



REDD+ AND MARKETS: ANY LESSONS TO BE LEARNED FROM VOLUNTARY CARBON MARKETS?

The idea of linking sustainable forest management to the market economy for addressing climate change was first introduced in the 1990s. It promised to raise substantial additional finance for protecting critical forests and to change the way forests are managed and linked to the wider economy. The Voluntary Carbon Market (VCM) has been part of the international forestry dialogue for well over a decade now. What lessons can we learn from it that could be relevant for REDD+?

The recent [briefing note by the Rainforest Foundation](#), explores potential risks and issues associated with an international forest carbon market. They draw on the lessons from the forestry VCM and extrapolate how these lessons may pose risks for a REDD+ mechanism that relies on market transactions.

As highlighted by the briefing note, the forestry VCM has been affected by the current global financial instability because it relies on a similar trading infrastructure as commodities markets, for which lack of regulation has been so damaging. Investment has dipped, along with prices, and actors in the VCM have become aware of the risk of holding carbon credits that no one wants to buy. Demand has grown for VCM projects accredited to robust standards. Transactions in a REDD+ mechanism, however, will be tightly regulated from the start, due to the Measurement, Reporting and Verification (MRV) requirements that are a central part of the ongoing negotiations under the UNFCCC.

By now, it is clear that climate change mitigation through the forest sector is not a cheap option, as many originally thought. It involves many costs that are often overlooked by investors and carbon traders, who see forest carbon projects from the perspective of market opportunity as in, for example, the greenhouse gas abatement cost curves by McKinsey and Company. Countries can learn from this experience as they develop REDD+ strategies, by injecting realism into the calculations on how much impact a certain amount of REDD+ finance may have on forest area and condition. Finance will be more predictable than in the VCM, relying on Annex 1 countries' commitments under an international climate agreement rather than on investor confidence alone, but it may still be volatile, depending on the financial architecture agreed in negotiations. Countries must therefore focus on the cost effectiveness of their REDD+ strategies.

The experience from the Clean Development Mechanism (CDM) and voluntary carbon activities shows that without effective coordination and a harmonized approach, ideally at country level, a large proportion of finance is taken up by transaction costs, and the costs of technical advisors and intermediaries in the value chain. These problems are accentuated by the fact that VCM and CDM are based on individual projects. REDD+ is, however, a national-level mechanism, which will substantially reduce transaction costs.

A shortage of clear information about VCM, REDD+ and forest carbon finance is a challenge in most countries. Stakeholders in many countries focus on the perceived need to generate tradable assets through VCM projects. This may undermine some REDD+ Readiness efforts to promote outcomes that are also beneficial for biodiversity and forest-dependent people. To alleviate this problem, a reliable source of finance is required for actions that countries implement before an international REDD+ mechanism is in place. Both Brazil and Indonesia now have access to such funds.

A lack of clarity of land tenure and carbon rights combined with the fact that carbon credits are intangible assets, making trading virtual, has made some VCM projects susceptible to fraud. Under the UNFCCC, this will not be possible because of the stringent MRV requirements for transparency and comparability of results. Annex 1 parties to the UNFCCC will not invest in REDD+ unless they are confident that the mechanism guarantees that they actually get what they pay for.

The Rainforest Foundation briefing note highlights many of the real issues that have affected the VCM, and extrapolate them forward into a future REDD+ mechanism. However, they do not distinguish between the voluntary market and the compliance arrangements that will govern REDD+. Some conclusions, therefore, may not be relevant for the international mechanism. The Rainforest Foundation suggests some alternative solutions for raising finance for REDD+, including carbon taxes, levies on international aviation and maritime fuels and financial transaction taxes. These are all viable sources for an international REDD+ fund. However, transactions from such a fund would still need to operate under a transparent system to ensure that disbursements are based on transparent performance, according to the principles of MRV.

The VCM does hold lessons for REDD+, but it is quite a different system. We need to avoid confusion between the VCM and REDD+ before drawing long-term conclusions. And there is certainly still a lot of confusion around.

Go-REDD+ is an e-mail listserv managed by the UN-REDD Programme team in Asia-Pacific, based in Bangkok. The main objective of **Go-REDD+** is to distribute information, synopses of research results and activities related to REDD+ in Asia-Pacific, to assist countries in their REDD+ readiness efforts. Old messages will be archived on the [Regional Activities pages](#) of the UN-REDD Programme website. Discussion forum on **Go-REDD+** is available through UN-REDD Programme's online knowledge sharing platform, www.unredd.net. Please note that you must be a member to join the Discussion Forum. To request membership, please contact admin@unredd.net with your name and affiliation. The **Go-REDD+** team welcomes feedback, suggestions or inquiries to goredd.th@undp.org.