ANTI-CORRUPTION HELPDESK

PROVIDING ON-DEMAND RESEARCH TO HELP FIGHT CORRUPTION

OVERVIEW OF CORRUPTION RISKS IN REDD+ IN THE CONGO BASIN

QUERY

Please provide us with an overview of corruption risks in REDD+ with some examples from the Congo Basin countries, in particular Cameroon, the Democratic Republic of Congo, the Republic of Congo and the Central African Republic.

PURPOSE

This would feed into our work on the topic of forestry and corruption in the Congo Basin region.

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SUMMARY

The Reducing Emissions from Deforestation and Forest Degradation (REDD+) mechanism aims at protecting forests and reducing carbon dioxide emissions. It financially rewards countries that cut carbon emissions from forests and contribute to conservation and sustainable management of forests. Many REDD+ programmes are being implemented in countries that are prone to corruption. This includes countries in the Congo Basin region, which contains some of the largest tropical rainforests in the world. Moreover, as such activities involve significant flows of money to prepare and implement, REDD+ can also create incentives for corrupt actors to take advantage of the REDD+ process and the financial rewards.

The corruption risks specific to the REDD+ process can be categorised between those that occur in the readiness phase and those that occur in the implementation phase. In the readiness phase, the areas of risks include: determining forest and carbon rights, setting carbon reference levels and deciding on how to share revenue. In the implementation phase, the risks include: land and forest rights implementation, measuring and verifying carbon credits and collecting and managing REDD+ revenues.

These risks are seen to be common to varying degrees throughout the range of countries where REDD+ is implemented, which includes those in the Congo Basin region.

1 OVERVIEW

Reducing Emissions from Deforestation and Forest Degradation (REDD) is a mechanism with the objective of mitigating climate change through reducing carbon dioxide emissions. Formalised in 2007, REDD programmes financially reward countries that cut carbon emissions from forests by preventing large-scale deforestation and forest degradation. REDD+ goes beyond deforestation and forest degradation and includes the role of conservation, sustainable management of forests and enhancement of forest carbon stocks.

The UN, the World Bank and bilateral donors have established systems to coordinate activities and financially assist countries in preparing for and implementing REDD+ programmes. There are also regional initiatives such as the Congo Basin Forest Fund hosted by the African Development Bank.

However, REDD+ programmes are often implemented in countries that are prone to corruption, including those in the Congo Basin[1] region, which has some of the largest stands of tropical rainforests in the world (Bofin et al. 2011). For example, **Cameroon,** the **Central African Republic (CAR),** the **Democratic** Republic of Congo (DRC) and the **Republic of Congo** all rank among the bottom 30 out of the 177 countries assessed in Transparency International's 2013 Corruption Perceptions Index (Transparency International 2013a). Furthermore, in Transparency International's 2013 Global Corruption Barometer, 62 per cent of respondents in **Cameroon** and 46 per cent in **DRC** reported having paid a bribe to at least one of eight public service providers in the 12 months preceding the survey (Transparency International 2013b).

These corruption challenges in implementing countries could hinder the realisation of REDD+ schemes (Bofin et al. 2011). This is of particular concern in the face of the substantial sums of money that are potentially involved. The REDD+ mechanisms are expected to require an estimated US$17 to US$33 billion every year (Global Witness 2011).

The forestry sector in Congo Basin countries is noted to be permeated by high levels of corruption.[2] The types of corruption found in the forestry sector can range from regulatory capture in the logging decision-making process and corruption in the design and implementation of land use plans, to improper allocation of timber concessions, harvesting licenses and forest conversion permits and paying bribes to harvest, transport or trade timber illegally (Tacconi et al. 2009; Bulkan and Palmer 2008).

There are also corruption risks that are specific to the REDD+ process. Corruption in REDD+ can occur at the local and project level, the sub-national level and national level (Bofin et al. 2011). These types of corruption risks hold true for most, if not all, REDD+ implementing countries and are thus applicable for the Congo Basin region.

