

CORRUPTION-FREE CLIMATE FINANCE

Protecting forests and people

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This report was prepared by Fern and Transparency International's Climate Governance Integrity Programme.



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ISBN: 978-3-96076-194-5

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This publication was produced with the financial support of:



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EXECUTIVE SUMMARY

The recognition of the need to protect, restore and sustainably manage forests – as part of broader efforts to keep the planet's temperature from rising above 1.5°C – was among the biggest wins of the Paris Agreement. The important role of forests to mitigation and adaptation efforts is reflected in a broad range of “forest climate finance” mechanisms. These include bilateral and multilateral financing schemes that aim to reduce emissions from deforestation and forest degradation (REDD+), as well as funding programmes channelled through the Green Climate Fund (GCF) and bilateral and regional entities to support forest protection, restoration and sustainable land use. These activities also feature heavily in countries’ nationally determined contributions (NDCs) and other national climate plans.

Research and advocacy on these various funding mechanisms have so far largely focused on the technical environmental details of protecting forest habitats. But corruption can turn well-intentioned initiatives into useless investments, either directly because funds are embezzled or indirectly because it enables illegal logging, nullifying any positive effects of climate finance initiatives. Corruption can also make such initiatives an instrument to cause harm to local people and environments. For example, embezzled funds can be used to finance illegal activities and afford impunity to those responsible for heinous crimes, including killings of environmental defenders.

Corruption in the forest sector is widespread and is a critical facilitator of every aspect of forest crime, which is valued upwards to US\$100 billion annually.¹ Transparency International’s Corruption Perceptions Index (CPI) shows higher than average levels of perceived public sector corruption in countries where illegal logging is most prevalent.²

This study is an attempt to identify gaps, obstacles and opportunities for improving governance of forest climate finance to the benefit of communities in recipient countries and the planet. This report,

which is based on the results of joint research with Fern, looks at forest climate finance flows and examines the governance of forest climate finance in six forest-rich countries across three continents: Cameroon, the Democratic Republic of Congo (DRC), Ghana, Indonesia, Peru and the Republic of Congo (RoC).³

Each country profile identifies and assesses:

1. the scale of forest climate finance in each country
2. whether the institutions implementing climate finance projects and programmes are transparent and inclusive
3. the nature and extent of risks that funds are corruptly diverted
4. whether funds effectively contribute to forest resilience and sustainable local livelihoods whilst upholding the rights of communities and Indigenous Peoples

The country summaries are based on April 2021 interviews with civil society representatives and some government agencies; an online survey that was sent to local, national and international civil society, donors and government agencies; and a desk review of literature on forest climate finance governance.

As climate finance projects in the forestry sector are still at a relatively early stage of implementation in most countries studied, definitive conclusions on these investments’ contribution to forest protection would be premature. Deforestation rates are still rising in most of the countries surveyed, and – as finance for forest conservation and restoration is generally competing with agricultural expansion, logging, mining and infrastructure development – it is far from clear whether sufficient resources are being provided to bring about decisive change.

In this regard, again, corruption often plays a key role. It enables land grabbing through corrupt deals and bribes; makes the allocation of mining and logging concessions in protected areas possible

through kickbacks; and weakens laws and sanctions through undue influence by powerful individuals and industries.

The study of the impact of forest climate finance governance on community rights and livelihoods finds a mixed picture. In some cases, readiness activities and projects implemented under a forest finance framework have broadly contributed to improvements in women's participation in climate finance projects, and there have been some efforts to include civil society organisations in these mechanisms.

However, interviewees raised concerns regarding the governance of forest climate finance: if corruption is overlooked and aspects of transparency and participation are not prioritised, this could lead to land expropriation and contribute to the further marginalisation of women and Indigenous Peoples.

Across all six countries reviewed for the study, there remains considerable room for improvement in the governance of forest-related climate finance. Along with specific recommendations for each country, a number of common weaknesses emerge that should be mitigated through the following actions:

1. improving access to information and establishing transparency policies for forest climate finance
2. broadening participation of civil society, communities and Indigenous communities
3. enhancing independent monitoring and establishing redress mechanisms along with whistleblower protection to address corruption risks
4. establishing community-owned and -managed projects, and improving land tenure to reduce land use conflicts and deforestation
5. ensuring that forest climate finance contributions are adequate and predictable, and achieving equitable benefit-sharing

The extensive multi-stakeholder approach and the focus on transparency, coordination and accountability adopted by the Forest Law Enforcement, Governance and Trade / Voluntary Partnership Agreement (FLEGT/VPA) mechanism – the European Commission's tool for combatting illegal deforestation – is generally considered the "gold standard" to be fully implemented and replicated in forest-related climate finance.

OVERVIEW OF CLIMATE FUNDING AND FINANCIAL FLOWS

According to the data provided by advanced economies and multilateral development banks, a total of US\$78.9 billion in climate finance was provided in 2018, up from US\$71.2 billion in 2017 and US\$58.6 billion in 2016.⁴ These headline figures tend to be significantly over-reported, however, since reporting entities do not adjust for grant-equivalence – loans are given equal weight to grants. When grant equivalence is factored in, total climate finance between 2017-2018 was worth just US\$25 billion.⁵ In 2016 and 2017, the total amount

of climate finance to the six countries assessed in this report is shown in Figure 1 (aggregated country-level data for 2018 is not yet available).

