Handbook of Global Research and Practice in Corruption

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42. Illustrative Means of Verification: (1) Demonstration of capacity and procedures to deal with financial mismanagement and other forms of malpractice; (2) Evidence of an objective investigation function for allegations of fraud and corruption.

43. http://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/Review_of_Practices_NGO-CSO_Particiaption_Final.pdf

44. Note on Disclosure of Documents Prepared for Purposes of the Climate Investment Funds. See http://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/Note%20on%20disclosure%20of%20Documents%20-%20may%202009.pdf

45. Nakhooda, Smita. The Clean Technology Fund: Insights for Development and Climate Finance, WRI, March 2010. See http://pdf.wri.org/working_papers/clean_technology_fund.pdf

46. http://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/EXPERT_Group%20members_051110.docx

47. http://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/Criteria_for_selecting_Experts_032610_KEY_Document.pdf

48. http://www.climateinvestmentfunds.org/cif/Administrative_Unit

49. http://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/SREP%204%20Report%20of%20the%20SREP%20Expert%20Group%20June%202010_final.pdf

50. Apparently, the government of Mongolia has written a letter to the CIF Administrative Unit regarding the pilot country selection which is published on the CIF website but following the link leads only to a blank uploaded document. See http://www.climateinvestmentfunds.org/cif/workingdocuments/1960. The same results are seen with a similar letter by the government of Djibouti.

51. Pilot country eligibility criteria had been determined by the sub-committee following its March 2010 meeting which requires low-income status but not LDC status. See http://www.climateinvestmentfunds.org/cif/workingdocuments/1960. The same results are seen with a similar letter by the government of Djibouti.

52. Summary of the co-chairs meeting of the SREP sub-committee November 8, 2010, para.12. See http://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/SREP%20Co_chairs%20summary_Novemberber_2010_010411.pdf

53. It has been reported that in one country where US$200,000 received via the LDCF to prepare a NAPA (National Adaptation Action Plan), the government outsourced the study to a private institution for US$25,000. The account of the remaining US$175,000 was not made public and it is not clear what was reported to the LDCF.

54. http://www.transparency.org/policy_research/surveys_indices/cpi/2010/results

55. http://www.transparency.org/news_room/latest_news/press_releases/2008/bpi_2008_en

56. http://www.transparency.org/global_priorities/public_contracting/integrity_pacts

8 Corruption in REDD+ schemes: a framework for analysis
Peter Larmour

REDD – reducing carbon emissions from deforestation and forest degradation – promises to be a cheap and effective way of reducing the amount of carbon in the atmosphere. First proposed by the governments of PNG and Costa Rica in 2005, it has been gaining international favour, particularly after the Copenhagen Conference. REDD+ includes other measures to enhance forest carbon stocks. One REDD mechanism – payment for Environment Services (PES) – envisages paying governments or landowners for not cutting down trees (Angelsen, 2009; Howes, 2009 for PNG).

The idea of REDD+ is simple to explain, but it also seems simple to cheat. The international rules are still unclear and – being international – will be hard to enforce. Once in place, the complexity of REDD+ regulations will create its own opportunities for corruption. Markets in carbon credits already provide opportunities for speculation by 'carbon cowboys' (Filer, 2010). The huge flows of money envisaged are attractive to criminals. In any case, forestry has a poor track record for illegality, including corruption. Some of the countries signing up for REDD have poor reputations for corruption in government.

There is a small but growing literature on corruption risks in REDD schemes, often starting from the experience of illegal logging (Tacconi et al., 2009; Brown, 2010; Bofin et al., 2011). Transparency International's upcoming Global Corruption Report will focus on climate change. This chapter proposes a framework summarizing types of diagnoses and cures for corruption and applies it to REDD+[1]. First, to set the scene, it identifies some similarities and differences between the literature on corruption and the literature on REDD.

