

Corruption risks and experiences in REDD+ financial benefit sharing mechanisms

The success of REDD+ hinges on providing forest users with positive monetary and non-monetary incentives or benefits that both motivate behavioral change regarding forest use and help offset the various costs associated with implementing REDD+. Financial benefit sharing is designed to distribute REDD+ revenues to forest users in order to provide them with more lucrative income-earning opportunities than those gained by felling trees.



REDD+ will ultimately be implemented in countries where corruption and other governance problems are widespread, and financial benefits are susceptible to corruption given the significant gains at stake. Addressing corruption risks in the distribution of financial benefits is key to REDD+'s success for two reasons. First, forest users will have fewer incentives to change their behavior when corruption prevents financial benefits from reaching them. Second, the failure of benefits to reach forest users could result in undermining popular support for, and the legitimacy of, REDD+.

An overview of REDD+ financial benefit sharing mechanisms

REDD+ financial benefit sharing entails the transfer of funds from the international arena to forested countries and the sharing of those funds between actors in recipient countries (Madeira et al 2013; Peskett 2011). Money flows to governments or other actors like non-governmental organizations (NGOs) in REDD+ countries either through inter-governmental transfers (currently the dominant funding source) or via flows of money from private actors or global carbon markets (Madeira et al 2013; Thuy et al 2013).

As Figure 1 shows, after entering a recipient country, funds are distributed vertically and/or horizontally to the actors who have an impact on forest resources. Vertical distribution entails the allocation of funds from international actors (foreign aid donors, carbon markets, or private actors like NGOs) directly to REDD+

country governments (national and/or sub-national), projects, or beneficiaries. Alternatively or additionally, money flows from national-level governments to local governments and areas where deforestation primarily occurs (Thuy et al 2013; Lindhjem et al 2011; PwC 2012; Madeira et al 2013). Vertical distributional mechanisms include national REDD+ trust funds, revenue channeling through existing government budgets, and direct project funding. Horizontal distribution entails the local-level distribution of forest-derived revenues between communities and/or community members.

Revenues are not only distributed via different governance scales and actors, but also at different times. Input-based payments are made up front to forest users, prior to any behavioral changes, enabling and incentivizing individuals to implement REDD+ activities (Thuy et al 2013). Output-based payments are made as the result of achieving certain goals or standards against a pre-established baseline, and are more likely to be connected to carbon market financing (PwC 2012).

Corruption risks and anti-corruption strategies in REDD+ financial benefit sharing mechanisms

Corruption – defined as “the abuse of entrusted power for private gain” – poses a serious threat to the success and legitimacy of REDD+. Corruption raises the costs of implementing REDD+, prevents the flow of money and therefore incentives to the “right” individuals, and skews the equitable distribution of benefits. Corruption enables some actors to benefit more than others, meaning that those who benefit less or not at all will have reduced incentives to forgo forest-based income earning opportunities like logging and will furthermore feel that they have been treated unfairly (Lindhjem et al 2011). Corruption can occur in REDD+ BSMs in at least five ways: by influencing the design process; through beneficiary identification; through design flaws; through the manipulation of data used to determine payments; and through revenue management.

