

Policy pointers

Risks to REDD+ projects threaten to undermine successes, reduce the potential range of benefits, and — in some cases — project failure

Organisations overseeing community-based REDD+ projects must increase capacity and engagement of the highest level of corporate governance, such as the board to understand and address key REDD+ risks

Boards need to engage — individually and collectively — to ensure development-compatible policies to address deforestation drivers, implementation of safeguards and conflict resolution mechanisms, and appropriate sustainable forest management practices

A greater board focus on ensuring autonomy in key functions for local-level REDD+ implementation, and risk-centred strategy and leadership is highly effective in risk mitigation, along with integrating risk management into all aspects of the business cycle

How corporate governance affects the success of REDD+ projects in Tanzania

REDD+ has much potential but is not without risk, and although some risks can be addressed by technical means, many require the influence and engagement of higher levels of corporate governance within effective institutions. Tanzania, along with many countries preparing for REDD+, has significant involvement of non-governmental organisations as implementers of community-based REDD+ projects. Despite progress and optimism, several areas of risk to long-term project success remain, for example in ensuring development-orientated policies to address drivers of deforestation, effective conflict resolution and benefit-sharing mechanisms. Greater board involvement is necessary to ensure strategy and leadership with a focus on risk mitigation, and sufficient autonomy in key functions for local level REDD+ implementation. This is in line with contemporary corporate governance principles to integrate risk management with strategy, performance and sustainability.

Forests, development and climate

Healthy and productive forests provide a foundation for sustainable development and are central to a green economy.^{1,2} Economies and livelihoods rely heavily on forest ecosystem goods and services: standing forests produce energy, construction materials, food and healthcare, provide ecological infrastructure in support of biodiversity, agriculture and water supply, and improve resilience to natural disasters.

In Tanzania, the role of forests in economic development is recognised in the current Five Year Development Plan,³ and community-based forest management is a central pillar of the 1998 National Forest Policy. However, the unplanned conversion of forests (for agriculture, production

of wood fuel and extraction of timber for commercial trade) impedes the realisation of development goals, with a quarter of forests predicted to disappear by 2018.⁴ International responses to climate change focus on reducing the rate of forest loss, responsible for around 10–15 per cent of human-caused greenhouse gas emissions globally. This preserves a critical asset in reducing communities' vulnerability to climate change impacts.

Various incentive-based opportunities for forest carbon trading exist, or are under development, to assist in climate change mitigation. These include voluntary carbon markets, the Clean Development Mechanism⁵ that allows for afforestation and reforestation projects, and the ongoing development of a mechanism for

The study confirmed the need for board engagement to help address risks affecting REDD+ projects

REDD+ (reducing emissions from deforestation and forest degradation). REDD+ aims to reward countries financially for avoiding deforestation and forest degradation and enhancing carbon stocks through restoration, rehabilitation, conservation and sustainable management of forests.

As a forest-rich country experiencing rapid conversion to other forms of land use, Tanzania is well placed to benefit from the growth in global forest carbon markets.⁶

Optimism and local benefits

Efforts to prepare for REDD+ in Tanzania began around 2008, and include national REDD+ strategy development, forest inventory and institutional strengthening for forest carbon monitoring, academic research and capacity building, and the implementation of subnational REDD+ projects.

This briefing focuses on research⁷ conducted in 2012 on six of eight community-based REDD+ projects implemented by non-governmental organisations⁸ and financially supported by the Norwegian government. These projects were designed to meet various objectives, including: testing key REDD+ policy issues at local level (with lessons aimed at positively influencing development of the national REDD+ strategy); preparing local communities for anticipated future REDD+ opportunities; and reducing rates of forest loss and delivering actual community benefit. The projects have had varied success in meeting these objectives, and while challenges exist,⁹ optimism among NGO, government, private

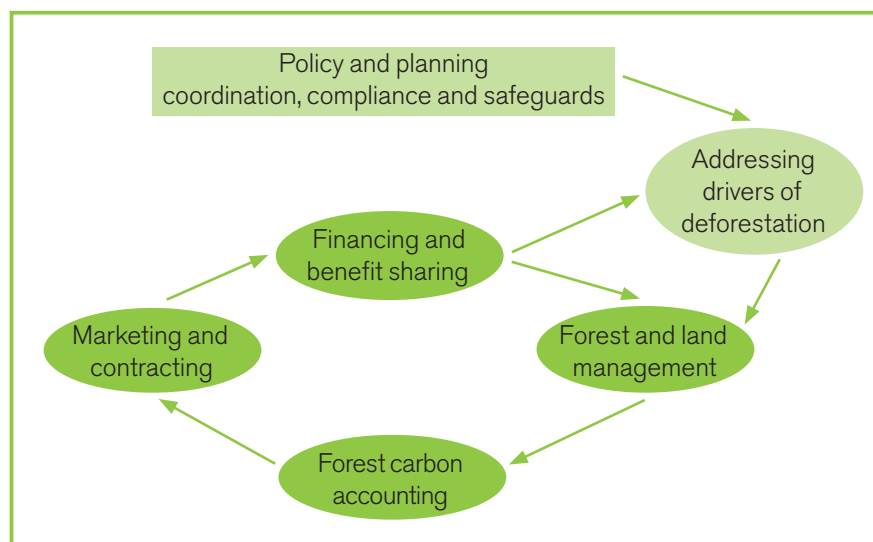
sector and community actors centrally involved in the REDD+ projects remains high. Almost two thirds of respondents in 2012 believed that forest carbon would be successfully traded within five years. Stakeholders also firmly believed that a broad range of potential benefits beyond simply monetary incentives could be realised, including improved forest management and biodiversity conservation, reduced greenhouse gas emissions, new income streams and equitable benefit-sharing, and more secure land, forest and carbon ownership and rights. Other potential benefits included enhanced economic planning for forests, enhanced social and governance safeguards or standards, more effective conflict resolution mechanisms, and forests mainstreamed within the local development context (see Table 1).