Corruption risks in the REDD+ process are likely to depend on which phase of the process the country is in. There is still some variation in definition of the different REDD+ phases, but they can be broadly categorised as the readiness phase and the implementation phase, which, in this Helpdesk answer, includes the performance-based payments. The readiness phase relates to efforts a country undertakes – with the support of donors – to prepare for REDD+ implementation. The second phase involves the implementation of national strategies and measures as well as systems to measure and verify carbon credits and collect and manage revenues.

2 CORRUPTION RISKS IN THE READINESS PHASE

The readiness phase prepares countries in their implementation of REDD+. It includes establishing institutional arrangements for coordinating REDD+ activities, developing a comprehensive national REDD+ strategy that sets the country's policy, governance and legal framework for REDD+ and determining reference levels against which future emissions reductions will be measured (UNDP 2010).

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[1] This includes, among other countries, Cameroon, the Central African Republic (CAR), the Democratic Republic of Congo (DRC), and the Republic of Congo.

[2] For more resources on corruption risks in the forestry sector in the Congo Basin region, see [this literature review] compiled by the Helpdesk.

The readiness phase is supported by many international donors and the funds are predominantly channelled through the UN-REDD programme and the Forest Carbon Partnership Fund (FCPF). These include projects in **DRC**, **CAR**, **Cameroon** and the **Republic of Congo**. There are also bilateral funding projects supporting REDD+ readiness, the most prominent being those funded by the Norwegian Agency for Development Cooperation.

Corruption in the readiness phase involves state capture through grand corruption or political corruption in which powerful individuals and groups (such as politicians, logging companies, and military) seek to influence the design of a country's national REDD+ framework in order to benefit their private interests. In countries with high levels of corruption, such as **DRC**, there is a great risk of state capture in the development of policies and institutions (PwC 2011). This can lead to laws and policies being developed in such a way as to "legalise" corruption (PwC 2011).

Determining who will implement and carry out the REDD+ process is also crucial. In **CAR**, there have been concerns about the Ministry of the Environment capturing the REDD+ process even though it has no jurisdictional mandate over most of the policy areas. This reflects a problem in other countries in the Congo Basin where REDD+ funding sparked what seems essentially to be a resource conflict between different ministries (Rainforest Foundation 2011).

As the readiness phase involves a detailed and country-specific process that builds the entire framework and infrastructure of REDD+ implementation, listing all the areas in which corruption could occur would go beyond the scope of this Helpdesk answer. Instead, this section will focus on three areas in the readiness phase in which corruption could seep in, which help illustrate the type of corruption in this phase.

Determining forest tenure and carbon rights

The REDD+ readiness phase involves determining the owners of forests and carbon stocks. This is a critical step to ensure the guardians of forest are compensated and REDD+ investment is effective. While it can be a good opportunity for land tenure reform, it also involves determining who gains and who loses from the REDD+ process and is thus an area in which corruption risks can occur.

Forest tenure

The manner in which forest tenure is treated has a significant impact on indigenous people and forest-dependent communities. Corruption may influence the design of the rules regarding forest tenure by:

- Failing to recognise competing rights of customary forest tenure, in particular in countries where state ownership of forests is already strong, so that political elites can "trump" tenure and capture REDD+ revenues.
- Adopting a REDD+ framework which respects customary land tenure but fails to provide an adequate registration process (UNDP 2010). The resulting weaknesses in forest tenure rights can pave the way for land grabbing and land use plans that favour vested interests.

Land tenure in many forested areas is still unresolved and remains classified as simply "administered by government" (Global Witness 2011). In fact, three-quarters of forested land globally is classified as public land and administered by government, thus controlled by few politicians and civil servants who may wield power to allocate land in return for bribes (Global Witness 2011). In **Cameroon** and **Republic of Congo**, for example, up to 80 per cent of forested land is state-owned (REDD Desk 2013a; REDD Desk 2013b).

In **CAR**, all land belongs to the state (Woodburne and Nelson 2010). As such, most indigenous communities are not recognised as holding rights to the land or the natural resources (Woodburne and Nelson 2010). While the government noted the need to strengthen land tenure in its Readiness Plan Idea Note to the FCPF, it provided few details on mechanisms to ensure that these issues are resolved prior to implementation of any REDD project (Woodburne and Nelson 2010).