THE TWO WORLDS OF ANTI-CORRUPTION AND REDD+

First, solutions to deforestation and corruption often seem to lie outside the scope of the problems they address. Thus Angelsen concludes 'broad societal policies and non-forestry policies play a critical role' in deforestation

(2009, p. 137). These could include agriculture or tax policy. Similarly Daniel Kauffman (2005) has argued 'you don't fight corruption by fighting corruption'. It is often more effective to work indirectly, by public sector reform. Even more broadly, just as there is a 'forestry transition' there may be a 'corruption transition' (Grundlach and Paldam, 2008). As countries become richer they become less corrupt: and the causal flow is from income to corruption rather than the other way round. While we can't afford to just let it happen, policy and institutional design should at least go with the grain of these broader social forces.

Second, both make distinctions between developing and developed countries, and are caught up in questions of historical justice, blame and responsibility (Bulkeley and Newell, 2010, pp. 35–53). The UN Framework Convention on Climate Change has different rules for developed countries (so called Annex 1) and developing countries (non-Annex 1) countries. The latter complain that they are being penalized for a problem caused by the former. In the world of anti corruption, Transparency International's (TI) Corruption Perceptions Index shows rich countries to be less corrupt than poor ones, but its Bribe Payers Index shows rich country companies bribing officials in poorer countries. Rapidly industrializing countries like China or Brazil can play victim and perpetrator of climate change and corruption.

Third, both anti-corruption and REDD face problems of translation between levels of government: international, national and domestic. In REDD it is translation from international agreements to action at national and local levels. An unresolved issue is whether REDD payments should be made to national or local governments, or direct to landowners. Corruption control, by contrast has traditionally been a national concern, albeit imperfectly carried out by the police and courts (with some international co-operation through Interpol). TI initially planned to operate only at the international level, dealing with corruption in international business (De Sousa, Larmour and Hindess, 2009). It has been particularly successful in getting international financial institutions like the World Bank to take corruption seriously. But it was quickly persuaded it would lack credibility unless it created national 'chapters' (which in turn typically generate quite local projects).

These three levels are different moral and legal orders, as well as political ones. We are not surprised if nation states follow their own perceived interests, and bend international rules to their own interests. Carried out by individuals at national and local level, such opportunism and hypocrisy looks more like 'corruption'. There may also be differences in values between national elites and local people. Transparency International's focus group research in PNG, for example, finds local people forgiving of corruption by

their peers (seen as 'doing it tough' in difficult conditions), while at the same time deeply suspicious of elite misbehaviour (Walton, 2009).[2]

Fourth, both literatures have a practical intent. Their authors are interested in the phenomena of deforestation and corruption, but they want to do something about it (REDD+ and anti-corruption). In the anti-corruption world Robert Klitgaard wrote against the fatalism of earlier arguments that nothing much could be done about the problem. His 1988 book *Controlling Corruption* provided an analytic framework and concrete examples of successful efforts. The contributors to a World Bank volume (Campos and Pradhan, 2007) use his formula 'Corruption = Monopoly + Discretion – Accountability' to identify risks in various sectors of government activity, including in forestry. Similarly, climate change think tanks nudge their researchers towards practical implications and non-pessimistic conclusions. Neither literature sees a tension between theory and practice.

Fifth, the dominant international framework for thinking about both corruption and deforestation has been broadly institutionalist. It emphasizes the choices individuals make within long established 'rules of the game'. Arid Angelsen's work on REDD (for example 2009) generally follows this approach. Susan Rose Ackerman's work (1978, 1999) is particularly influential in the world of anti-corruption (she was also a sometime adviser to the World Bank). This approach is attentive to the paradoxes of government intervention, in concepts such as moral hazard and misaligned or perverse incentives. Its ideas about 'principals' and 'agents' underlay the aborted efforts to reform UK legislation in 2003. It is productively applied to corruption in REDD in Brown (2010), acknowledging Rose-Ackerman's influence. Brown identifies three areas in which corruption is likely to emerge in REDD:

(i)   *Manipulating Baselines.* Governments and project promoters perversely 'stand to gain from expanding deforestation in anticipation of the REDD start date to open the greatest wedge from which to gain future credits' (Brown, 2010, p. 261). Brown points out that corrupt officials could argue that they are acting in the national interest in so doing.

