional or national in scale. Of particular importance to the overall global climate policy context will be the performance of California's carbon market, which will move forward towards incorporation of

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<sup>8</sup> Clark, P. 'UN-led carbon market "close to collapse"'. *The Financial Times*, October 5<sup>th</sup>, 2012. <http://www.ft.com/intl/cms/s/0/ee81799c-0c84-11e2-a776-00144feabdc0.html#axzz2KeWuU3qL>

<sup>9</sup> Peters-Stanley et al., 2012.

<sup>10</sup> Peters-Stanley et al., 2012.

<sup>11</sup> <http://www.climate-standards.org/ccb-standards/combining-with-other-standards/>



REDD offsets from Brazil and Mexico initially, and EU efforts to restructure their carbon market regulatory regime. Elsewhere, the performance of Australia's carbon tax and pricing scheme will be closely watched, as domestic political dynamics loom large in the future of that policy initiative.

The voluntary market will continue to be the critical outlet for REDD and forest carbon offsets; the voluntary market may strengthen slightly as the global economy most likely recovers slightly from the recessionary pressures of the past two years, including in the beleaguered Euro zone economies, which provide the primary market for African REDD offsets. Further development and refinement of third-party standards and methodologies, as well as greater experience and information sharing by project developers, may reduce transaction costs somewhat.

Considerable donor support will continue to be provided for REDD policy and pilot initiative development through various bilateral initiatives, the UN, and the World Bank Forest Carbon Partnership Facility's Carbon Fund (FCPF). FCPF received increased funding from a number of northern governments in early 2013 and is now capitalized at \$650 million.<sup>12</sup>

In Tanzania, the National REDD+ Task Force will release the final draft of the National REDD+ Strategy as well as a detailed set of provisions on social and environmental safeguards. As the eight Norwegian-funded pilot projects enter their fourth and final year, offsets from some of these projects should start to reach the national and global marketplace, which will generate new lessons about the practical dimensions of marketing and selling these offsets and distributing revenues locally.

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<sup>12</sup> The World Bank. 'New funding for climate and forests protection'. Press Release, January 10<sup>th</sup>, 2013. <http://www.worldbank.org/en/news/press-release/2013/01/10/new-funding-for-climate-forests-protection>