Indeed, many governments of Congo Basin countries do not recognise customary rights claimed by local and indigenous people even if they have occupied their lands for many generations (Woodburne and Nelson 2010). Even where customary rights are protected by law, in many Congo Basin countries they are not respected in practice and multiple overlapping claims to land are made by different interest groups (Woodburne and Nelson 2010). In these cases, indigenous communities generally lose out to more powerful groups (Woodburne and Nelson 2010).

Congo Basin countries also fail in providing an accessible and simple registration process. In **Cameroon**, land registration is said to be a rigorous, remote, complex and expensive process and is subject to corrupt practices (REDD Desk 2013a). High registration costs and difficulty in procuring official identity documents prevent communities from claiming ownership of land (Ndobe and Mantzel 2014). As such, only a small percentage of land has been registered (REDD Desk 2013a). Moreover, existing laws on real estate, forestry and land use are complex and at times mutually contradictory (Ndobe and Mantzel 2014).

In the **DRC**, limited political will, weak capacity and poorly trained and paid staff have prevented the government from implementing its Forestry Code, which is aimed at helping communities in having a greater role in managing forests (PwC 2011). The co-existence of a law that recognises the state as the sole owner of land in **DRC** and customary law has also created tensions among the population (PwC 2011).

Land grabbing and corruption in land use

Weak tenure laws in the context of REDD+ implementation has been said to have stimulated illegal land grabbing. As REDD+ has the potential to enhance the value of land – as those who own forest are paid to reduce forest carbon loss or enhance forest carbon stocks – this creates incentives for political and business elites to secure land ownership and control of forests (Standing 2012). There have also been reports of foreign investors and speculators using illicit means to acquire land rights in anticipation of revenues from REDD+ (Standing 2012). **Cameroon**, for example, grapples with land grabbing and high demand for farmland by multinationals and the domestic elite (REDD Desk 2013a). People dependent on forests are particularly vulnerable to illegal land grabbing. Aided by the lack of clarity in land rights, this can lead to forced evictions, restrictive access or control of forests (Standing 2012).

REDD+ also requires implementing countries to undertake an extensive review of its land use plans and forestry plans to identify those forested areas that are suitable for REDD+ and those which may be used for other purposes, such as agriculture and timber production (UNDP 2010). This is also a corruption risk area, similar to the emergence of land grabbing. Transparency International's manual on identifying and addressing corruption risks in REDD+ highlights that corruption can skew land use policy (Transparency International 2012). Logging companies, project developers and powerful agribusiness operators may seek to illicitly influence the design of land use plans and ensure that the land that they own or have an interest in is either allocated to or excluded from REDD+ (UNDP 2010).

In **DRC**, although the president decreed a moratorium on new forest concessions until logging contracts could be evaluated, studies found that new concessions had in fact been granted (PwC 2011). Seven companies with concessions totalling over one million hectares were operating under fictitious contact details (PwC 2011). Civil society groups have also criticised that logging contracts have been reviewed without the proper involvement of civil society and community representatives (PwC 2011).

Carbon rights

Carbon rights are a form of property rights that can be sold and traded. Each REDD+ country that intends on participating in carbon trading has to adopt legislation, which clarifies how carbon rights will be created and allocated (UNDP 2010). The rules that determine carbon rights have the potential to deliver massive gains or profits and are thus a politically potent aspect of REDD+ legislation (UNDP 2010). Some forest-rich countries have implemented legal systems that distinguish between ownership of land and ownership of carbon in the forest (Global Witness 2011). That means that land rights and carbon rights can be owned by two separate entities. According to Global Witness (2011), this can lead to significant corruption and fraud risks.

Experts argue that some corrupt government actors may seek to "legalise" corruption by linking carbon rights to state ownership of forests, thus excluding any claims to carbon rights by those holding or asserting customary tenure (UNDP 2010). Allocating carbon rights to state ownership means that most of REDD+ revenues would be paid to the state, thus creating opportunities for misappropriation of funds and embezzlement (UNDP 2010). REDD+ legislation could also link carbon rights to logging concessions, which would allow loggers to convert their concessions (which in some cases could have been allocated through corrupt activities) into lucrative carbon rights (UNDP 2010). These types of practices can prevent communities from claiming their carbon rights and may risk undermining the REDD+ process (Transparency International 2012). According to consulted experts, if communities do not benefit from REDD+, they will also not have the incentive to protect their forests.