Estimates of the scale of climate finance flows are highly variable, depending on what is included within their scope. This shows that climate finance flows are difficult to track; there are still different definitions used as well as different ways to use baseline years, type of finance included (grants, loans, etc.), and currencies.

Figure 1: Total climate finance in 2016 and 2017

Country	Approved finance (million, US\$)			
	2017		2016	
	<i>Upper</i>	<i>Lower</i>	<i>Upper</i>	<i>Lower</i>
Cameroon	155.1	2.3	21.73	9.66
Democratic Republic of the Congo	57.4	48.4	31.1	24.59
Ghana	232.6	177.1	194	72.5
Indonesia	780.2	51.2	74.5	56.9
Republic of Congo	15.08	12.15	0.04	0.02
Peru	91.8	83.6	74.7	64.6

Source: OECD-DAC

Forest climate finance

The largest share of forest climate finance falls under the framework of REDD+, which has over time evolved into a mechanism to prevent deforestation and forest degradation, and to promote sustainable development.⁶ It includes both mitigation and adaptation goals.

There is no global estimate concerning the scale of forest-related climate finance. This is in part because the Organisation for Economic Co-operation and Development's (OECD) system – which forms the common basis for reporting all international development assistance – offers multiple categories that correspond to forest-related climate finance. On the national level, these even include agricultural activities that drive deforestation, rendering the category system useless for exact assessments.

Figure 2: Forest climate finance funds in 2008-2020

Fund	Pledged (million, US\$)	Approved (million, US\$)	Number of projects
Green Climate Fund (GCF)	--	946.5	22
Amazon Fund	1288.2	719.7	103
Central African Forest Initiative (CAFI)	478.76	182.2	11
Forest Investment Program (FIP)	739.9	573.7	48
UN-REDD Programme	329	323.5	35
World Bank BioCarbon Fund	349.9	107	5
World Bank Forest Carbon Partnership Facility (FCPF)	1341	311.2	46
Congo Basin Forest Fund (closed in 2018)	186	8	37

Source: Watson and Schalatek, 2021; GCF (own calculation)

The most comprehensive recent review of forest climate finance is offered by a 2018 EU-funded study which identified around €19.4 billion in international public forest-related climate finance between 2008 and 2015. Over the 2008-2015 period, the EU28 provided just over 35 per cent of all global forest climate finance, comprising €824m in direct REDD+ funding, and a total of €7.08 billion overall.⁷

Most of the forest climate finance is provided by a handful of contributor countries, with Norway, the UK and Germany leading.⁸ By far the largest recipient of REDD+ financing is Brazil, followed by DRC, Indonesia and Mexico. Using a broader definition of forest climate finance, Brazil remains the largest recipient of forest climate finance, followed by Mexico, India and China.⁹

Corruption in (forest) climate finance

Corruption in climate finance means not only that there is no decrease in carbon emissions, but it can even lead to an increase in emissions and generate further environmental and social damages.

Corruption risks in forest initiatives like REDD+ exist at local, national and international levels. They take different forms at different stages of policy formulation and programme implementation:¹⁰

- + determining forest and carbon rights (undue influence from industry to change or weaken policies and elite capture to ensure policy design benefits them)
- + setting carbon reference levels (collusion to manipulate data)
- + deciding on how to share revenue (officials extracting rent instead of leaving benefits to local communities)
- + land and forest rights implementation (bribes to officials to turn a blind eye to violations)

- + measuring and verifying carbon credits (kickbacks by developers to understate or overstate achievements)
- + collecting and managing REDD+ revenues (embezzlement, fraudulent schemes)

Transparency International's *Climate & Corruption Atlas*¹¹ also draws on concrete cases of corruption in climate and forest finance. For example, it features a case in which a whistleblower from the Ministry for the Environment in DRC alleged that the Secretary General of the Ministry had diverted around US\$38 million of REDD+ funding. Another example in Indonesia highlights that the Ministry of Forestry took US\$600 million from its Reforestation Fund to finance politically favoured projects that did not contribute to the Fund's objectives. An external audit by Ernst & Young also documented more than US\$5 billions of dollars in losses, citing systematic financial mismanagement fraudulent practices by recipients and routine diversion of funds.¹²

RECOMMENDATIONS

Across all six countries reviewed for the study, there remains considerable room for improvement in the governance of forest-related climate finance. Along with specific recommendations for each country, a number of common themes emerge that are addressed in five general recommendations.

Governments and funding organisations should:

1. Improve access to information, establish and implement transparency policies for forest climate finance

- + As far as possible, a single national online portal for REDD+ and related forest climate finance, should be established by the relevant national authorities. Information portals should follow open data standards and provide regularly updated information – including progress reports on implementation and the status of funding disbursements.
- + Local governments should be given full support to undertake local stakeholder forums and report on the management of different forest climate finance programmes.
- + Increase capacity-building and support for civil society, including local organisations, to ensure they can help make necessary information more accessible to local communities.