(ii) *Doublecounting,* particularly if the future REDD regime allows both national and project level schemes.

(iii) *Verification,* local level officials could be bribed to report that promised reductions in deforestation had taken place when in fact they had not.

To counter these risks Brown proposes design changes and better enforcement (ibid. 263–266). Governments should try to set national baselines

over large clearly defined areas, reducing reliance on smaller projects that are less easy to monitor and more easy to double count. They should involve local communities, NGOs and international organizations in monitoring, and draw on international technical assistance. Annex 1 (that is, developed countries) should do more to discourage their own nationals from abetting corruption in developing countries, particularly the US Foreign Corrupt Practices Act, and the OECD convention on Combating Bribery of Public Officials.

In this chapter I want to take a slightly different tack, starting from corruption, and putting the institutional approach into a broader context, with greater emphasis with individual psychology (on the one hand), and broader political concerns (on the other).

Definitions and Types

Whereas the proponents of REDD are inventing new concepts (and acronyms) the writers on 'corruption' are dealing with a long-standing phenomenon about which there are many different academic and popular views. The cost, of course, is that the REDD debate is hard for outsiders to follow, heavy with acronyms, and its principles hard to communicate to those who are supposed to implement it.

'Corruption' – in English at least – is an ancient word, often bandied about and saturated with moralism. The cost of its familiarity is loss of precision, and more moralism than may be warranted. For example, it may be relatively easier to mobilize the population of a country against 'corruption' than it is to mobilize them against 'deforestation'. Everyone is against corruption, though when you look more closely they may have different things in mind. Fewer see the point of avoiding deforestation.

Activists often get impatient with arguments about definition (preferring to get on with fighting the problem). Government officials typically have to run with the definitions available in the national law. The definition of corruption as 'use of public office for private gain' has become the international standard. Brown's sophisticated institutionalist account adopts it without question (2010, p. 237; p. 242). It reflects long-standing liberal suspicions of government (for example, as expressed in Angelsen's 2009 evaluation of the risk in various REDD+ architectures). But it only takes us so far. Its focus on public office can overlook corruption within the private sector or NGOs (both important actors in REDD+). It can also miss corruption that doesn't involve personal enrichment – for example corruption on behalf of family, clan, region or political party (or, perhaps, nation in the international arena where global standards are set). Some of this has been called 'noble cause' corruption.

A political scientist, Mark Warren (2004) argues that the public/private preoccupation is somewhat out of date. It fitted eighteenth-century concerns to protect individual liberties against absolute states. But it has nothing particular to say about democracy and the fact that there are other sources of power in complex modern societies: big corporations and the media, for example. He argues that an overarching meta-norm of democracy is inclusion of those affected by decisions, and he proposes a new definition of corruption as 'duplicitous exclusion'. For example, a job that is supposed to be open to everyone is in fact given to the person that bribes the selectors; or a tender open to all is settled among friends. Warren's definition points to the moral quality of hypocrisy that we find offensive in corruption: officials espouse one (inclusive) value, but practice the other (exclusive). This definition would cover weak or incomplete local consultation processes over REDD+ schemes, as well as such high-level exclusions as the choice of companies to carrying out verification under a Clean Development Mechanism (Shapiro 2010).

Different types of corruption may also impact differently on REDD. The standard distinction made is between petty and grand corruption. The former is small payments made in exchange for services that should have been provided for free. It is often visible and socially accepted (because of low salaries) even if formally illegal. The second is the more secretive, illegal, grand corruption of minister and senior officials, accepting bribes for bending the rules towards the giver. The World Bank and its work on oil revenues have popularized a third term 'policy corruption' whereby leaders change the law to suit their own business interests. It is, by definition, not illegal.