The status of forest versus carbon rights has not yet been clearly established in the Congo Basin countries, though it seems that some are moving towards making carbon rights state-owned. In the **Republic of Congo**, it currently appears that the government is proposing to define carbon as a state-owned resource, though this has been met with contention by civil society (REDD Desk 2013b). **Cameroon** has no regulation on carbon ownership so it is difficult to determine who owns the carbon credit as land tenure is not clearly established (REDD Desk 2013a). In practice, this lack of distinction would essentially make all forest carbon state-owned (Freudenthal 2011).

Moreover, separating carbon and land tenure rights is said to create additional complexities (Global Witness 2011). It adds an additional layer of bureaucracy and ownership, making it difficult to monitor and control. The process may involve an intricate network of sub-contractors and the offshore transfer of rights, making the situation increasingly complex.

In addition, this makes it difficult to prevent the owner of carbon rights from selling the same carbon repeatedly to multiple parties. This practice is known as double counting (Global Witness 2011). Locally-based law enforcement officers or landowners may not be able to detect such fraud unless they are monitoring the government carbon registry, if there even is one (Global Witness 2011).

Setting carbon reference levels[3]

Countries will receive funding based on their ability to show a reduction in deforestation or forest degradation below a certain reference level, or baseline. Many authors agree that one of the most significant potential places for corruption to enter the REDD+ system is in the setting of baselines (Brown 2010).

There is a risk that corruption in setting baselines may result in artificially inflating baselines through manipulating the underlying carbon data, which could result in greater allocation of REDD+ funding (Global Witness 2011). This type of activity could also be the result of collusion between political elites and the private sector such as logging companies (UNDP 2010).

Corrupt officials can exploit the difficulties in setting baselines (Brown 2010). Setting carbon reference levels can be difficult, as it requires reliable data. The production of reliable data requires resources, capacity and political support, which many developing countries do not have. For example, **Cameroon**'s capabilities to establish a reference level are seen to be relatively weak (REDD Desk 2013a).

There are also incentives to increase deforestation in the run-up to the REDD+ start date in order to increase the store of potential REDD credits (Brown 2010). Corrupt officials could solicit kickbacks from loggers to harvest future protected areas and obtain bribes to allow REDD project developers to use those diminished woodlands for a REDD project later on (Brown 2010).

Deciding on how to share revenue

Without clear recognition and allocation of revenue to local communities, most REDD-related income will accrue to the government or to powerful outside groups, rather than indigenous peoples (Woodburne and Nelson 2010). As such, the rules that determine

[3] *A reference level is a projection of a country's forest-related carbon emissions and removals over a defined period of time (Barr (2011).*

how revenues will be shared with communities and the central government are another area that can be co-opted by corruption.

Poor definition of revenue sharing is seen as one of the main corruption risks as identified by the DRC's national REDD Coordination Body, CN-REDD (CN-REDD 2012). The CN-REDD in **DRC** also notes that lack of clarity in determining revenue sharing with beneficiaries can lead to the misappropriation of funds (CN-REDD 2012). Corrupt officials could also take advantage of institutional weaknesses and not inform beneficiaries of total sums of revenues (CN-REDD 2012).

DRC also faces fiduciary challenges in determining who should receive tax revenue from the exploitation of natural resources, leaving it open for abuse and mismanagement (Karsenty and Ongolo 2011). A conflict between the central government and the provinces led to the creation of contradictory laws and regulations, making it impossible to draw a clear fiscal framework and implement public policies at the national level (Karsenty and Ongolo 2011). An assessment of the country's Forestry Code also reveals that while there are elements of revenue sharing with local communities, these have not been enacted or realised (Norton Rose 2010).