2. Broaden participation of civil society, communities and Indigenous communities

- + The extensive multi-stakeholder approach adopted by the Forest Law Enforcement, Governance and Trade / Voluntary Partnership Agreement (FLEGT/VPA) process is generally considered the “gold standard” to be replicated in all forest climate finance.
- + Donors should offer capacity building support to civil society that extends beyond technical issues to include governance aspects as well as promote the further inclusion of women, Indigenous Peoples, and forest communities in decision-making processes.

- + Where public-private partnerships and industry-led initiatives (e.g., Cocoa & Forests Initiative) are undertaken, governments and donors should ensure that farmers, Indigenous Peoples, and forest communities are represented in their decision-making bodies.
- + Gender equity goals should be integrated across all forest climate finance programmes, with disaggregated goals such as targets for women’s participation, and for greater gender balance in consultations and decision-making processes, as well as requirements to formulate gender action plans.

3. Enhance independent monitoring capacity, and implement redress mechanisms and whistleblower protection to address corruption risks

- + National REDD+ programmes and other forest climate funds should take active steps to evaluate and address corruption risks and put mitigation strategies in place at all levels (including integrity elements such as ethics trainings and conflict of interest policies).
- + Civil society should be directly involved in the oversight of forest climate finance mechanisms, with financial support offered by donors for both independent appraisals and community monitoring.
- + Complaints mechanisms and secure, anonymous reporting channels should be operative before forest climate finance projects and programmes are implemented.
- + Whistleblower protection should be adopted by national REDD+ funds and committees, as well as being extended to members of technical and advisory committees.
- + International funding institutions and their national focal points should ensure that civil society organisations are aware of their accountability mechanisms and whistleblower protection.

4. Establish community-owned and -managed projects, and improve land tenure to reduce land use conflicts and deforestation

- + Community-owned and -managed forest projects should be given greater priority by funders to help ensure that local expectations are met in the delivery of forest climate finance, helping to incentivise conservation and sustainable resource use.
- + Indigenous and local community rights of access to forest resources should be formalised through the recognition of collective land rights in order to reduce deforestation and land conflicts. Indigenous Peoples and local communities should be directly engaged in mapping and characterisation work underlying these land tenure processes.
- + Land and environmental bodies (as well as enforcement and integrity agencies) should be

protected against undue influence of corrupt powerful individuals and industries.

5. Ensure that forest climate finance contributions are adequate and predictable, and achieve equitable benefit-sharing

- + International forest climate finance should be scaled up in an equitable, inclusive and predictable manner.
- + The full participation of civil society in decision-making mechanisms for results-based payments, such as those funded by the Green Climate Fund (GCF), must be prioritised.
- + Greater synergies are needed between forest climate finance and other financial flows (including development assistance), with REDD+ and other forest/biodiversity protection programmes integrated as part of overall forest management policies to ensure that resources are managed sustainably.

COUNTRY PROFILES

CAMEROON

Nearly half of Cameroon's territory – around 22 million hectares – is covered by the dense equatorial forests of the Congo Basin, and the forest sector plays a key role in the country's economic development. Although historic deforestation and degradation rates are low, they are continuously increasing due to expanding economic activities and population growth. As a net carbon sink and non-emitter country, Cameroon's climate policies have focused primarily on greenhouse gas removals. Despite extensive engagement with REDD+ and other climate finance mechanisms, as well as the FLEGT/VPA process, Cameroon has so far been unable to achieve significant forest protection, governance improvements, or enhancement of the rights and livelihoods of local communities and Indigenous Peoples.¹³

Overall funding

Cameroon is engaged in REDD+, the World Bank Forest Investment Plan and the FLEGT Action Plan. Inward financial flows from international sources for climate and forest initiatives are critical for the country. Although it has been involved in these initiatives for over a decade, financial flows remain relatively modest with Germany being the main contributor by far (with US\$ 9 million out of US\$131 million approved funding between 2014 and 2018 according to OECD, CAFI, FCPF).

Transparency of governance arrangements

The effective participation of civil society at the local level remains hindered by complex contextual realities. Access to key information on REDD+ activities is limited, lagging behind the official expectations and favouring centralised elites over

rural communities. The application of the legal framework about access to information makes it very difficult for stakeholders to obtain information: requirements to include local communities are not enshrined in legal texts, non-compliance with requests is not penalised and the process to request access to information is difficult.

Engagement with communities

In Cameroon, there are two main platforms representing civil society organisations in FLEGT/VPA and REDD+ policy processes: (1) Community and Forests Platform (CFP) and (2) REDD+ and Climate Change Platform (PFNREDD & CC). Although there are overlaps in the membership of the two platforms, such stratification and division of civil society weakens its effective participation in key decision-making processes that is often seen as insignificant. Survey and interview responses show that there is considerable room for improvement in the participation of civil society organisations in forest climate governance. Funding agencies, on the other hand, often have a more positive perception, as they tend to be involved in planning rather than implementation, and as such can ascertain the quality of civil society consultation in that phase.

