# U4 Expert Answer

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## Technical assistance in the field of integrity of carbon reduction incentives mechanisms

## Query

**Please provide an overview of actors and institutions with technical expertise in the field of integrity of carbon reduction incentive mechanism related to forestry.**

## Purpose

We would like to provide support to the Indonesian Anti-Corruption Agency (KPK) in order to develop their technical expertise in this field. We are seeking advice on relevant partner institutions and sources of technical assistance.

## Content

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## Summary

Experience with incentive based interventions indicates that governance issues are likely to be critical to the success of such approaches in terms of reducing carbon emissions. But incentive based mechanisms to address climate change face major corruption challenges. Large flows of money could fuel rent seeking activities, elite capture of REDD benefits, and create new opportunities for forest corruption. In addition, such schemes can generate a pattern of perverse incentives leading to increased corruption and inequitable distribution of benefits, potentially resulting in actual deforestation and forest degradation.

Faced with such integrity challenges, anti-corruption institutions need to develop their expertise with regard

to forest governance and the particular technical aspects of REDD programmes. Given the novelty and technical complexity of REDD there is relatively little technical assistance available in this area.

This query compiles a list of international organisations, civil society organisations, research and environmental institutions that are developing relevant expertise in this area.

## 1 Integrity and incentive mechanisms for mitigating climate change

The emergence of incentive based schemes such as the initiative for Reducing Emissions from Deforestation and Forest Degradation (REDD) is associated with major implementation challenges. Given the newness of such interventions, there is little specific experience to learn from at this stage. However, lessons drawn from Payments for Ecosystems Services (PES) approaches or initiatives such as the Indonesian Reforestation Funds demonstrate that governance issues are likely to be critical to the success of incentive based mechanisms for reducing carbon emissions.

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**Date:** 15 July 2010  **Number:** 252

## Lessons from Payments for Ecosystems Services (PES)

### *Forest governance as a prerequisite for PES programmes*

Payments for Ecosystem Services (PES) broadly refer to the practice of providing incentives to land owners in exchange for them managing their land to offer some form of "ecological services". Twenty four specific ecosystems services have been identified by the 2005 UN sponsored Millennium Ecosystem Assessment, including provision of food, fuel, flood control or climate regulation (United Nations, 2005). The assessment considers that nearly two-thirds of these twenty four ecosystem services are now under threat.

The principle of PES is increasingly being applied to the broader context of climate change mitigation and carbon emissions reduction schemes. Within this framework, the initiative for Reducing Emissions from Deforestation and Forest Degradation (REDD) can be viewed as a multi-level PES. Under such schemes, forest carbon payments are offered to land owners who manage their land in a way that either leads to carbon sequestration in planted trees or protects carbon stocks in natural forests.

A study was commissioned in 2009 by the Norwegian Royal Ministry of Foreign Affairs to review lessons for REDD from the experience of 13 PES approaches implemented in Africa, Southeast Asia and Latin America (Bond, I. and al, 2009)[1]. The report concludes that while PES can indeed create incentives for reducing emissions from deforestation and degradation, their effectiveness depends on the national forest governance framework and can be greatly compromised under conditions of weak governance and accountability. It has also been suggested that the large influx of funds flowing through national REDD programmes could fuel rent-seeking activities and create new opportunities for forest sector corruption.

Case studies from the Democratic Republic of Congo, Indonesia and Brazil – which have the largest national tropical forest areas – confirm that the readiness of these countries to provide an effective framework for land management, equitable payment arrangements and environmental protection is weak. The study recommends investing in improved governance structures or enabling policies when certain institutional, economic and cultural conditions are not met.

### *Strengthening forest governance at national and sub-national level*

The study also recommends that REDD programmes integrate forest governance processes that strengthen land tenure and resource rights for forest-dependent communities, facilitate equitable sharing of benefits and promote sustainable forest management. Key elements of such governance processes include:

- **Multi-stakeholder consultation on REDD**: The planning and implementation of REDD should promote multi-stakeholder dialogue through participatory processes to enhance mutual trust between governments, NGOs, the private sector and community groups.

