



Summary report

Preventing the risks of corruption in REDD+ in Indonesia

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Preventing the risks of corruption in REDD+ in Indonesia

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Reducing emissions from deforestation and forest degradation (REDD) is a mechanism designed under the United Nations Framework Convention on Climate Change (UNFCCC) to enhance the role of forests in curbing climate change. The UNFCCC and its bodies have expanded the concept to include enhancement of carbon stocks, conservation, and sustainable management of forests in developing countries, or REDD+. REDD+ has the potential to alter the incentives for deforestation and land use change and to encourage sustainable forest management. REDD+ promises potentially significant roles of Indonesia's forests in global efforts to mitigate climate change, as well as a new source of revenue for Indonesia by avoiding deforestation and rehabilitating degraded forests.

While international agreements on REDD+ under the UNFCCC are still under negotiation, it is evolving as a voluntary, bilateral and multilateral mechanism. Significant Official Development Assistance (ODA) has already been committed to create the enabling conditions for REDD+ and demonstration activities in forest-rich tropical countries, including Indonesia. The hope is that eventually ODA will be replaced by payments for reduced carbon emissions in a fully operational compliance market for forest carbon credits.

The Government of Indonesia (GoI) has been introducing policies and regulations, creating coordinating mechanisms and initiating demonstration projects to prepare for REDD+ since 2007. It has also been taking steps to curb corruption generally, and in the forest sector, specifically by

strengthening legislation and involving independent agencies in monitoring forest-related activities and institutions. However, the country still needs time and significant efforts to reduce corruption.

The REDD+ readiness phase in Indonesia involves a wide range of reforms and decisions. Some of these will have long-term impacts on the actors engaging in forest-related activities. Other initiatives are trying to establish clearer regulatory procedures for REDD+. Both will influence how successful REDD+ will be during the implementation phase, and how it will work in practice. Therefore, the success of preventing corruption will influence who will benefit from REDD+, and how it will be implemented.

The forest-related wealth in Indonesia has created specific factors and interests and made the forestry sector highly susceptible to corruption. First, large projects involving billions of US dollars of public funds – or capable of generating considerable wealth exist in the forestry sector. Second, concessions and permits for activities in forests offer a significant source of government revenue. An example from the recent past is the Reforestation Fund and its misuse for the enrichment of elites. Third, illegal logging and associated corruption have long been acknowledged as a serious problem and driver of deforestation, and have also resulted in substantial losses of government revenue in Indonesia. The GoI has been moving forward with several anti-corruption initiatives. Considerable progress has been made. However, given the deeply rooted weak governance within the forestry sector, the risks of corruption in REDD+ remain significant in Indonesia.

REDD+ will take shape during three principal phases. During the readiness phase, tropical countries build the institutional and policy framework. During the implementation phase, national strategies and measures are put into effect. In the third phase, performance-based payments are made for verified carbon emissions reductions. Potential corruption in the readiness phase will affect the national policy-making process and is therefore likely to involve powerful individuals and groups, such as politicians, logging companies, agribusiness and possibly the military, that may harness the opportunities presented by REDD+ to 'legalise' corruption. Therefore, corruption during the Readiness phase will influence the level of risk for corruption in later REDD+ phases.

Corruption in the REDD+ policy arena is likely to undermine efforts to reduce forest conversion. It is also likely to influence the design of new policies and institutions, so that corrupt practices can continue under REDD+. If risks of corruption materialise, it is likely that few improvements in long-term land use planning will occur and key land tenure problems will not be addressed. Failure to address these issues will compromise the national strategy on REDD+ to align development and climate change mitigation goals.

The REDD+ readiness phase in Indonesia already involves large and growing amounts of public, primarily donor, funds as well as private investment. It also involves complex interactions among actors. Successful use of these funds for policy reform and a shift to low-carbon development will require cooperation among agencies. Since 2007, the GOI has set up several new mechanisms to coordinate the REDD+ policy development, such as the Indonesia Forest Climate Alliance (IFCA), the National Climate Change Council (Dewan Nasional Perubahan Iklim, DNPI), three REDD+ working groups and most recently, the REDD+ Task Force.