Corruption risks

Cameroon is ranked 149th out of 180 countries on the 2020 Corruption Perceptions Index. Corruption in the forest sector is a major governance challenge: Transparency International's previous assessment of corruption risks in REDD+ in Cameroon identified gaps in policy, legislation and regulations as well as difficulties in tracking financial and economic flows, performance monitoring, reporting and the institutional framework. Inadequate access to information has contributed to impunity and, ultimately, the withdrawal of technical and financial partners from anti-corruption initiatives. The government states that it is determined to uproot

corruption in the forestry sector, e.g., through the new electronic verification system SIGIF2, which traces timber and the legality of forestry entities. However, the tool only simplifies some forest management processes without addressing corruption challenges, such as conflicts of interest.

Impact of forest climate finance

In general, communities support the establishment of strict conservation zones and hope to promote local participation with a high expectation of benefits. However, insecure tenure creates tensions around projects and the impact of legislation meant to address the issue is viewed sceptically by some non-state actors. Hyper-centralised decision-making structures and vague regulatory frameworks also negatively impact local communities' involvement. While the REDD+ programmes have so far been characterised by an increase in women's participation, gaps remain in addressing gender equity as interviewees suggested women were only involved at advanced stages of REDD+ projects.

Recommendations

- 1. Transparency and access to information.** State authorities should publish quarterly information related to all REDD+ activities in the country, including contracts with companies,

baseline data on emissions levels, and progress reports on implementation. Programmes should also allocate dedicated support for local government to undertake local stakeholder forums.

- 2. Civil society and community participation.** Greater synergies should be sought between civil society representation, and the extensive multi-stakeholder approach adopted by the FLEGT/VPA process should be reproduced in the implementation of REDD+. Funding agencies and national implementing bodies should ensure that civil society and community perspectives are more consistently incorporated into decision-making.
- 3. Corruption risks.** Independent revision of REDD+ baseline data and reporting of deforestation trends is needed to ensure that forest climate finance does not exacerbate existing inequalities by benefiting the elite but not the communities. Greater access to information, access to justice, and improved public participation in decision-making should be a *sine qua non* in all the international climate finance support to Cameroon.
- 4. Governance.** REDD+ projects should be extended to cover community-owned and managed forest projects. Indigenous and local community rights to access forest resources should be formalised through land tenure arrangements.

DEMOCRATIC REPUBLIC OF CONGO

The Democratic Republic of Congo (DRC) is home to the second largest swath of rainforest in the world – 155 million hectares. Although deforestation rates are relatively low (0.3 per cent) compared to the Amazon, various mining, logging, agriculture and infrastructural activities mean that tree cover loss between 2015 and 2019 regularly surpassed 1 million hectares per year. Close to half of the DRC's population depend on the rainforest for their livelihoods, including up to 2 million self-identified Indigenous Peoples.

Overall funding

The REDD+ National Fund (FONAREDD) has mobilised US\$219 million for the implementation of REDD+ programs in the DRC, which includes US\$190 million under a letter of intent signed between the DRC and CAFI. As of December 2020, the FONAREDD Steering Committee had approved 18 programs, with a budget totalling over US\$244 million. Despite considerable civil society involvement in the development of a civil society participation manual, it remains unclear how this is used and complied with by implementing agencies in FONAREDD projects.

Transparency of governance arrangements

The emerging national governance structure for REDD+ in DRC has a hybrid nature, combining the establishment of the national-level FONAREDD and independent REDD+ projects at the local level. A recent Transparency International governance assessment found that FONAREDD is generally performing well against indicators for transparency and accountability. Despite this, there remain inconsistencies and delays in updating information on its website. CAFI's policies and practices in relation to transparency, accountability and integrity are more mixed, and some stakeholders point out that its strong influence risks compromising FONAREDD's independent decision-making capacity. Generally, transparency in the forest sector in DRC remains a challenge due poor regulation and enforcement, as well as limited capacity of citizens to hold the forest authorities accountable. Several reforms are underway, including recent ministerial decrees on sustainable management of forests by

local communities, but the fundamental problem of weak implementation remains.

Engagement with communities

The REDD+ policy process in the DRC over the past decade has diverged from the initial planning due to political changes at the national level and changes in the institutional set-up of REDD+, including the leading ministry in the process. Non-state actors remain sceptical about claims of inclusiveness within the decision-making process, as their role is still limited. Efforts to increase information-sharing and capacity-building include FONAREDD's civil society programme and support to the development of a new law protecting Indigenous Peoples.

Corruption risks

DRC is ranked 170th out of 180 countries on the 2020 Corruption Perceptions Index. Weak governance over natural resources have long formed the bedrock of corruption in the country, and while initial work has been undertaken to mitigate corruption in REDD+, risks remain. Though FONAREDD has its own policies on anti-corruption and integrity, it lacks a whistleblower protection system and a mandatory integrity training system for implementing agencies. There are some legal barriers to implementing such measures, since they fall under the sole responsibility of DRC's judicial services, but FONAREDD should nevertheless ensure that its funded programmes develop and adhere to integrity principles and guidelines. In December 2019, the Ministry of the Environment and Sustainable Development (MEDD) and the CAFI Board of Directors agreed on a "roadmap for the forestry sector" that includes a review of the legal titles of forest concessions and attempts to establish the validity of different types of forest concession contracts. The National Forest Advisory Council was finally operationalised in February 2021.