- **Integration of REDD into national development planning**: As the main drivers of deforestation mostly lie outside the forestry sector, the REDD mechanism should be aligned with broader national development policy and planning processes, especially poverty reduction strategies.

- **Reform of forest policy, legal and regulatory frameworks**: Reforms to improve forest management should accompany REDD implementation, especially with regard to land tenure and resource access and control.

- **Independent monitoring**: As there is a clear conflict of interest if governments monitor their own performance, there is a need for independent monitoring of forest governance reform processes and outcomes. Global Witness has developed a set of 10 principles derived from Independent Forest Monitoring for the implementation of REDD + (Global Witness, 2010).

- **Strengthen procedural rights** to allow citizens to participate in REDD planning and implementation and hold government accountable through measures aimed at promoting access to information, participation in decision making and access to redress.

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[1] The following section summarise key findings from this study in the area of forest governance.

## Misaligned and perverse incentives

### The case of the Indonesian Reforestation Fund

A case study of the Indonesian Reforestation Fund (*Dana Reboisasi* or DR) illustrates how incentive based mechanisms can generate a perverse pattern of incentives and result in actual loss of natural forest cover (Barr C. et al. 2010)[2]. Established in 1989, the Reforestation Fund is a national forest fund financed by a volume-based levy paid by timber concessionaries. In the late 1990s, the Ministry of Forestry used the Reforestation Fund to subsidise the development of industrial timber plantations as part of the Ministry's Hutan Tanaman Industry (HTI) programme. Capital subsidies were allocated to plantation projects carried out by state-owned forestry enterprises or joint-ventures between private and public companies.

**DR subsidies capture**

This incentive based mechanism was marred by corrupt and fraudulent practices. It is believed that during the Soeharto regime, a substantial portion of the DR subsidies were allocated to companies owned by members of the Soeharto family and their business associates. Approximately two thirds of the DR funds were distributed to ten HTI companies closely connected to the political elite and the sector's most powerful actors. In many cases, this was done at the expense of forest dependent communities, who were displaced from the concession sites held by these companies.

**Perverse incentives for forest conversion**

The use of the RD funds to support the development of commercial plantations has created perverse incentives for unsustainable forest management. The Ministry of Forestry allowed HTI licence-holders to clear the remaining natural forest from their concession sites, encouraging the over-harvesting of selective logging concessions and clearing of "degraded" forest areas. DR subsidies included cash grants and discount loans to promote commercial forestry development and DR levies on natural timber that were well below the stumpage value of the wood harvested.

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[2] The following sections summarise key findings from the CIFOR study, entitled *Financial Governance and Indonesia's Reforestation Fund during the Soeharto and Post-Soeharto Periods, 1989-2009: A Political Economic Analysis of Lessons for REDD+* (Barr, C. *et al.*, 2010).[2]

As a result, HTI licence holders had strong incentives to locate their activities on sites that had significant amounts of natural forest cover, as they could obtain larger economic rents by increasing the commercial volume of standing timber. In many cases, HTI licence holders allegedly never planted their sites once they were cleared, suggesting that their main incentives had been to access low-cost timber from the national forests and/or securing the DR subsidies. Due to these misguided patterns of incentives, the Indonesian reforestation programme effectively resulted in a significant loss of forest cover.

This situation is likely to be sustained over time, as in 2007, the Ministry renewed allocations of DR subsidies to support the development of 9 million hectares of new commercial plantations by 2016. This could continue to encourage the removal of natural forest cover and undermine the government's ability to meet REDD+ targets of carbon emission reductions.

### REDD and equity concerns

There is a broad consensus that indigenous peoples are particularly vulnerable to the effects of climate change (Chêne, M., 2010 Forthcoming). As REDD is meant to be implemented in forests that are inhabited and/or used by indigenous people, there are also some concerns that PES and other climate mitigation schemes may have a negative impact on local communities' livelihoods and equity. It could threaten poor and marginalised groups – especially indigenous people and forest dependent communities – through elite capture of the benefits, lost access to environmental assets and lack of voice in REDD decision making (Bond, I. et al, 2009). In addition, risks of corruption in the management of REDD programmes may further reinforce the exclusion/marginalisation of indigenous people. More specifically, areas of concern for REDD payments include (Bond, I and al, 2009):

4. Weakening of land tenure and resource rights for indigenous people;
5. Equity in opportunities to participate as sellers of carbon reduction units;
6. Equity in payment levels and terms, as indigenous groups are more vulnerable to exploitative contracts;
7. Local economy impact on food prices and employment.