However, the presence of vested interest groups with powerful connections and much to lose or gain will be the main determining factors for corruption in policymaking. Ambiguous authority, leadership and clear roles and mandates with legal backing; inconsistent policies; opportunities for discretionary decisions; and a lack of accurate and publicly accessible data could all facilitate corruption or allow undue influence on decision making.

Past experience has shown that poor financial management capacity, elites who act outside the rule of law without being penalised and the absence of accountability mechanisms (including monitoring and verification of reports and financial transactions) have led to corruption and misuse of forest funds. If repeated or not adequately addressed, these conditions could create significant risks for corruption in climate finance in Indonesia. Failing to anticipate these risks would compromise the effectiveness of REDD+ to meet its emission reduction and revenue targets.

Corruption and fraud could also affect the distribution of revenue. A source of vulnerability to corruption or fraudulent practices is the presence of networks of vested interests and their track record in meeting contractual obligations. The disbursement and management of revenue across scales present several challenges. One is delays in disbursement and spending – a frequent problem in the distribution of large funds when financial management capacity is poor. The approval of future REDD+ revenues to be shared across government levels and the allocation of these revenues also involves much back and forth between districts, provinces, and central agencies. This in turn delays implementation of, in particular, subnational government development programmes.

Revenues from the Forest Concession Fee (Iuran Hak Pengusahaan Hutan, IHPH) and Forest Resource Rent Provision (Provisi Sumber Daya Hutan, PSDH) are transferred into a Ministry of Forestry (MoF) bank account which also serves as the source account from which these revenues are further distributed to local accounts. Province and district levels, the funds are absorbed into provincial and district budgets, which means that the revenue may or may not be used for forest-related activities. In many cases, the shared forestry revenues are insufficient to cover even the staff and operational budgets of provincial or district forestry offices.

Poorly defined boundaries of areas allocated for concessions, missing titles and boundaries of immovable property in forests create possibilities for corruption in REDD+ project licensing. The absence of information about forest conditions is another factor that facilitates corruption. Licensing regulations require applicants for REDD+ project concession

agreements and permits to determine the forest condition and ascertain that the area is free from any existing rights. Yet there are currently no mechanisms to ensure that these criteria are met. Even though timber plantation and ecosystem restoration permits should be issued only for degraded forests, free from competing claims, many apply to land either with good forest conditions or which are already occupied. Difficulties in land identification and missing data may also prevent applicants from meeting the criteria for land suitable for specific types of permits and allow misuse and manipulation, which may involve bribes.

This risk is of critical importance for REDD+ because, should it materialise, it will allow REDD+ concession holders to deforest before the accounting period begins, thereby altering baselines and skewing national carbon accounts. Corruption in the licensing process may also lead to large-scale land grabs, violation of existing tenure rights, and conflicts over land, where the main losers will be traditional communities governed by customary law and people who depend on forests.

The current system for reconciling forest production and payment reports is inadequate. In Indonesia, there are at least twelve actors currently involved in reconciling production and payment reports with strict timelines. However, the Supreme Audit Agency (Badan Pemeriksa Keuangan, BPK) found in some cases that reconciliation is not carried out regularly. If this weakness is replicated under the REDD+ mechanism, it will undermine accurate credit accounting and foster corruption, allowing proponents to claim undeserved credits. It may even allow proponents to continue with business as usual while profiting from carbon credits. Ultimately, this will skew national carbon accounts and have implications for the integrity of the global REDD+ regime.

Figure 1 summarises the main conditions for corruption in the readiness phase and the likely outcomes.

There are, therefore, several risks of corruption associated with REDD+. One is undue influence by political networks both in the policy arena and at