Each type is likely to be present in the world of REDD+, and each requires a different kind of treatment. Small, socially accepted payments may be rife on the forestry frontier, where poorly paid inspectors may rely on the co-operation of people they are supposed to regulate. Grand corruption is more likely over the award of timber concessions (or agriculture concessions which have an indirect effect on the profitability of deforestation). Policy corruption comes in the design of REDD+ schemes, or broader land-use schemes so that they can be tailored to ministers' personal or political interests (Tacconi, Downs and Larmour, 2009). In his study of institutional breakdown in timber booms, Ross (2001) makes a similar distinction between rent seeking (grand corruption, breaking the law) and rent seizing (policy corruption, changing the law, for example the law protecting forests). The personal interest there may be financial (ministers own timber companies, especially in PNG) or political (the votes of farmers keen to clear forests are important to Ross's argument).

While government agencies, private firms and the links between them,

Table 8.1   Causes of and cures for corruption

	Diagnosis	Cure
Behavioural	Bad people	Character, virtue, training
Structural	Bad systems	Public sector reform
Political	Abuse of power	Checks and balances

are the traditional focus of anti-corruption, the institutional world of REDD is more ethically complicated. It includes NGOs, professional law and accounting firms, universities and think tanks. They may be complacent about corruption risks among themselves, in for example recruitment, consultancy and publication. Conflicts of interest are rife (Shapiro, 2010). Loosely defined professional norms may be inadequate to the risks posed by REDD+.

Diagnoses and Cures

Corruption is often described as a 'cancer'. Running with this medical metaphor, we could also ask if it were more like a virus, pointing to issues of infection and resistance. But if it is a virus it might be less treatable. Or is it something you have to live with, or may grow out of (as the transition arguments suggest)? In each case the diagnosis suggests the cure. However, the history of medicine shows that diagnoses and cures are often only loosely connected. Folk remedies persist without much theoretical justification. Some old cures may also work against a new disease. Some popular remedies may do more harm than good.

Table 8.1 sets out a highly simplified summary of diagnoses and cures for corruption. Tables 8.2, 8.3 and 8.4 drill down within it. and speculate how these diagnoses and cures might be relevant to REDD. The risks of corruption may lie in the agencies administering REDD+, including international organizations, the private sector and NGOS. They may also involve the promoters of projects, private loggers, or the owners of land brought under REDD+.

In a third column of Tables 8.2 to 8.4, I have tried to focus on risks and issues that are REDD specific. However, as we have seen, effective cures may be much broader in scope: for example (in PES) involving corruption in government payment systems, or (in REDD+) corruption in agricultural land use.

Table 8.1 identifies three types of theory about corruption: behavioural (or individual); structural (or organizational); and political (including political economy).[3] The oldest argument about corruption, going back

Table 8.2   Behavioural diagnoses and cures

Behavioural theory	Diagnosis	Cure	REDD-specific
Expectancy	Corruption is a calculated choice Actors will calculate chances of shirking or gaming or cheating	Raise perceived chances of detection; reduce perceived costs of compliance; appeal to alternative altruistic motives	Make compliance easy as well as punishing deviance. Make inspection highly visible. Encourage non-financial motives for conservation as well
Equity	Corruption is justified by perceived unfairness in work or society	Reduce – or better justify – perceived inequalities	Take on 'big fish'. Focus initial efforts on relatively equal regions. Reduce wage differentials between international and national organisations
Acceptance	Corruption is the way we do things here: everyone does it	Improve induction, role modelling, staff turnover, role models	Use new rather than historically corrupt agencies. Improve HR practices like induction and training. Invoke community sanctions in local projects

to ancient China, is whether it is caused by 'bad systems' or 'bad people' (Alatas, 1968). There is also a long-standing sense that politics is – perhaps necessarily – corrupt, and relationships between government and business are particularly risky in a mixed economy.

There are subtypes of each general theory set out in Tables 8.2 to 8.4. For example, economic theories tend to assume that individual choices are rational. So does a strand of criminology. But individuals are also concerned with equity and fairness, and some research (Uslaner, 2008) suggests that perceptions of corruption may increase with inequality, through lack of trust.