Impact of forest climate finance

A recent milestone in the forest sector was the adoption of a community forest law in 2016, which grants local communities the right to obtain forest titles and manage their lands. Challenges remain regarding vulnerable groups such as women and Indigenous Peoples. Women have limited information about REDD+ and are excluded from decision-making and disadvantaged by existing social norms.

Recommendations

1. **Transparency and access to information.**

Regular updates of information are needed on the FONAREDD website. A funding register should be established to trace flows of disbursed forest climate funds, alongside a technical process to confirm their alignment with the REDD+ National Framework Strategy. State authorities should publish quarterly information related to all REDD+ activities in the country, including contracts with companies, baseline data on emissions levels and progress.

2. **Civil society and community participation.**

Increased support for capacity-building and training is needed to ensure that local communities and Indigenous Peoples are in a position to meaningfully offer their fully

informed consent for REDD+ and other programmes.

3. Corruption risks. Whistleblower protection mechanisms should be developed for FONAREDD. It should also ensure that funded programmes develop and follow clear codes of conduct setting out ethical and anti-corruption rules and standards. New measures and/or mechanisms to limit corruption and undue influence should be developed at a higher level, such as new rules and checks on how forestry concessions are granted.

4. Governance. There should be increased involvement of women and young people at all key decision-making levels, with particular attention to the local level where projects are being implemented.

GHANA

Ghana contains 7.98 million hectares of forest, covering around 35 per cent of the country's total land area. Its economy is heavily dependent on natural resources and around 2 million depend on forests and wildlife for their livelihood. Ghana's deforestation rate is estimated at over 3 per cent each year, mostly as a result of agricultural conversion led by cocoa farming expansion into forest areas, but primary forest loss reportedly slowed by 50 per cent in 2019.

Overall funding

The Ghana Cocoa-Forest REDD+ Programme has been approved for up to US\$50 million in results-based payments from the FCPF Carbon Fund, although as of 2019, no funding had been disbursed. The GCF approved a US\$30.1 million grant for the "Ghana Shea Landscape Emission Reductions Project" in 2020. No funding has been disbursed, but a legal agreement to initiate the project was signed in 2021. The project anticipates US\$24 million in co-financing from private sector and government, and significant parallel private sector investment US\$50 million. A further US\$74.1 million in financing has been approved for five projects of the Forest Investment Programme (FIP). Between 2009 and 2014, Ghana's Forestry Commission received US\$40 million from international donors – European Union (EU), Switzerland, DFID, World Bank, the Netherlands and France – to implement the Natural Resource and Environmental Governance programme.

Transparency of governance arrangements

There remains considerable room for improvement in terms of information disclosure at the national level, as very little information is reported on forest-related climate finance flows. There is no independent oversight to ensure the effective utilisation of funds and these gaps are only partly offset by the information disclosure policies of international funds. The Ministry of Finance, as a national designated authority (NDA) for the GCF in Ghana, was one of the first NDAs to set up a multi-stakeholder decision-making mechanism. This was highly contested within the government, and civil

society representatives report that the ministry remains relatively inaccessible.

Engagement with communities

The REDD+ processes leading to the development and adoption of programme plans have generally seen improvements in civil society participation over time, but the process started from a low baseline. The GCF Ghana Shea project saw several rounds of multi-stakeholder reviews and engagements, and while civil society representatives broadly welcome the Ghana Shea project, the extent of actual consultations is contested. REDD+ is seen as a step backwards compared to the FLEGT/VPA process, which respondents widely reported to be the "gold standard" for any multi-stakeholder process in Ghana. The VPA process offered significant opportunities for stakeholder participation, independent monitoring and joint implementation review, empowering local civil society groups to expose problems on the ground and hold public authorities accountable for addressing them. There was also significant EU funding for community engagement with FLEGT. The same opportunities and funding have not been available for REDD+, although some larger civil society organisations have attempted to plug this gap through support for local engagement.

Corruption risks

Ghana is ranked 75th out of 180 countries on the 2020 Corruption Perceptions Index – the highest of the six countries included in this study. Yet, there are significant corruption concerns in forest areas and there have been reports of widespread illegal timber production and illegal mining in forest reserves. Respondents further confirmed that political culture – particularly the powerful position of some elites in forest management – is a key challenge. These corruption risks extend to REDD+, where powerful political figures have reportedly exercised undue influence on policy-making and implementation of projects. The absence of effective public participation mechanisms means that decisions are often not scrutinised effectively. Although accountability mechanisms and whistleblower protections exist in relation to climate finance, survey respondents either stated that they were unaware of those or that few people knew how to access them.

Impact of forest climate finance

From a relatively early stage, the Forestry Commission of Ghana partnered with the International Union for the Conservation of Nature (IUCN), to develop a roadmap for a gender-sensitive REDD+ strategy. However, reviews are mixed on the results of these efforts to improve gender equity. When it comes to land tenure, Ghana's framework is pluralistic and complex – including various undocumented land rights – which creates risks of conflicts, crime and environmental damage, according to survey respondents and interviewees.

The implementation of REDD+ in Ghana was also seen as a lost opportunity by some respondents, who noted that it has been implemented through a “project” approach with difficulties in collaboration between ministries, resulting in a wider failure to mainstream REDD+ across the workings of the forestry system. The impacts of FLEGT/VPA on broader forest governance were viewed more positively, as it has contributed directly to the inclusion of social responsibility clauses in legislation as well as, through related initiatives, to build community capacity to sustainably manage forest resources.