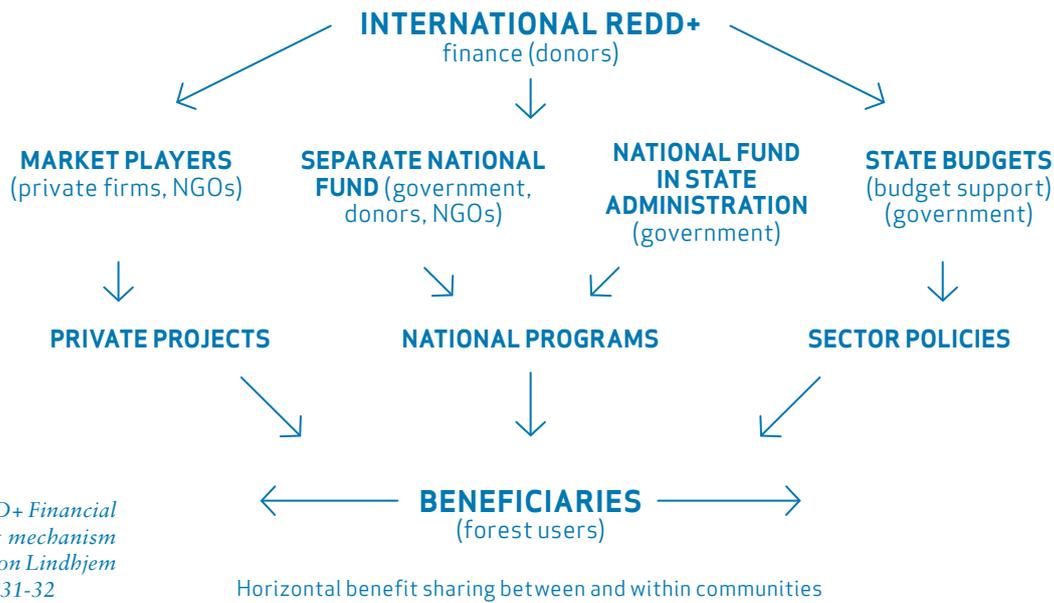


Figure 1. REDD+ Financial benefit sharing mechanism designs. Based on Lindhjem et al 2011, pp. 31-32

The design of benefit sharing mechanisms

Corruption can influence the actual design of benefit sharing mechanisms (BSMs), such as when “vested interests...influenc[e] the design of REDD+ policies and institutions to maintain flaws and opportunities for benefiting later by legal, semi-legal, or corrupt means” (Dermawan et al 2011, 6). BSM features that are particularly susceptible to corruption during the design process include the type of BSM chosen for a country or local area; the creation of monitoring, reporting, and verification (MRV) mechanisms; establishing the baseline emissions level; and developing the operating rules for financing mechanisms, including what revenues should be used for and who should manage the funds. Corruption in the design phase is likely to influence corruption in later phases of BSM implementation.

Dysfunctional governance and low budget transparency in a country or local area is likely to negatively influence the design of a BSM. One solution to this challenge is to design a BSM that sits outside of the state administration and that has extra checks and balances and/or is governed by an independent board (Lindhjem et al 2011; Madeira et al 2013). Likewise, project-based funding can limit rent-seeking by government officials. Yet, it should be noted that bypassing the state is nearly impossible in administering REDD+ activities (to include BSMs), as states create the legal framework and institutional conditions for REDD+ and circumventing the state can both weaken its capacity and undermine its legitimacy. National government leadership and involvement may be critical for coordination, momentum, and ownership of BSMs.

Additionally, meaningful participation mechanisms that allow for input into decision-making processes regarding the selection of a BSM and the creation of its rules, as well as in how revenues are used and monitored, can both help to prevent the establishment of BSMs that might create opportunities for corruption and also increase transparency and accountability within a BSM. Particular attention should be paid to ensuring the participation of marginalized social groups such as women and indigenous peoples in order to avoid elite capture in the design process.

Donor partners can take steps to mitigate and identify corruption risks related to the design period by carrying out in-depth political economy analysis and mapping out the relevant actors for a BSM and their incentives, as well as the power structures and relationships between actors and institutions that are expected to be involved with, and impact, the design of a BSM. Analysis of experiences in benefit sharing mechanisms in other natural resource sectors such as mining would aid in this endeavor. USAID has developed an assessment tool that could serve as a useful model in such a mapping exercise (USAID 2012).

Beneficiary identification

BSM beneficiaries can be identified in different ways – for instance, due to their control over land rights. However, unclear, insecure land rights can lead to land grabbing by elites via illicit methods, allowing some to benefit from BSMs more than others. Moreover, contracts for access to forest resources such as forest concession agreements, licenses, and harvest permits can be falsified as a result of bribery or extortion or be assigned to political favorites where the process of assigning contracts lacks transparency, again skewing the equitable distribution of benefits (Thuy et al 2013; Lindhjem et al 2011; Behr et al 2012; Dermawan et al 2011).