However, according to the above-mentioned review of PES programmes and projects, there is little evidence to date that PES schemes have had adverse effects on

equity and livelihoods, with some projects specifically targeting marginalised groups. However, as REDD payments are implemented on a much larger scale than other PES projects and in countries where governance institutions are often weak, the study recommends introducing strong safeguards against elite capture and strengthening the land tenure of local communities.

## REDD's principle of additionality and the potential for creating perverse incentives

In order to be considered under a REDD programme, the forest owner has to prove that carbon benefits would not have happened without the compensation payment offered. Beyond equity concerns, some experts argue that this principle of *additionality* may provide perverse incentives. It might lead to compensating the "wrong" stakeholders - those who currently exploit and threaten to destroy forest resources who will be paid to prevent them from doing further harm - , while excluding indigenous communities that have protected forests as part of their traditional customs and way of life. In addition, as only forests that are under imminent threat of destruction can be considered under REDD, the Climate Change Monitoring and Information Network (CCMIN) warns that this may provide perverse incentives and encourage forest owners to start destroying forests just in order to be included in a REDD programme and gain access to compensation subsidies

CCMIN Website:
http://ccmin.aippnet.org/index.php?option=com_content&view=article&id=14&Itemid=27

# 2 Overview of actors and institutions

Faced with such integrity challenges in a technically complex and relatively new field of activity, anti-corruption institutions need to develop their expertise on both anti-corruption applied to forest governance and the particular technical aspects of REDD programmes. Given the newness of REDD there is still relatively little technical assistance provided in a way that captures cutting-edge advice on anti-corruption, forest governance and REDD. The Helpdesk has not identified institutions that specifically provide technical training on REDD-related corruption issues. However, a growing number of international organisations, civil society organisations, research and environmental institutions are developing relevant expertise in this area and could be considered for developing capacity

building programmes targeting anti-corruption institutions.

## Policy stakeholders

### UN REDD

The UN-REDD Programme is the United Nations Collaborative initiative on Reducing Emissions from Deforestation and Forest Degradation (REDD) in developing countries. The Programme was launched in September 2008 to assist developing countries prepare and implement national REDD+ strategies, and builds on the convening power and expertise of the Food and Agriculture Organisation of the United Nations (FAO), the United Nations Development Programme (UNDP) and the United Nations Environment Programme (UNEP). The Programme currently supports REDD+ readiness activities in nine pilot countries, spanning Africa, Asia and the Pacific and Latin America, including Indonesia. The UN-REDD Programme brings together technical teams to help develop analyses and guidelines on REDD implementation related issues. Within this framework, UN REDD has developed a minimum social and environmental standard and risk assessment tool that, among other issues, looks at governance and corruption related risks. More information is available at:
http://www.un-redd.org/AboutUNREDDProgramme/tabid/583/language/en-US/Default.aspx

### INTERPOL's Environmental Crime Programme

Although not specifically focused on corruption, INTERPOL's Environmental Crime Programme could also be involved in capacity building initiatives targeting anti-corruption institutions. Its mandate is to assist its member countries in the effective enforcement of national and international environmental laws and treaties. At national level, the Environmental Crime Programme seeks to strengthen the abilities of member countries with regard to the deterrence, apprehension, investigation and prosecution of environmental criminals, and helps co-ordinate the actions of multiple countries in cases with international implications. While the programme primarily targets wildlife and pollution crime, it also strives to respond to other emerging environmental crime trends. More information can be found at:
http://www.interpol.int/Public/EnvironmentalCrime/Default.asp

### INTOSAI

The International Organisation of Supreme Audit Institutions (INTOSAI)'s Working Group on Environmental Auditing (WGEA), was established to improve the use of audit instruments in the field of environmental protection policies. In particular, the group supports joint auditing by SAIs of cross-border environmental issues and policies, and the audit of international environmental accords. In order to fulfill its mandates, the WGEA assists supreme audit institutions (SAIs) in acquiring a better understanding of the specific issues involved in environmental auditing, facilitates exchange of information and experience among SAIs; and publishes guidelines and other informative material for their use. More information can be found at:
http://www.environmental-auditing.org/Home/AboutWGEA/MissionandMandate/tabid/102/Default.aspx