A confused organizational structure, with unclear or overlapping lines of accountability creates conflicts of interest and provides opportunities for corruption. Viewing work as a process rather than hierarchy identifies choke points at which corrupt payments may be extracted (queues

Table 8.3   Structural diagnoses and cures

Structural theory	Diagnosis	Cure	REDD-specific
Firm structure	Corruption = monopoly + discretion − accountability	Increase competition; reduce discretion; overlap jurisdictions to allow choice	Distrust monopolistic government funds. Pay attention to local monopolies of verification and approval
Internal organization	Confusion and overlap create opportunities for corruption, particularly by long-serving 'resident experts' within organisations	Simplify; reduce conflicts of interest; separate monitoring from approval and payment; rotate staff	Complexity will increase risks
Work process	Opportunities for corruption occur at different points in process	Sector-by-sector analysis; identify choke points; adopt Sarbanes-Oxley accounting standards.	Monitor flows of cash as well as carbon. Learn from abuse in other national payment systems, like welfare

are particularly vulnerable), (Campos and Pradhan, 2007). In the USA, the Sarbanes Oxley accounting standards require firms to conduct an assessment of their own distinctive internal fraud risks.

Political theories tend to identify power as the villain, and the classic constitutional answer – embodied in the US constitution – is the idea of checks and balances, and mutual oversight, so that the system is better than the individuals in it. Of course as Warren (2004) points out there are now more sources of power than the government. Constitutional checks and balances may be particularly weak in NGOs and international organizations, where a sense of mission, or of powerlessness or of professionalism may make members complacent about (for example) conflicts of interest, recruitment or payment practices.

The next column identifies where these principles apply specifically or distinctively to REDD. In some ways REDD policies will be subject to the same risks as any other government policies, and the same general

Table 8.4   Political diagnoses and cures

Political theory	Diagnosis	Cure	REDD-specific
Constitutional	Corruption is abuse of powert	Checks and balances, independent offices, inspect the inspectors	Link REDD to existing National Integrity System. Extend checks and balances to international actors, firms and NGOS. Inspect the inspectors
Democratic	Corruption is duplicitous exclusion	Open processes, opportunities for appeal, transparency	Advertisement for jobs and contracts in REDD Participatory consultation with landowners and loggers.
Government/ business relations	Governments must anticipate and respond to business needs in mixed economies	Regulate but don't ban lobbying, post separation employment etc.	Design REDD to include loggers. Provide REDD-related local employment. Show revenue benefits to local governments

principles should apply to them. That is why general assessments of a country's governance environment, as carried out in Bofin et al. (2011) are relevant whatever specific form REDD may take. But REDD may pose distinctive or extreme risks and dilemmas, perhaps it takes place in remote areas, or involves particularly corrupt agencies (for example forestry), or because it involves cash payment.

For REDD Table 8.2 suggests inspection and verification regimes, for money as well as carbon, need to be highly visible if they are going to deter rational choices to act corruptly. Schemes may do better in countries or regions that are relatively more equal. Low salaries are often cited as an excuse for petty corruption, but Uslaner (2008) suggests that salary differentials may matter too (including, in a donor-driven world, differentials between international and local pay scales). To the extent that behaviour is driven by a desire for social acceptance, REDD's proponents should try to avoid agencies which have a reputation for corruption (perhaps forestry departments) and try to implement REDD+ through new agencies, or

those (perhaps Ministries of Finance) with cleaner reputations. In any case they should pay attention to how new recruits are inducted into REDD+ agencies, and their informal organizational cultures. Kaufman's public administration classic, *The Forest Ranger* (1960) describes how the US Forest Service created an *espirit de corps* amongst its officials, protecting them from the inevitable local pressures they faced working in isolated locations.

In the structural terms of Table 8.3, the arguments about the risk of monopolies support market – rather than fund-based approaches to PES. Within funds, surpluses may be siphoned off in legal but extravagant salaries allowances, car loans, cheap mortgages and so on, for employees, board members and their cronies. It may also be necessary to break down spatial monopolies created during decentralization, which may concentrate PES project approval, verification and payments in a few hands.

The risk of long-established staff capitalizing on their inside knowledge of confused administrative systems can be reduced by rotating staff, and insisting that they take leave due to them (so that their replacements can see what they have been up to). Choke points are different between sectors and work process. Sarbanes Oxley accounting rules require that firms look at their own internal controls, recognising that different firms may face different risks (Coenan, 2008, pp. 192–199).