Recommendations

1. **Transparency and access to information.**

Greater transparency is needed on the disclosures of forest-related climate finance flows. The Forestry Commission should publish planning, contracts, project documents and compliance reports on its website. Capacity

building support is also needed to make information more accessible.

2. **Civil society and community participation.**

More funding support is needed for capacity building and community engagement, including for the independent monitoring of ongoing projects. The GCF national designated authority (NDA) and the Cocoa & Forest Initiative, in particular, should allow for the meaningful participation of a far broader range of civil society and community actors.

3. **Corruption risks.**

Civil society should be directly in the oversight of accountability mechanisms and whistleblower protection. The GCF NDA should also engage in capacity-building efforts to ensure greater awareness of that Fund's Independent Integrity Unit and Independent Redress Mechanism. The introduction of VPA systems covering gold and other commodities would further help to reduce deforestation from illegal mining.

4. **Governance.**

The governance of REDD+ process should be linked more closely to Ghana's overall forest management and governance architecture, to avoid policy contradictions as well as to ensure that the lessons of the VPA process regarding multi-stakeholder engagement are translated into forest climate finance. In their current form, some public-private partnerships and industry-led initiatives risk undermining forest protection and should be revised to ensure that they act in accordance with the free, prior and informed consent of forest communities, and involve community and farmers' representatives in their governance structure.

INDONESIA

Indonesia has a total forest area of 92.1 million hectares and lost an estimated 9.75 million hectares of primary forest between 2002 and 2020. The deforestation rate has reduced in recent years, with an estimated 270Kha of primary forest cover lost in 2020, mostly due to palm oil for export. The Nationally Determined Contribution (NDC) submitted by Indonesia has pledged an unconditional emissions reduction target of 29 per cent and a conditional reduction target up to 41 per cent of the business-as-usual scenario by 2030. It places emphasis on community-based forest management to reduce pressure on primary forests and to protect, restore and rehabilitate watersheds.

Overall funding

Some progress around transparency has been made in Indonesia due to the recently implemented national climate change budget-tagging system. The country has put in place a number of climate change and forest-related financial mechanisms at the national level, including a new national environment fund, the BPDHL, which hopes to raise up to US\$56 billion through a mix of sources, including both climate and non-climate financial flows from international donors, REDD+ payments and carbon-trading, criminal fines and land reclamation payments. The Village Fund – a government-supported fund for community empowerment and environmental activities – amounts to more than US\$5 billion. The Forestry Fund – a revolving loans fund for the private sector which is currently being dissolved into the BPDHL – is recorded as having received in excess of US\$100 million as of 2018.

The most significant climate finance funding for forests in Indonesia relates to REDD+ and comes from the US\$1 billion agreement negotiated with Norway. Norway has recently awarded US\$56.18 million in REDD+ results-based payments and, in 2020, the GCF approved US\$103.8 million in results-based payments for reducing forest-based emissions in 2014 to 2016. Indonesia has also received around US\$40 million through the World Bank FIP and around US\$7 million through the World Bank FCPF.

Transparency of governance arrangements

Indonesia's main 'hub' for environmental finance, BPDHL, has recently been appraised by UNDP as an agency with "moderate qualification", while the level of transparency and inclusion in its establishment has been criticised by representatives from civil society. Further, there is a lack of clarity as to how to access the fund, according to interviews and survey responses. Revenue for the BPDHL will be generated through a rather complex system of fees, charges and levies from the timber industry, some of which have come under scrutiny as to whether they achieve their desired objective, and potentially add to existing informal and illegal fees. Among the international funds, the GCF provides some public information on its website and several Indonesian civil society organisations are involved in tracking developments. The GCF is regularly criticised for its lack of access, however, and the inability of many national level organisations or civil society to become accredited. The FLEGT initiative provides greater space for participation for civil society and Indigenous Peoples at the national, regional and international levels, although concerns have been expressed by participants that organisations lack capacity to effectively engage in the VPA process.

Engagement with communities

There is a range of barriers to participation, including limited access to resources, policy dialogue and participation. Serious concerns have recently been raised that the new Omnibus Law on Job Creation contributes to the continued repression of freedoms of expression and information and limits public participation in environmental decision-making processes. This must all be viewed in a context whereby crackdown and even murders of environmental defenders have been linked to companies or projects in the land use sector in Indonesia. A lack of community participation during project-planning and supervision processes is one reason behind the extent of corruption. Further, studies show clear gender imbalances, with very few female beneficiaries. The approach to participation concerning the REDD+ RBP is not considered by survey respondents to be "full and effective" or inclusive of Indigenous Peoples, despite representations in project documents to the contrary. In contrast, the FLEGT initiative has been found to make a positive contribution to the

participation of civil society, local communities, and Indigenous Peoples.