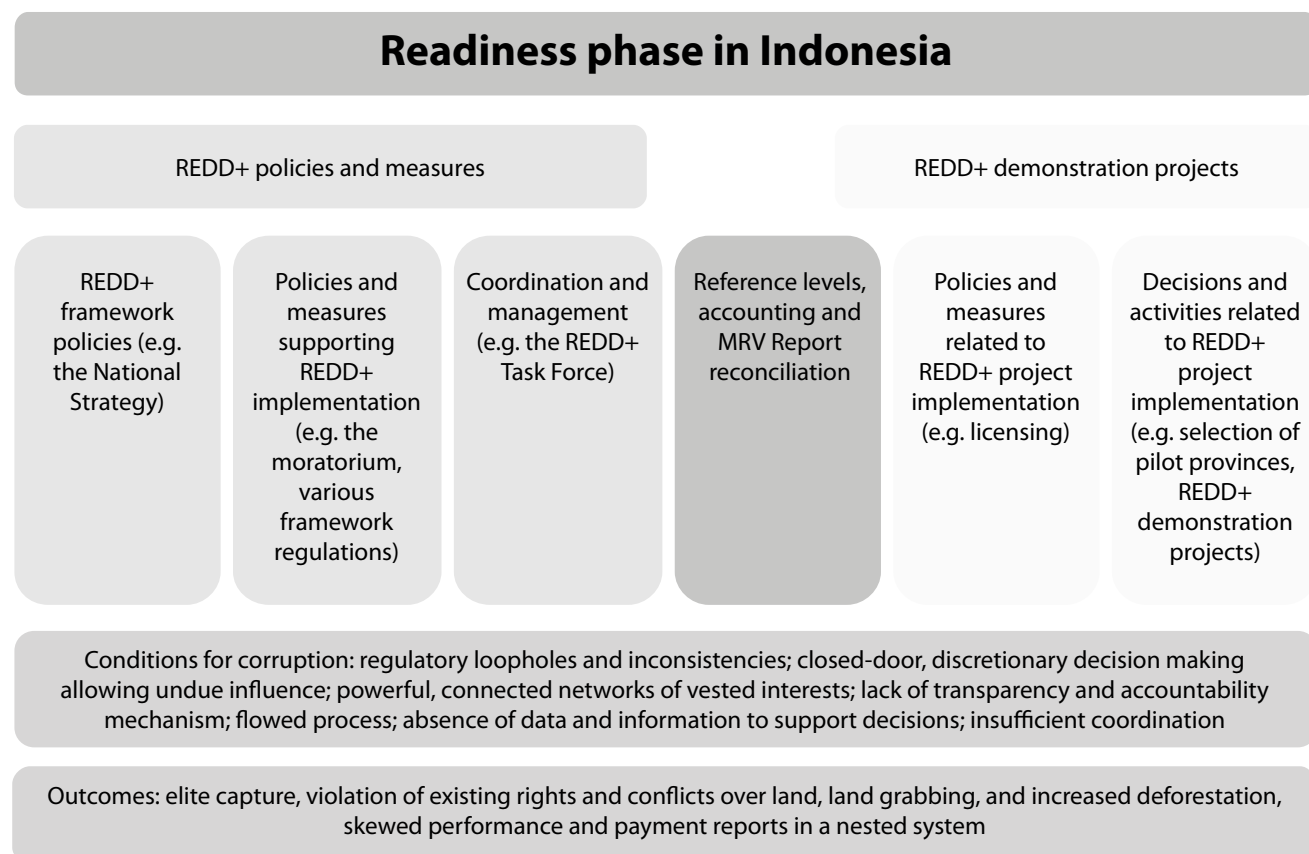


Figure 1. Corruption risks and outcomes in the REDD+ readiness phase

project level. The risk of policy co-opting can affect, for instance, forest land use, the issuance of permits, the distribution of funds and access to and profit from carbon markets, and even the accounting of emissions reductions from projects.

REDD+ is likely to be associated with increasing funds and opportunities for both profit and corruption. There is always a risk for corruption when monetary sums are huge and the markets and mechanisms that money will flow through are young and emerging.

Both the international negotiations under the UNFCCC and the progressive shifts in centres of power and leadership in the domestic REDD+ debate in Indonesia are characterised by high levels of uncertainty. Confusing regulations, missing information and data, competition over authority and rights to land have created a complex landscape and increased this uncertainty. This complexity and uncertainty also create higher risks of corruption, which could influence the REDD+ design, thereby ensuring vested interest groups maintain their access to forest resources. This will also undermine trust – a critical condition for any market.

Policies, licensing and benefit-sharing rules may end up creating structural flaws and perverse incentives that allow creative accounting, projects that produce no additionality, reporting of fictitious emissions reductions, double counting, manipulation of baselines, misrepresentation of projects and other ways to factor in undeserved gains. These are likely to involve some degree of corruption as well.

