



## REDD+ PAYMENTS AND THE LIMITATIONS OF OPPORTUNITY COST APPROACHES

Let's assume for a moment that I own a well-managed 1,000-hectare rainforest. I have harvesting rights, but I also have the option to turn the forest into an industrial plantation or farmland. In other words, I have numerous options; I can leave the forest untouched, cut and sell the commercial trees or turn the forest into another land use.

Not too long ago, I opted for some light logging as I was short of cash. Before making the necessary arrangements with a logging company, I was approached by some "REDD carbon brokers?" who explained that they would pay me for keeping the forest the way it is; to lock up carbon as they explained further. They also pointed out that they would cover the foregone benefits from logging and provide a small additional bonus. I was about to accept when I remembered that the foregone benefits or opportunity costs would be substantially higher, if I would claim that I never intended to log but instead wanted to establish an oil palm plantation on my land. I know the price for palm oil has been on the rise for a while and my land is easily accessible. So why should I go for the less rewarding option. After all, the "REDD people" had no idea what my actual plans were.

Hans Gregersen and his co-authors call this "environmental blackmail" in their recent publication entitled "Does the Opportunity Cost Approach Indicate the Real Cost of REDD+?" And that is only one of the problems that the authors unearth in their review.

There is little doubt that in a well-functioning market economy – cynics may point out that the recent economic crisis teaches us that none exists – opportunity cost provides a satisfactory indicator of the minimum amount that would need to be paid to forest owners or users not to deforest or degrade. This is under the assumption that a rational economic entity would want to be paid at least as much as the entity gives up by not deforesting or degrading. The authors are quick to point out that' "While in theory and under certain real-world conditions opportunity cost provides a useful indicator of payments needed, they see a number of problems in using it in the main political, social and economic contexts faced in the tropical countries that will be implementing REDD+."

Opportunity costs are inappropriate when we come across – as in my hypothetical example above – environmental blackmail, when there are illegal activities, or when the majority of land users operate outside the market, as is the case with shifting cultivators. We can also expect that the price to be paid to land owners will be determined by the market and not by various opportunity costs. Also, as prices go up and down, opportunity cost is not a static concept. In fact, it would have to be negotiated on a fairly regular basis. Finally, as others have also pointed out, numerous interpretations of the opportunity concept exist and cost estimates vary widely. If you read the report, then you will find that the challenges above are only the tip of the iceberg.

What makes the report worth reading is that it does not end with the authors heads in the sand. Instead, they provide some worthwhile advice to help governments get the REDD+ response framework right.

You can download the report on from the following webpage: [http://www.rightsandresources.org/publication\\_details.php?publicationID=1555](http://www.rightsandresources.org/publication_details.php?publicationID=1555). It's only 18 pages and provides also a long list of very recent references.

Finally, with all its weaknesses, the opportunity cost approach has still its merits. It can help determine, where REDD payments will definitely be sufficient to change the behavior of land uses. Vice versa, cost estimates can point towards the low-hanging fruits, areas that any national REDD Programme should focus on.

**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 web-site [http://www.un-redd.org/AboutUNREDDProgramme/NationalProgrammes/Regional\\_Activities/tabid/4624/language/en-US/Default.aspx](http://www.un-redd.org/AboutUNREDDProgramme/NationalProgrammes/Regional_Activities/tabid/4624/language/en-US/Default.aspx). The team welcomes feedback, suggestions or inquiries to [goredd.th@undp.org](mailto:goredd.th@undp.org).