Corruption risks

Indonesia is ranked 102nd out of 180 countries on the 2020 Corruption Perceptions Index. Corruption is endemic and has worsened in recent years. It has been found at all stages of the timber-product chain, from concession issuing to market sales. The most significant example of corruption in the funds considered here can be found in the administration of the Village Fund. By 2020, there have been a total of 54 recorded corruption cases filed, including for failure to implement activities and non-reporting of funds used, resulting in imprisonment of village heads in some circumstances. Over the period of the programme, this is said to have amounted to a loss of Rp 40 billion (over US\$3 million). The Village Fund may have enabled corruption through “unclear service assignments, fast growing and relatively large budgets, inadequate public financial management procedures, and questionable control and accountability mechanisms”, as well as limited capacity of village heads and village administrations, sub-optimal village institutions and the politicisation of the use of the fund as part of village-level elections.

Impact of forest climate finance

There are ongoing concerns related to the potential for corruption, governance failings, a lack of capacity and lack of access, in particular, related to the financial mechanisms at the national level. For example, the Special Allocation Fund (DAK) and the Public Service Agency – Center for Forest

Development Financing (BLUP3H) have not included gender in their strategies and procedures, and almost all beneficiaries of the funding are men. The FIP Dedicated Grants Mechanism (DGM) has helped raise Indigenous Peoples’ issues up the political agenda, particularly with respect to customary land rights. The FLEGT VPA process has contributed positively to improved legal and regulatory frameworks and to greater transparency in the forestry sector, with sanctions being more regularly enforced.

Recommendations

1. **Transparency and access to information.** Enhance transparency of governance arrangements, especially related to public access to documentation and decision-making with respect to the BPD LH and in GCF readiness, project and pipeline development.
2. **Civil society and community participation.** The Indonesian Ministry of Finance, including the GCF NDA and accredited entities (especially UNDP) need to ensure the full and effective participation of civil society and Indigenous Peoples in all processes concerning REDD+ results-based payments.
3. **Corruption risks.** Enhance capacity-building at all levels with support of local organisations related to fund administration, regulatory requirements and governance, strengthen law enforcement in circumstances where corruption occurs.
4. **Governance.** Incentivise the inclusion and participation of women and integrate gender concerns across all climate finance for forests.

PERU

Peru has the fourth largest tropical forest in the world, covering around 78 million hectares, or 60 percent of its territory. Much of that land is Indigenous territory, and Indigenous Peoples make up around 14 per cent of Peruvians, comprising 55 Peoples and 2,434 registered Indigenous communities. The deforestation rate in Peru over the past decade has been approximately 120,000 hectares per year, peaking in 2014 before seeing a moderate decline. The main driver of deforestation is conversion to agricultural land for growing crops such as coffee, cocoa and palm oil. In response to the twin problems of deforestation and climate change, the Peruvian government has adopted various institutional frameworks and funding mechanisms to protect forests. In 2011, a new forestry law, No. 29763, was approved. A National Forest and Wildlife Service, SERFOR, was also established to ensure the sustainable use of forests and land resources at the forest margins.

Overall funding

There is a huge gap between the hundreds of millions of dollars pledged for (performance-related) plans to reduce deforestation, and the far smaller amounts of financing that have actually flowed into the country. The financing that has so far been delivered has been concentrated on readiness activities, with a high proportion of this channelled to international or Lima-based consultants to work on road maps, safeguard information systems and other pillars of planning. A number of interview and survey respondents drew attention to the perception that funding remains in consultancies with little money flowing to communities in forested areas.

In 2014, Germany, Norway and Peru signed an agreement that saw Norway pledge up to US\$300 million to support Peru's REDD+ efforts. No results-based payments have so far been made by the Norwegian government so far, while Germany did not make a specific pledge related to results-based payments. It has provided €6.3 million in technical support funding and has financed a variety of small projects through GIZ, BMU and BMZ.

Peru participated in the FCPF for over a decade, receiving at least US\$5.75 million of a total funding allocation of US\$8.8 million for FCPF Readiness. However, as it was lagging behind in the completion

of key documents, the World Bank and Government agreed to cancel the programme in February 2021. Survey respondents claim that this was cancelled due to the "inefficiency of both the World Bank and MINAM [the Ministry of Environment]."

The Forest Investment Program (FIP) has approved US\$54 million, the most significant share of Peru's forest climate finance so far.

Further significant sources of forest climate finance in Peru include GEF's Sustainable Forest Management Impact Program (US\$148.6m, although it is not clear what proportion of this finances activities in Peru). The USAID has also supported a number of bilateral forest sector initiatives.

Transparency of governance arrangements

There is considerable room for improvement in the transparency of forest climate finance in Peru. According to the survey respondents, access to information is generally difficult and confusing, and financial information is not readily available. A 2019 assessment of REDD+ readiness found that dissemination and accessibility of information needed to be improved, and survey respondents say the situation has worsened considerably since the start of the COVID-19 pandemic. Although there is a public REDD+ website, information is often not updated, and project-level data and documentation is still lacking, before it was abandoned altogether. The FCPF also fell short on information disclosure, including through a non-transparent approvals process.

Organisations that are involved in consultative processes can request specific information through "access to information" requests. There is also greater transparency at the level of the FIP, but access to its channels is reported to be largely dependent on prior knowledge.

There are also broader problems with information transparency in the forest sector as a whole. A decade on from its creation, Peru's National Forest and Wildlife Service does not have a functioning forestry information system that accounts for even half of forest sector activities.