Measures to combat these risks include working to clarify and strengthen land rights, adopting a participatory approach to the design of a BSM, mapping out all of the relevant stakeholders, and tackling corruption risks within the forest sector more broadly through steps such as contract transparency.

Design flaws

Corruption can occur due to design flaws that are not the result of corruption during the design phase, as institutions can have different effects than those their designers intend. The general operating rules, as well as the accountability and transparency mechanisms included in a BSM may not be as clear, realistic, or well-designed as intended. Information about revenue flows and uses may not flow as freely and openly between actors as hoped for, particularly where capacity to send, receive, and/or comprehend information is

low. BSMs may not provide sufficient checks and balances on actors involved with revenue management when deeper power relations conflict with the roles assigned to actors in a BSM. Finally, sanction mechanisms may be inadequate to prevent corrupt behavior, or they may simply not be enforced (Thuy et al 2013; Dermawan et al 2011; Lindhjem et al 2011).

Mitigating corruption risks produced by design flaws is an ongoing process that entails continuous monitoring and adaption of BSMs to emerging realities. Targeted efforts to improve the capacity of actors to enforce BSM rules and regulations as well as of key stakeholders to access, understand, and use information can reduce information and power asymmetries that create incentives and opportunities for corruption.

Emissions data

Emissions data is particularly important in output (performance) based BSMs, wherein the receipt of benefits depends on achieving a verified level of emissions. Yet emissions data can be manipulated, such as through fraud in the collection, reporting, and verification of data that determines financial rewards. For instance, BSM beneficiaries may bribe officials responsible for data collection and analysis, exaggerate current rates of deforestation, or purposely increase emissions prior to the implementation of REDD+ in order to secure larger future payments. Such behavior could result in benefits being rewarded to projects that have not taken place or that were not as successful as claimed. In Indonesia, for example, Clean Development Mechanism projects' emission reduction figures as well as timber plantation numbers have been questioned (Dermawan et al 2011).

Several steps can be taken to prevent corruption in emissions data collection and reporting. First, stakeholders can implement an input-based BSM where general monitoring, reporting, and verification (MRV) capacity is weak (PwC 2012). Second, donors can help to build the capacity of governments, research institutes, and civil society organizations in REDD+ countries to collect and analyze data, as well as to monitor the collection of data. Independent, third-party verification and auditing of emissions data can help to ensure the accuracy of collected and reported information (Madeira et al 2013). In Indonesia, civil society groups externally validated the progress of the Kecamatan Development Project (KDP) against internal project reports, highlighting discrepancies (Madeira et al 2013). Finally, emissions data should consistently and publicly reported, in order to ensure transparency and accountability in emissions data.

Revenue management

Revenue management encompasses everything from the decision-making process that determines on what revenues are to be spent and by whom, to how revenue is collected and channeled from one set of actors to another, to expenditure accounting and reporting. Several factors enable revenue mismanagement, including the number of transfer points in revenue flow chains and the practices of institutions that relate to BSMs. Where there is little transparency and accountability in the flow of revenues between different actors and governance levels – particularly within institutions like banks that are critical to the functioning of BSMs but that stand outside of a BSM's rules – opportunities for corruption will emerge, such as fraud in accounting and outright theft of revenues. Moreover,

the greater the number of transfer points and/or intermediaries in a revenue flow chain such as different government departments or third party actors, the higher the number of opportunities for leakage (Hoang et al 2013).

Power asymmetries also facilitate revenue mismanagement, and manifest themselves in decisions about how and on what revenues are spent as well as through unfair accounting processes. Elites generally have greater influence over revenues flows than ordinary people; the often low salaries of government officials in poor countries in conjunction with high state intervention in and control over the forestry sector (and resulting concentration of decision-making power) create both incentives and opportunities for elite embezzlement of BSM revenues. For example, corruption affected how funds from the Indonesian Reforestation Fund were spent, with millions of dollars used by national political elites for patronage purposes (Dermawan et al 2011; Lindhjem et al 2011). In poor countries with low quality governance, people such as local communities and women, "...rarely have the power to prevent the actions of corrupt officials and elites, who prevent the transfer of real power, demand bribes, or embezzle funds" generated by conservation projects (Smith and Walpole 2005, 252).