Mechanisms for benefit sharing of the proceeds of carbon credits in **Cameroon** is very vague but underlines the fact that the state will play an essential role in managing REDD funds (Ndobe and Mantzel 2014). Moreover, similar to DRC, studies have found that forest tax redistribution has in many cases not had the intended beneficial impact on local forest communities because of diversion of funds, elite capture, inadequate accounting systems and lack of transparent management of funds (REDD Desk 2013a).

3 CORRUPTION RISKS IN THE IMPLEMENTATION PHASE

The implementation phase of REDD+ consists of the process through which items prepared in the readiness phase are put into practice. This includes the way in which land and carbon are administered in practice, how carbon credits are measured and verified and how revenue is collected and managed.

While the implementation may also be exposed to risks of grand corruption and political corruption, this phase also involves the additional risk of petty corruption, as it involves more players and intricate processes, and embezzlement as REDD+ revenues begin to flow and are managed (UNDP 2010).

Land, forest and carbon rights administration

In REDD+, there is the potential for corruption to affect land administration, because some actors might seek to obtain land titles and carbon rights and thus receive a portion of the REDD+ revenues. Other corrupt actors may attempt to circumvent existing forest safeguards in the context of weak law enforcement.

As such, these actors may bribe public officials to ((UNDP 2010; Global Witness 2010; Brown 2010):

- fraudulently create land titles
- overlook competing customary claims to land titles
- register titles over state land in the name of particular individuals or corporations

Public officials who are responsible for implementing REDD+ may also be bribed to ignore breaches of REDD+ laws such as illegal logging.

Many Congo Basin countries continue to suffer from weak forest administration that prevents discontinuation of illegal forest activity. In the **Republic of Congo**, authorities under the Forestry and Water Administration are incapable of adequately enforcing laws and regulations, which has led to unsustainable and illegal logging becoming major causes of deforestation and forest degradation, thus offsetting the efforts under REDD+ (REDD Desk 2013b).

If a national REDD+ framework distinguishes land and carbon rights, this is said to open new avenues of corruption involving bribery and fraud (UNDP 2010). Logging companies or elites might bribe public officials in the land department to register carbon rights over particular parcels of land in their name. It could also include the laundering of money through the purchase and sale of carbon rights (UNDP 2010).

Measuring and verifying forest carbon credits

The vast majority of REDD+ payments under the REDD+ funding models are to be delivered on the basis of verified reductions of forest carbon emissions and/or enhancement of carbon stocks (Barr 2011). Key steps in this process include measuring, reporting and verification (MRV) mechanisms that determine whether planned carbon benefits are actually being achieved.

As carbon is an intangible asset that is difficult to measure and relies on complex calculations that can be manipulated, REDD+ is said to generate incentives for dishonest measurements and reporting (Standing 2012). The required skills and knowledge to accurately assess the validity of MRV processes are limited to a small pool of experts, which reduces the options for independent monitoring and increases the risk of collusion (Transparency International 2014).

Countries in the Congo Basin suffer from poor spatial data acquisition and have difficulties monitoring forests and carbon stocks (COMIFAC 2010). This is due to, among other things, a lack of ground receiving station in Central Africa and high costs for commercial satellite images (COMIFAC 2010). Corrupt officials can take advantage of these weaknesses and thus REDD+ is said to be likely to lead to questionable carbon accounting and manipulation of forest carbon measurements (Global Witness 2011). As a response, there have been international efforts such as the GOFC-GOLD Reference Data Portal and the Observatoire Satellital des Forêts d'Afrique Central to map and analyse forest land cover, including in the Congo Basin.

In the case of carbon projects, corruption can also occur in the process of determining projects to allocate funds to. Funds may be paid for projects that have not taken place, should not have taken place, have not been as successful as claimed, or that have been reversed after payment was made (Standing 2012). Bribery, corruption or conflicts of interest can influence project validators' decisions in qualifying projects for REDD+ financial incentives (Barr 2011). Fraud can also take the form of project sponsors presenting inaccurate or misleading data (Barr 2011). Moreover, powerful elites may also become involved and manipulate measurements to influence how much and where payments are allocated (Global Witness 2011). Corrupt developers can seek REDD+ payments for forest areas that are not really endangered (Barr 2011).