The REDD+ projects have invariably involved establishing local level institutions, capacity and practices to fulfil the various 'nodes' of REDD+ implementation (see Figure 1):

- the sustainable management of forests (and carbon) under different tenure regimes
- the measuring and accounting of carbon and emissions
- the marketing and contracting arrangements with buyers of carbon credits
- the financing mechanism to receive and distribute payments
- initiatives to address the drivers of deforestation
- the overall coordination and planning mechanisms for stakeholder engagement, safeguards and conflict resolution.

Sufficient autonomy in some of these key 'nodes' for local level REDD+ implementation is needed to avoid conflicts of interest.

Figure 1. Major 'nodes' for REDD+ implementation



Risk management

While optimism abounds, various factors are recognised as hindering (significant at $p < 1\%$ level) the realisation of potential benefits from forest carbon trade. These factors include the political risks of insecure land tenure, corruption and uncertainty of policy reforms, the technical risks of uncertainty in forest carbon estimations and non-permanence of forest carbon gains, the social risks of insufficient safeguards and conflict resolution mechanisms, and the economic risks of poor financial planning and benefit-sharing arrangements (see Table 1). Indeed, the wide range of political, social, economic and environmental/technical risks can drive uncertainty within forest carbon markets and undermine potential buyers' confidence.

Underscoring the need for integrated risk management, significant negative correlations ($p < 1\%$) were found between four of the eight risks and overall potential benefits from REDD+, that is, ensuring development-compatible policies to address drivers of deforestation, sustainable forest management practices, social and governance safeguards, community acceptance and conflict resolution.

The study confirmed the need for greater focus on ensuring drivers of deforestation — the most prevalent risk in terms of perceived severity, impact on potential benefits, and lack of current effectiveness in mitigation efforts. REDD+ must form part of a sustainable development approach, enabling the necessary reforms in policy and practice in sectors responsible for drivers of deforestation, such as agriculture and energy.

Effective governance

Managing risks requires effective institutions. However, the persistence of complex and severe risks indicates how organisations implementing REDD+ projects cannot deal with them at technical and management levels alone. Higher level oversight, intervention and influence by the board is needed to avoid project failure.

The board plays a key role in corporate governance - providing strategic direction, executive action, supervision and accountability. Contemporary corporate governance principles also require an integrated approach to dealing with strategy, performance, risk management and sustainability.¹⁰ Five aspects of executive approach are of particular relevance to REDD+:

1. Risk-centred strategy and leadership:

increased focus on risk management (covering financial, social, technical and political risk) and an integrated executive approach to strategy, risk, performance and sustainability.

2. Capacity and organisation of authority:

ensuring sufficient capacity in areas such as systems, people and technology, and the proper organisation of authority, for example in the technical areas of carbon monitoring, reporting and verification.

3. Autonomy in key functions:

clear separation of roles and third party engagement to boost credibility and avoid conflicts of interest, for example in areas of information collection and processing, management of funds, auditing and verification.

4. Engagement, partnerships and stakeholder relationships:

fairness, transparency and inclusiveness to ensure the legitimate interests of stakeholders are taken