Several mitigation measures can be adopted to avoid these risks. First, clear rules regarding, and good systems for carrying out, revenue transfers, monitoring, and reporting can establish behavioral expectations and trust between actors, and reduce opportunities for corruption. Second, robust checks and balances on the authorities involved in revenue use can deter unethical behavior; this can occur, for instance, by requiring a certain number of signatories from different stakeholder groups to access a communally-managed BSM bank account or by creating independent, transparent bodies to approve and monitor project proposals.

Third, participation must be a key feature of revenue management in any BSM. In addition to ensuring the participation of beneficiaries themselves, including civil society organizations in decision-making processes about BSM revenues can act as a safeguard against revenue mismanagement and the inequitable distribution of revenues. Uganda's Bwindi Mgahinga Conservation Trust provides an example of the positive contribution of civil society organizations in this regard (PwC 2012).

Fourth, transparency and accountability are needed at every stage of the revenue management chain: in the calculation of benefits, in decision-making regarding revenue usage and distribution, in data collection, and in the monitoring and reporting of revenue distributions and usage. A distributional equation can ensure transparency in benefit calculation, as it provides an objective calculation of the amount of benefits each stakeholder should receive. Vietnam's so-called K-factor is just such a formula; it "differentiates the amount of payments to forest owners according to forest status, types of forests, origins of the forests and level of difficulty in forest management" (Hoang et al 2013, 52).

Publicly-accessible internet portals for information sharing on revenue transfers and revenue uses can also enhance transparency and accountability (as has been used in the ICMS Ecológico Program in Brazil). So too can signboards and public meetings, particularly in rural communities (PwC 2012). Information



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sharing must, however, be accompanied by efforts to ensure that information recipients, such as local community members, are able to understand and use the information they have received, not only access it.

Fifth, timely, public distribution as well as direct transfer of benefits to individuals can help to reduce revenue leakages. Some successful examples come from Ecuador, Indonesia, and Brazil, though it should be recognized that local governance institutional quality plays an important role in the success of these particular examples. In Ecuador's Socio-Bosque program, revenues are distributed directly either to individual or community beneficiaries' bank accounts upon government approval of a community investment plan. Funds for Indonesia's KDP project are channeled directly from the central to sub-district governments and then into village bank accounts upon approval of a project proposal. In Brazil's Juma Reserve Project, the government credits money to beneficiary credit cards on a monthly basis in exchange for leaving forests intact (Madeira et al 2013; PwC 2012).

Finally, BSMs should include robust and appropriate sanction mechanisms for when BSM rules are violated, and prosecutions must be carried out to ensure that corrupt behavior does not go unpunished. A complaints mechanism is one way of bringing corrupt behavior to light, and accountability standards and codes

of conduct can help individuals to measure and maintain integrity in BSM management. Only by raising the costs of non-compliance can corruption be avoided in BSMs; this is a function of providing benefits that outweigh the costs of implementing REDD+, but also of imposing punitive measures for failing to adhere to the rules.

Conclusion

As more countries begin to implement REDD+ and institutions to share REDD+ financial benefits in the coming years, there will be a heightened need for carrying out more research to generate a solid empirical evidence base about the evolving challenges in BSMs as well as the impact that benefit sharing has on changing forest users' behavior. If and when carbon markets become active, we will need improved understanding of how potentially large carbon financing flows will affect corruption risks in BSMs, to include in assigning carbon rights. Second, REDD+ activities are likely to increase the value of land and forests over time, raising the costs of REDD+ and BSMs, and possibly also changing the nature of corruption risks in BSMs. Third, we know relatively little about implementing BSMs under REDD+. Research should therefore be carried out to examine the outcomes of improving transparency and accountability within BSMs, as well as lessons about what works and does not in terms of implementing corruption-mitigating REDD+ BSMs.

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