### Global Witness

As an NGO investigating and campaigning to prevent natural resource-related corruption, Global Witness has developed considerable relevant expertise in the field of forest governance and corruption. In particular, as part of its forest campaign, the organisation seeks to tackle illegal logging, the trade in conflict timber and unsustainable forest use. While not *per se* a capacity building institution, the organisation's experience in investigating and exposing corruption in the forestry sector could greatly benefit anti-corruption institutions. More information is available at:
http://www.globalwitness.org/pages/en/forests.html

### Access Initiative

The Access Initiative is a civil society initiative in 50 countries promoting transparency, inclusiveness and accountability on environmental matters. It is a global network dedicated to ensuring that people have the right and ability to influence decisions about the natural resources that sustain their communities. Working in their respective countries, TAI partners form national coalitions and assess the performance of their governments to promote access to information about government decisions, public participation in decision-making, and access to justice when their rights to information, participation, and a clean environment are violated. More information is available at:
http://www.accessinitiative.org/

### Transparency International

Transparency International has launched a new programme on REDD (PAC REDD) as part of its five year Forest Governance Integrity (FGI) Programme. The aim is to motivate forestry related government agencies, financial institutions and other private sector players to support the incorporation of transparency and integrity mechanisms in REDD schemes, and to help build civil society at a local level capable of monitoring these mechanisms. The project will be carried out in the TI National Chapters of Papua New Guinea, Vietnam and Indonesia. Expected outcomes include the adaptation of existing corruption risk maps and monitoring tools to REDD schemes, training workshops, campaigns for inclusion of anti-corruption tools in REDD schemes and regional learning and best practice workshops. More information may be found at:
http://www.transparency.org/regional_pages/asia_pacific/forest_governance_integrity

## Research oriented institutions

### Centre for International Forestry Research (CIFOR)

CIFOR is a non-profit, research-oriented institution promoting environmental conservation and equity through research on the use and management of forests in developing countries. The organisation aims at helping policy makers and practitioners shape effective policy, improve the management of tropical forests and address the needs and perspectives of people who depend on forests for their livelihoods. Its multidisciplinary approach considers the underlying drivers of deforestation and degradation which often lie outside the forestry sector: factors such as agriculture, infrastructure development, trade and investment policies and law enforcement. CIFOR has experience in training government staff in auditing forest management plans in timber concessions in Peru, in collaboration with the Peruvian National Resources Management Agency (INRENA) (CIFOR News online). More information is to be found at: http://www.cifor.cgiar.org/

### International Institute for Environment and Development (IEED)

The IEED is an independent international research organisation, focusing on five major areas, including climate change, governance, human settlements, natural resources and sustainable markets. It integrates both the technical and governance dimension of environmental issues and has generated considerable

knowledge on the multidimensional aspects of climate change. More information can be found at: http://www.iied.org/

## World Resource Institute (WRI)

WRI is an environmental think tank with a staff of more than 100 scientists and policy experts. It develops and promotes policies to protect the environment. In particular, WRI is best known for the *World Resources* report which compiles data and in-depth analysis on current environmental issues. As part of its governance and access programme, WRI aims to increase citizen and community access to government decision-making as a way to protect the environment and alleviate poverty. WRI is working with local coalitions of civil society, government officials and policy-makers to improve transparency, public participation and access to justice. More information can be found at: http://www.wri.org/governance

## Chatham House

Although it does not provide technical training as part of its regular mandate, the Royal Institute of International Affairs (Chatham House) has developed considerable knowledge and expertise in the area of climate security and sustainable development solutions. As part of its Energy, Environment and Development Programme (EEDP), Chatham House manages the illegal-logging.info website, which provides background information on key issues in the debate around illegal logging and the trade in illegal timber, together with news stories, information on events, key documents and links to other relevant websites. More information can be found at: http://www.chathamhouse.org.uk/research/eedp/about/ and http://www.illegal-logging.info/

# Example of organisations involved in environmental auditing

Auditing activities associated with forestry labelling/certification schemes may also involve development of technical expertise in identifying corruption opportunities associated with REDD programmes. There are several groups - including in Indonesia - that are certified to conduct FSC auditing that could contribute to relevant capacity building activities.

