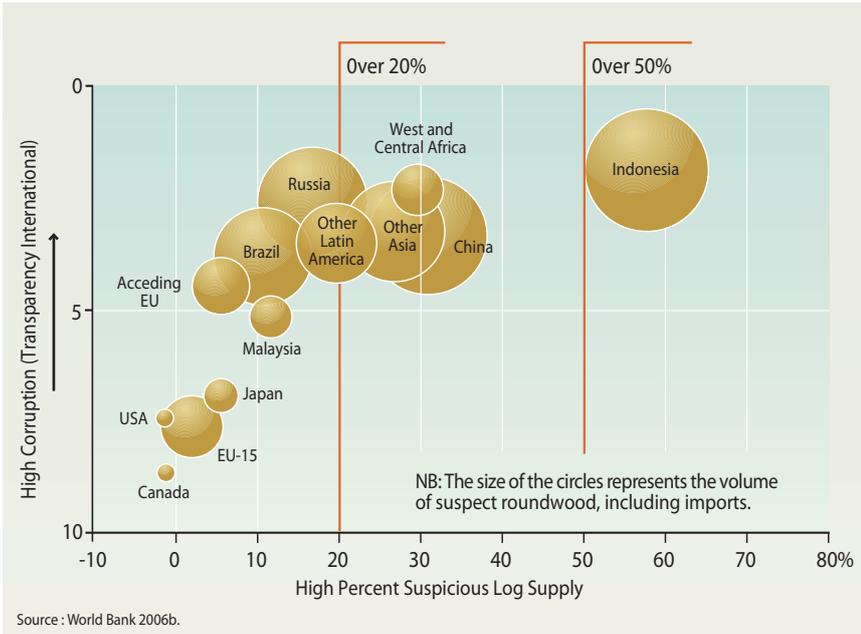


Logging and corruption



Economic

In recent years, as awareness of forest ecosystem services has grown, economic incentives have been increasingly used to promote forest conservation

Despite the acknowledged importance of forests, government incentives have traditionally supported logging and the conversion of forests for agricultural purposes. Most forest nations have encouraged domestic forest operations by providing a combination of incentives including free or under-valued land rents, grants for harvesting, infrastructure and transport, interest-free loans, tax breaks and agricultural resettlement programmes (WRI 1988; OECD 2002). According to one estimate, some US\$2 billion were granted each year in subsidies to industrial forest plantations. This is four times greater than the annual development assistance given to forest conservation (White 2006).

Yet government backed incentives aimed at conserving forests are increasing. In 1997, Costa Rica, recognizing the benefits that forest ecosystem services provide to society as a whole, began paying landowners to conserve or increase forest areas. The programme has helped restore much of Costa Rica's forest cover and is aiding the fight against poverty. A number of international environmental organ-

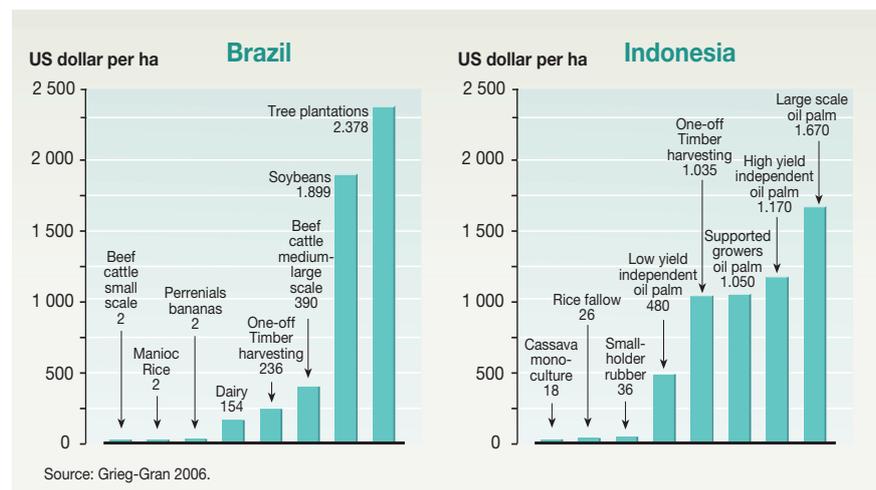
izations, including The Nature Conservancy and Conservation International, have used trust and estate laws to encourage gifts and bequests of land for conservation purposes. Conservation income tax credits and other tax incentives are also becoming increasingly popular in the United States and Europe (Shine 2005).