Table 1. Potential benefits of REDD+ and related risks

Potential benefit	Nature of related risk
Environmental considerations	
Reduced greenhouse gas emissions	Carbon and emissions measurement: complexity of remote sensing, setting of reference emissions levels, and to monitor, report and verify additionality, leakage and permanence at local and national levels
Improved forest management and biodiversity conservation	*Sustainable forest management practices: trade-offs (effectiveness, efficiency and equity) and strategic choice of forest management practice depending on factors such as forest type, status and tenure, demographics and stakeholder needs, threats and opportunity costs, stage in forest transition and management capacity
Social considerations	
Enhanced social and governance safeguards	*Safeguard implementation: ensuring sufficient social and environmental safeguards given their need to have full and effective participation of stakeholders, consistency with international standards, enforceable through legislation, and supported by mechanisms for assessment, monitoring, reporting and conflict resolution
More effective conflict resolution mechanisms	*Community acceptance and conflict resolution: mechanisms to resolve internal and external disputes (e.g. land/forest/carbon tenure and rights, beneficiaries and benefit sharing) effectively, fairly and efficiently
Economic considerations	
Enhanced economic planning for forests	Financial feasibility: weighing up the economic value of the carbon compared to costs (opportunity costs, start-up, protection and transaction costs) and planning for uncertainties such as carbon price volatility
New income streams and equitable benefit-sharing	Benefit sharing mechanism: integrity in a mechanism to receive finance and ensure a performance-based, efficient, equitable and transparent benefit sharing system to identified beneficiaries whilst avoiding elite capture
Political considerations	
Securer land, forest and carbon ownership and rights	Land, forest and carbon tenure and rights: ensuring clear, secure and uncontested land/forest tenure and user rights, including the links between carbon rights holders and benefit sharing
Forests mainstreamed within the local development context	*Development compatible policies to address drivers: ensuring REDD+ is part of an overall sustainable development approach and enabling the necessary policy reforms in sectors responsible for drivers of deforestation, such as agriculture and energy

* risks with significant impact

into account during decision making, and coordinated partnerships between government, non-government and community-based institutions.

5. Anti-corruption and legal compliance:

independent revenue/fund management, independent audits, results-orientated

management, monitoring and evaluation, increased accountability, transparency and enforcement to counteract weak governance and rent-seeking opportunities.

In Tanzania, emphasis on these five aspects of executive approach varies. Capacity development and engagement with key stakeholders were perceived as priorities within REDD+ projects and have proved relatively effective in dealing with certain risks, for example, ensuring reliable measurement of forest carbon and emissions, sustainable forest management practices, economic feasibility of forest carbon trade, and implementation of social and governance safeguards. However, these preferred executive approaches are not necessarily the most effective in addressing important areas of risk. Two executive approaches in particular, ensuring strategy and leadership with a focus on risk mitigation and ensuring autonomy in key functions, are correlated ($p < 1\%$) with addressing risks relating to appropriate policies that address drivers of deforestation, and benefit-sharing mechanisms.

Recommendations

1. In order to improve the chances of entering forest carbon markets, institutions implementing sub-national REDD+ projects must increase the engagement of their highest levels of corporate governance, the board. Tabling a discussion of the risks to REDD+ projects at board meetings would be a next practical step.

2. Boards should enhance the two executive approaches found to be highly effective in risk mitigation: ensuring autonomy in key functions, and ensuring strategy and leadership with a focus on risk mitigation.
3. Board and management should focus on ensuring appropriate policies to address drivers of deforestation, implementing safeguards, community acceptance and conflict resolution, and appropriate sustainable forest management practices. There is also scope for the Boards of different organisations to collaborate in getting key risks addressed at national level.
4. Institutions should initiate internal and external dialogue and further research in order to develop a risk-centred action plan for accessing forest carbon markets, first reviewing the risks and then integrating risk management into all aspects of the business/operational cycle.
5. Some assessment of board composition and capacity building may be required to ensure Board members fully understand and can meet the needs of forest carbon trade.

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Knowledge Products

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The Forest Governance Learning Group (FGLG) is an informal alliance of in-country teams and international partners across Africa and Asia aiming to connect those marginalised from forest governance to those controlling it, and to helping both do things better. FGLG is facilitated globally by IIED.

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Notes

¹ UNEP (2014) Building Natural Capital: How REDD+ can Support a Green Economy. Report of the International Resource Panel / ² OWG (2014) Progress report of the Open Working Group of the General Assembly on Sustainable Development Goals / ³ URT (2011) The Tanzania Five Year Development Plan: 2011/2012-2015/2016. Dar es Salaam, Tanzania: President's Office, Planning Commission / ⁴ Kahyarara, G (2008) Trends in population growth and forest cover change in Tanzania (from 1980 until 2018). *Tanzanian Journal of Population Studies and Development* 15 (1&2) 81-94 / ⁵ CDM of the 1997 Kyoto Protocol of the United Nations Framework Convention on Climate Change / ⁶ NRTF (2012) Second draft National REDD+ Strategy. Dar es Salaam, Tanzania: National REDD+ Task Force, Vice President's Office – Division of Environment / ⁷ Exploratory research was undertaken during 2012 to examine the nature of risks affecting viability and the influence of executive approach. The research was qualitative, with 105 questionnaires completed by a range of stakeholders, both within NGOs (board, management and technical staff) and externally (central and local government, private sector and local communities), with results analysed using a range of non-parametric statistical tests / ⁸ African Wildlife Foundation (AWF), Jane Goodall Institute (JGI), Mpingo Conservation and Development Initiative (MCDI), Tanzania Forest Conservation Group (TFCG), Tanzania Traditional Energy and Development Organisation (TaTEDO) and Wildlife Conservation Society (WCS). / ⁹ TNRF (2011) REDD Realities: learning from REDD pilot projects to make REDD work. Tanzania Natural Resources Forum, Arusha, Tanzania / ¹⁰ IDSA (2009) King code of governance for South Africa 2009 (King III). South Africa: Institute of Directors in Southern Africa.