The critical policy issues that need to be addressed to limit corruption and manipulation of decisions relate to:

1. defining and mapping state forest boundaries and recognising forest and land tenure of forest-dependent communities and indigenous peoples;
2. integrating the objectives outlined in the National Strategy on REDD+ into land use policies;
3. clarifying and consistently applying criteria for forest conversion; and
4. closing regulatory loopholes and generating data and making it publicly accessible to support informed policymaking.

The Government of Indonesia is already working to address some of these issues. Others have been recognised, but no decisions have yet been made. Many of these decisions are difficult to take and cannot be implemented overnight. This is why it is important to prioritise and establish clear timeframes and deadlines. Such prioritisation is important both for the government and its ability to monitor its own progress as well as for donors, business interests and the public. It will create a predictable policy environment that nevertheless adjusts to the dynamic REDD+ environment and will build trust – a critical condition for any market, including a REDD+ market. Creating systems to monitor progress in introducing policies and achieving objectives is an important step in ensuring accountability and reducing risks for corruption. In doing so, consideration should be given to key questions such as these.

1. What are the benefits and risks in engaging existing agencies versus creating new institutions?
2. What capacity is needed for each issue, and are there cost-effective ways to build that capacity?
3. Which is the right level or agency to perform each task associated with REDD+?
4. What risks and opposition are likely for each decision option?

All these steps will help create a predictable and stable policy environment and reduce institutional turf battles.

Apart from ensuring a stable, predictable and clear policy environment, the Government of Indonesia can take several other measures to prevent or limit corruption. One is to promote greater transparency. A fully transparent process clearly defining development options and stakeholder positions will reduce opportunities for closed-door deals on policies and rules.

However, curbing corruption goes beyond establishing a transparent and inclusive process. It requires clear leadership, decision making and implementation roles among the various agencies involved, clear priorities for action with set time frames, publicly accessible geographically referenced up-to-date information about forest locations, conditions and activities. The Government of Indonesia can take specific steps to address these issues and improve transparency.

Many of these steps will also help increase agencies' accountability. Introducing processes for accountability and independent oversight and review is important across the board for the various ongoing efforts. This requires that checks and balances are built into REDD+ core structures, be they ones that implement policies or manage REDD+ funds, accounts or reports. A clear separation of mandates and functions is also required. Given past experience with forest finance in Indonesia, special consideration should be given to the introduction of systems for independent financial monitoring and oversight as well as significant investment in building financial management capacity along with strengthening national government ownership. Reviewing systems for report reconciliation and streamlining will also limit opportunities for manipulation and corruption. National institutions entrusted with combating corruption and money laundering should be involved more fully in financial monitoring and audits of climate finance.

Accurate and updated data supporting forest land classification for different uses inside and outside the forest estate and a stronger focus on high-value forests and their demarcation, coupled with transparency and accountability, will limit corruption and manipulation of current efforts. Reporting progress to the public will further strengthen accountability.

Anti-corruption safeguards should be integrated as core elements in REDD+ design in Indonesia. Clarifying the roles and involving the Corruption Eradication Commission (*Komisi Pemberantasan*

Korupsi, KPK), the Financial Intelligence Agency (Pusat Pelaporan dan Analisis Transaksi Keuangan, PPATK) and the Supreme Audit Board in REDD+ will ensure the implementation of existing anti-corruption and anti-money laundering policies and rules and will help monitor processes, practices and key companies and individuals defined as politically exposed. However, different corruption risks require different measures and degrees of urgency. The current risks of corruption are highest in the policymaking, development of regulations and licensing processes. Policymakers aim to undertake some reforms to limit forest conversion. Land demarcation, accurate data and closing regulatory loopholes are three likely targets for efforts to curb corruption as they will influence future land use and may underpin more profound reforms. Licensing rules legitimise the numerous projects already underway and are therefore urgent as well. As REDD+ evolves, the risk of corruption will increase in the distribution of REDD+ funds and the reconciliation of project reports.

Not all of the issues can be addressed by the Government of Indonesia alone. International donors can also play key roles. Donors could provide technical assistance to increase the capacity, particularly of government staff at subnational levels. The areas where donors could assist is not limited to the forestry sector where related technical issues such as the development of forestry maps or revenue administration within and between agencies are critical, but also to increase the capacity of the audit and anti-corruption agencies.

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