Proving "additionality" (i.e., the reduction in emissions would not have taken place without additional support) is another area in which corruption can occur (Barr 2011). Additionality is said to be difficult to prove and monitor and can be easily abused. Several studies on the Clean Development Mechanisms, which was established as a credit system for reducing carbon dioxide, showed that many projects under consideration to benefit from this type of funding should not have been considered as they would have been built with or without extra funding (The Guardian 2008).

While the information on how countries in the Congo Basin address the issue of additionality is limited, one study on **Cameroon** notes that planned sub-national REDD+ projects do not even discuss the question of additionality (Freudenthal et al. 2011). The study warns that while the REDD+ planning framework is incomplete and many areas still need to be covered, several REDD+ projects are already underway, which poses risks during implementation (Freudenthal et al. 2011).

In **DRC**, some critics have pointed to projects lacking additionality that appear to "greenwash" companies engaged in questionable environmental practices. For example, REDD Monitor, a news platform that engages critically on REDD+ issues, has alleged that one of the recent projects lacked additionality as it was unclear whether the area that was deemed for conservation was ever actively logged (REDD Monitor 2011).

Overestimation of carbon benefits

The REDD+ mechanism requires countries to measure changes over time in forest cover and carbon to determine the change and the amount of carbon saved. As such, there may be strong incentives to overestimate the amount of carbon emissions reduced or carbon stocks enhanced (Barr 2011). Agencies in charge of MRV may be subject to political pressure from state elites (Barr 2011). In addition, although verification of carbon levels is meant to be independent, there have been cases in which this lacked independence (Standing 2012).

In the absence of independent monitoring, government agencies in charge of carbon accounting may face conflict of interest in monitoring the government performances and have incentives to over-report emission reductions to secure greater payments (Barr 2011). Defrauding of MRV processes is achieved through deliberately misrepresenting figures by, for example, measuring only certain variables or selecting only those sites for collecting data that will result in a favourable measurement (Transparency International 2014).

In **DRC**, the diversion of funds through falsification of reports related to the level of reduction emissions is noted as one of the five key corruption risks identified by the DRC national REDD Coordination Body (CN-REDD) (CN-REDD 2012).

Many of the countries in the Congo Basin lack reliable data on deforestation as well as authoritative national institutions that can provide reliable accurate accounting for emissions (Horta 2009).

Cameroon's monitoring capabilities, for example, are said to be still quite weak (REDD Desk 2013). While there are several sources of official data, Cameroon does not have the institutional capacity to monitor emissions from the forest sector (REDD Desk 2013a). By May 2013, the **Republic of Congo** also had no methodology or system established for MRV of REDD+ activities, though several programmes are currently underway to support the setting up of an MRV system (REDD Desk 2013b).

Collection and management of REDD+ revenues

The REDD+ process involves significant amounts of money. Corruption risks are likely to increase as these large flows of money are channelled into countries that have fragile governance structures, weak institutions, poor legal frameworks and enforcement records (Chêne 2010). Large inflows of funding from the international development community are often combined with a short timeframe to deliver results, which creates high potential rents from REDD+ (Transparency International 2012).

REDD+ funds are also likely to be channelled through a complex combination of donor finance through public funds and private finance raised through carbon markets (Global Witness 2010). The complexity of the REDD+ funding architecture has also led organisations such as Global Witness (see here) and Transparency International (see here) to assess the transparency and accountability of the key REDD+ funding initiatives.

Misappropriation and elite capture of funds

The fund-based approach to REDD+ revenue administration involves payments being made to national governments for demonstrated reductions in emissions (UNDP 2010). With this approach, there is a risk that funds may be embezzled by political elites responsible for the management of REDD+ revenues for their own interests, or that funds will be siphoned off to others to secure political favours or support (UNDP 2010).

Most of the countries that receive, or are preparing to receive, REDD+ funds are faced with severe corruption and governance issues. More than 80 per cent of countries that received REDD+ funds in 2011 scored in the bottom half of countries assessed for control of corruption by the World Bank (Global Witness 2011). As such, the risks of misappropriation and elite capture of REDD+ funds are high. The revenues at stake create the risk that REDD+ becomes a vehicle for the enrichment of a minority of powerful interests (Standing 2012).