In PES there may be conflicts of interest if a single official is involved in approval, verification and payment for the environmental services provided. It is easy to imagine corrupt complicity between the promoters of a scheme and the officials approving, verifying and paying for it: ghost schemes, for example. The intangibility of the service compounds the difficulty, as does the remoteness of the locations in which projects may take place, making them hard to inspect. Remedies suggested by Skutsch et al. (2009) include community monitoring, and paying local people for the act of measurement itself rather than hard-to-measure reductions in emissions.

The political theories suggest integration with existing systems of checks and balances (where they exist, for example in the judiciary, or ombudsman system), and the creation of systems of checks and balances in international organisations and NGOs dealing with REDD+. The guards need guarding too.

The theory of government-business relations is more controversial and counterintuitive, but derives from the insight that – in a mixed economy – the private sector carries out what in some ways are 'public' functions: providing jobs, and producing taxable revenue. In a socialist economy these tasks were carried out by public enterprises (Jessop 1990). A capitalist economy cedes initiative to the private sector and politicians who want

to get elected on the strength of jobs and public services must anticipate private sector needs. They need to know what these needs are. Their deference to capital is structural, rather than a result of ideological sympathy, or campaign contributions. Hence the political-economic value of lobbying, revolving doors and even campaign contributions, even though they have overtones of corruption. They need to be regulated, rather than driven underground.

CONCLUSIONS

Both REDD and anti-corruption are prospective. REDD is still being designed and – all we have is pilot projects (Sills at al., 2009) and government efforts at 'readiness' (Bofin et al., 2011). Empirically, there is much to be learned from earlier similar schemes to protect the environment: corruption in protected areas, or conservation funds. Brown draws lessons for REDD from the Clean Development Mechanism (2010, pp. 244–252). Barr et al. draw lessons from Indonesia Reforestation Fund (2009).

The anti corruption literature is prospective for different reasons. There has been plenty of corruption in the past, but it has often been invisible. Occasionally it erupts in a scandal, and is investigated by a commission of inquiry. Otherwise anti-corruption reformers tend to put their efforts into prevention of future corruption, through improved systems, selection and training. For an NGO like Transparency International, prevention is also more prudent than chasing prominent but dangerous individuals who have been shown to be corrupt in the past.

NOTES

1. The paper on which this chapter is based was produced as part of Australia Research Council Grant with Drs Luca Tacconi, Frank Jotzo and Emma Aisbett, and doctoral students Fiona Downs and Patrick Doupe. The framework was developed with collaborators in the NSW Independent Commission Against Corruption, particularly Dr Robert Waldersee, Dr Michael Nest and Alexandra Mills (though none of them is responsible for the use I am putting it to here). I am also grateful to CIFOR for funding my participation in a panel on 'Following the Money' at the 14th International Anti Corruption Conference in Bangkok, in November 2010. I am also grateful for comments from Crawford School colleagues at a research workshop in December 2010.
2. Anglesen (2009) talks in terms of the 3 Es (Efficiency, Effectiveness, and Equity), and it may be (as an empirical matter) that there is a difference in the relative weight given to these values between different REDD+ actors, and at different levels of government. Appeals to these ethical principles may also become highly politicized and opportunistic. For example, 'compensation' is an important equity principle in REDD (owners being compensated for lost opportunities) and, for example, in PNG it is a highly valued

principle of conflict resolution. However, there is also a PNG history of inflated compensation claims and more recent examples of corrupt government layers getting a slice of claims they settle out of court.

3.   Whereas institutional theories distinguish individuals from institutions, in the tables I have introduced a third term 'politics'. While it is sensible to talk about political institutions (Parliament elections etc.), the word institution suggests a normative consensus that cannot be taken for granted (Stoker, 2006, pp. 5–7), particularly in developing counties. 'Politics' points to the processes of bargaining and confrontation that take place when values are not shared, and to the issue of power, and its abuse, which is important in understanding corruption. Dealing with politics explicitly within the table (rather than leaving it disruptively outside) helps to suggest cures.

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