Through its loan policies and programmes, the World Bank has also played a significant role in forest conservation. In 2005 the World Bank announced it would extend its partnership with the World Wildlife Fund

(WWF) in the Alliance for Forest Conservation & Sustainable Use (Forest Alliance). In 2005, the Forest Alliance agreed to devote resources to reducing deforestation by 10 per cent by 2010 (WWF 2005). At the same time the World Bank has also been strongly criticized for funding forest projects that contribute to deforestation (Rainforest Foundation 2005; The Ecologist 2007).

Conserving forests has become a key weapon in the fight to reduce carbon emissions and slow climate change. According to the Intergovernmental Panel on Climate Change

When forest conversion is profitable...

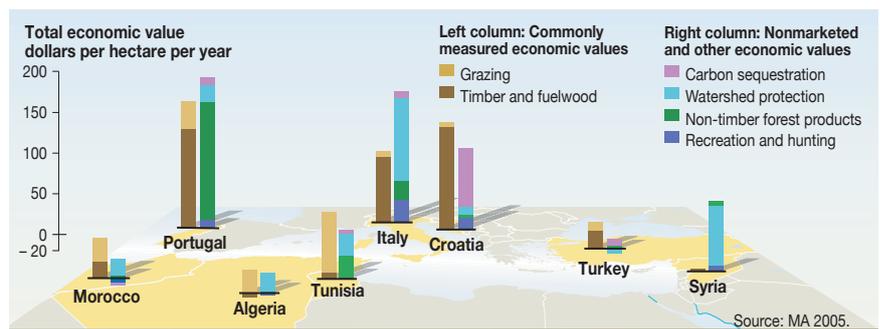


incentives to protect forests

(IPCC), deforestation is the cause of approximately 17 per cent of all greenhouse gases (GHG). At current rates of destruction, GHG emissions from deforestation in Brazil and Indonesia alone would equal approximately 80 per cent of the emissions reductions achieved under the Kyoto Protocol by 2012 (Santilli *et al.* 2005).

The concept of Reducing Emissions from Deforestation and Degradation (REDD), has gained strong support among environmental organizations and governments. In 2007, during the Conference of the Parties of the UN Framework Convention on Climate Change (UNFCCC), governments agreed to consider “policy approaches and positive incentives on issues relating to reducing emissions from deforestation and forest degradation (REDD) in developing countries; and the role of conservation, sustainable management of forests and enhancement of forest carbon stocks in devel-

↓ Economic value of forests in the Mediterranean Basin



oping countries”. Some nations such as Brazil pressed for direct payments to forest nations for protection of tropical forests. Others believed that units of forest should be assigned value, based on their ability to store carbon. These values should then be traded among willing buyers in the carbon credit market.

A number of REDD initiatives were announced during the UNFCCC conference. The World Bank launched its US\$250 million Forest Carbon Partnership Facility, aimed at building capacity for REDD in developing countries and pioneering on a relatively small scale, performance-based incentive payments in pilot countries. The government of Norway also announced its intention to allocate US\$2.7 billion over five years to prevent deforestation and reduce CO₂ emissions in developing countries. Norway subsequently announced its first partnership under this initiative with Tanzania.

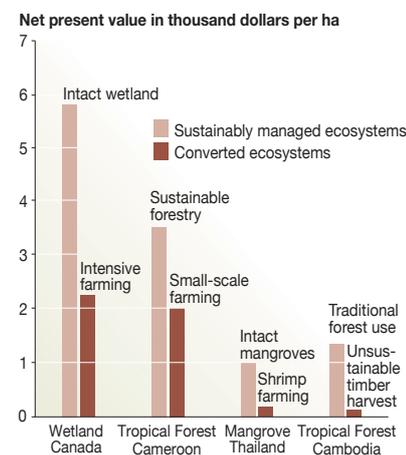
Creating an effective REDD implementation mechanism will be politically and technically complex. One question still not answered is whether carbon

market trading is the best way to avoid further deforestation. Concerns have also been raised over whether the REDD regime can be implemented where there is inadequate governance, and there is concern that efforts to conserve forests might ignore community rights, in some cases resulting in displacement of forest inhabitants (FERN 2008).

In addition, REDD faces a number of significant technical challenges, including the establishment of effective programmes, accurately assessing forest carbon emissions and setting equitable reference emission levels. Concerns also exist regarding costs for measuring and monitoring deforestation and forest degradation, establishing what is and what is not permanent forest and on the issue of leakage – the possibility that forest protection zones will displace rather than eliminate deforestation.

As the search continues for ways to address climate change and protect forest ecosystems, the debate over these programmes and other innovative financial incentives will undoubtedly intensify.

↓ Pricing ecosystems



Source: MA 2005.