Unless mechanisms are in place to ensure these financial flows are transparent and subject to independent oversight and audit, there is a significant risk that funds may be misallocated or siphoned off as bribes (Global Witness 2011). Powerful elites within REDD+ countries could control or influence the government agencies responsible for selecting and implementing REDD+ projects and channelling payments to their favoured projects over others (Global Witness 2011).

DRC, for example, has a history of entrenched corruption at all levels of society and government (Trefon 2010). Political decision-making processes in the country are characterised by the pursuit of private interests rather than the public good, and there is little incentive for elites to protect the public interest (Aquino and Guay 2013). The PwC 2011 report that assesses the potential risks the **DRC** faces in its implementation of REDD+ highlights that grand and political corruption is a permanent threat in the implementation of REDD+ in the country. In particular, the current practices of embezzlement and misappropriation of revenues by powerful interest groups represents a significant risk. The impact of such activities could lead to an increase in inequality and poverty.

Corruption in the management and distribution of REDD+ funds is also noted as a serious risk for a national REDD+ system in **Cameroon** (World Bank 2013). Many of the implemented REDD projects by 2011 were deemed not very transparent (Freudenthal et al. 2011).

Determining who will administer the fund is significant. The administration of REDD+ revenues can be done by the treasury, the department of forestry or a new standalone fund (UNDP 2010). Experts advise that countries consider the relative corruption risks and track record of each institution when making a decision (UNDP 2010).

It is advised that countries hold their REDD+ funds off-budget and not mix it with consolidated revenue so as to prevent funds from being earmarked or siphoned off (UNDP 2010). As such, many countries are pursuing the standalone fund approach. However, this can also entail risks. For example, the Indonesia Reforestation Fund – financed by a levy on timber with a mandate to support reforestation and rehabilitation of degraded forests – experienced serious corruption (Tacconi et al. 2009). In 1999, a financial audit documented systemic financial mismanagement and fraudulent practices by subsidy recipients and diversion of funds for uses not consistent with the fund's mandate (Tacconi et al. 2009). Losses of US$5.2 billion in public funds were document from 1993 to 1998 (Tacconi et al. 2009).

With a natural resource fund, accountability and transparency mechanisms are key to preventing corruption and misappropriation. **DRC**, for example, is working towards the creation of a national REDD+ Fund (Aquino and Guay 2013). Initial reports indicate that this fund would have several safeguards in place to ensure transparency, effectiveness and efficiency by, for example, making it independent from the public administration, managed by an independent body and allocation of funds following guidance from a multi-stakeholder decision-making body (Aquino and Guay 2013).

Risks in the credit-based approach

The credit-based approach (also known as the market-based approach) involves the generation and sale of REDD+ credits. It poses different risks to the fund-based approach to REDD+ funds. While carbon credits are easier to track, because they are given a unique year and serial number, it requires the establishment of a complex administrative system (UNDP 2010). Moreover, many new firms are entering the market for climate investment, of which some may be potentially corrupt (Transparency International 2012).

Corrupt practices in national REDD+ carbon markets could include a seller of REDD+ credits bribing a public official not to "retire" credits when required do so, which would allow the credit to be resold (UNDP 2010). A multinational corporation that requires carbon offsets for compliance or voluntary purposes could also collude with public sector officials to sell illegally generated REDD+ credits to the corporation at a cheaper price in return for a kickback (UNDP 2010). Public officials might also be bribed to create fraudulent credits. According to Barr (2011), there have been instances of fraud in carbon credits trade on global carbon markets due to fictitious credits. Such practices are made possible by poorly regulated carbon markets (Barr 2011).

Carbon markets add another layer of complexity to governance issues. Regulatory regimes in many REDD+ countries are weak, making any forest carbon market established in those countries vulnerable to exploitation by organised crime as well as tax fraud and money laundering (Global Witness 2010). Carbon markets are also a cross-border issue, making law enforcement efforts outside of their own domestic jurisdiction more complicated and difficult (Global Witness 2010). The owners of the forest land, the carbon owners, the carbon traders and brokers and companies that own and sell carbon credits may be in different countries (Global Witness 2010).

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