## The Climate Community and Biodiversity Alliance (CCBA)

The CCBA is a partnership among research institutions, corporations and non-governmental organisations (NGOs) dedicated to the evaluation of land-based carbon projects. The CCBA has developed the "CCB Standards" to identify land-based climate change mitigation projects that simultaneously generate climate, biodiversity and sustainable-development benefits. The Standards comprise fourteen required and three optional "Gold Level" criteria. Once a project has been designed, a third-party evaluator will determine if individual criteria are satisfied. The auditors of projects that have been audited under the CCB Standards by independent 3rd party certifiers could also be approached to provide technical assistance. These include auditing companies such as Det Norske Veritas, Scientific Certification Systems (SCS), Ernst & Young, KPMG Forest Certification Services, etc. More information can be found at: http://www.climate-standards.org/projects/index.html

## Gold Standard Foundation

The Gold Standard Foundation is a non-profit organisation which registers projects that reduce greenhouse gas emissions in ways that contribute to sustainable development and certifies carbon credits for sale on both compliance and voluntary offset markets. The Foundation is supported by a core group of NGOs that, at the time when rules of procedure for the Clean Development Mechanism (CDM) were being decided, pushed for the adoption of a more rigorous methodology.

The Foundation has developed methods and tools that enable project developers to meet the Gold Standard's rigorous requirements in a transparent manner. It has trained auditors and established a Technical Advisory Committee that can provide technical assistance and guidance. The Foundation also supports project developers through its Local Expert Network and through various carbon market actors who have entered into some form of engagement with the Gold Standard. More information can be found at: http://www.cdmgoldstandard.org/Who-we-are.68.0.html

## Rainforest Alliance

The Rainforest Alliance has developed environmental and social standards for the sustainable management of natural resources while helping companies and organisations adopt sustainable practices.

The Rainforest Alliance promotes independent third-party certification, which assures consumers that the wood products they purchase come from well-managed forests. With the launch of SmartWood in 1989, the Rainforest Alliance developed a global forestry certification programme that seeks to harness market forces to conserve forests. Rainforest Alliance is one of the founders of the Forest Stewardship Council (FSC) and one of the largest FSC-accredited certifiers. More information can be found at:
http://www.rainforest-alliance.org/forestry.cfm?id=main

### Lembaga Ecolabeling Indonesia (LEI)

The Indonesian Ecolabelling Institute (LEI-Lembaga Ekolabel Indonesia) is a non-profit membership-based organisation that specialises in developing forest certification systems that promote just and sustainable forest resource management in Indonesia. LEI receives broad support from the forest industry, indigenous peoples groups, the forest science community, as well as social and environmental non-governmental organizations. LEI seeks to ensure the independence and transparency of its activities through its balanced membership structure. More information is available at
http://www.lei.or.id

### SEKALA

SEKALA is an Indonesian-based organisation currently working at three different levels:

1. National scale: SEKALA is working with a range of partners including the Ministry of Forestry, World Resources Institute and the World Bank on a Forest Monitoring and Assessment System (FOMAS).

2. Provincial/district scale: SEKALA is leading a consortium of organisations to carry out a Strategic Environmental Assessment for spatial planning in Papua province.

3. Local scale: SEKALA is helping local communities to carry out community mapping.

SEKALA has established a Geographic Information System (GIS) lab, retains qualified GIS technicians and a vast database of spatial data and can verify whether a forest area has been cleared or not. SEKALA also provides training on GIS, satellite image processing and remote sensing to various stakeholders. Some of these training workshops are linked to FOMAS and aim to initiate discussion among civil society and local forestry offices about data availability, information sharing mechanisms, standards, metadata and analysis. These training workshops also seek to increase awareness about the need for transparency and to mobilize a constituency committed to sharing forest data and information. More information can be found at:
http://www.sekala.net/

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