Engagement with communities

Civil society inclusion in REDD+ has improved over time, but many of the survey respondents felt that

forest climate finance often still falls short of allowing for meaningful participation in decision-making processes. The creation of Peru's National Forest and Climate Change Strategy (ENBCC) formally incorporated a Free, Prior and Informed Consent (FPIC) process with Indigenous Peoples, although participation and involvement of Indigenous organisations at the national level have not been matched by the same efforts on the regional and local level.

Respondents to a 2014 study of the early phases of REDD+ governance had mostly negative perceptions of the timeliness of information delivery and a very negative response to the clarity of information on complaint and dispute resolution mechanisms. Our interviews and surveys paint a slightly more positive picture, with only 40 per cent of respondents complaining about a lack of participation.

Corruption risks

Complexities around tenure arrangements in Peru have created opportunities for corrupt officials to invalidate land rights and seize the lands of Indigenous Peoples and vulnerable communities, often with the result that rainforests are cleared to make way for plantations. Against this backdrop, corruption should be more broadly recognised as a driver of deforestation. "Organised crime, money laundering and corruption need to be better understood if projects are to stop the advance of deforestation in the Amazon," as one of the survey respondents put it.

In the granting of mining concessions in Peru, the substantial gap between formal and customary rights has often been leveraged to deny the rights of communities. Forest climate finance could itself become a source of this type of land grabbing as it puts more pressure on land through conservation projects, although the key issue in Peru to date has been that overlapping tenure claims are exacerbated by conflicting government policies and agendas. There is no solid evidence of fraudulent uses of REDD+ and other forest climate finance, but it is hard to tell with certainty because of a lack of transparency over financial flows. There is an absence of in-country accountability and whistleblower mechanisms to counter fraud, although the international funders and agencies involved in implementing REDD+ have such policies in place.

Impact of forest climate finance

Forest governance in Peru now incorporates some well-articulated policies and principles but faces significant implementation challenges, including the strengthening of regional forestry authorities and management committees that aim at improving inclusion, which is particularly concerning because REDD+ forest conservation and restoration are competing with mining and agricultural expansion to shape local land-use dynamics and, by most measures, appear to be losing.

Overall, REDD+ in Peru has largely failed to slow the pace of deforestation or improve the material well-being of Indigenous communities, which is compounded by remaining inconsistencies in the government's forest policies, and weak enforcement of laws.

Some REDD+ projects in Peru have also exacerbated land conflicts by taking over control of some land for conservation and dispossessing Indigenous Peoples who feel usurped. Kidnappings, beatings and assassinations of environmental defenders have occurred in the context of these conflicts. However, a specific initiative – the Peru-Norway-Germany agreement – had some positive effects on land tenure as it played a key role in shaping new forestry policies and laws, directly supported local capacities, and provided funding for titling and land-use planning processes.

The Dedicated Grants Mechanism (DGM) has also provided avenues for Indigenous communities to directly engage in mapping and characterisation work, however, there has only been limited progress implementing the titling of collective rights. Some of the respondents also reported that women are now more widely represented in public meetings and decision-making processes, but others felt that climate finance processes had not empowered or benefitted Indigenous women. The FIP DGM is a partial exception, with a third of its sub-projects led by women.

Recommendations

- 1. Transparency and access to information.** The government's information website for REDD+ should be regularly updated to include project level data and information on financial flows.
- 2. Civil society and community participation.** Increase outreach and capacity building to ensure participation of regional and local organisations and Indigenous communities;

ensure that financing activities fully adhere to the principle of Free, Prior and Informed Consent.

- 3. Corruption risks.** Financial transparency is needed as a basis for effective monitoring of forest climate finance flows. Some dedicated forest climate finance activities should also aim at understanding better and addressing directly

the important role of corruption as a driver of deforestation, especially empowering and protecting Indigenous communities to combat corrupt land deals.

- 4. Governance.** Ensure the titling of Indigenous Peoples collective rights, provide more avenues for Indigenous communities to directly engage in mapping and characterisation work.

REPUBLIC OF CONGO

The Republic of Congo (RoC) is home to 22.5 million hectares of the Congo Basin Forest, which covers 69 percent of the land area and is home to an estimated 15 per cent of the population. The Indigenous population of RoC is estimated to constitute up to 10 per cent of the population, with some still leading nomadic and/or semi-nomadic lifestyles; i.e., hunting and gathering in the forests. The Congolese economy is heavily dependent on the exploitation of natural resources, especially oil and timber, which contribute nearly 70 per cent of GDP. Some of the direct drivers of deforestation in RoC include industrial logging, agro-industrial production (palm oil), slash-and-burn agriculture and mining. Furthermore, the deforestation rate has continued to rise in the context of the country's reliance on commodity exports.

Overall funding

The Government of the Republic of Congo, with the support of FAO, has recently seen US\$29 million in funding for the PREFOREST Project approved by the GCF. The project aims to reduce deforestation caused by slash-and-burn farming and over-logging of natural forest for fuelwood by encouraging agroforestry approaches that combine management of trees with that of crops and livestock. The project will receive US\$9 million in co-financing from the RoC government, US\$1.6 million from the International Fund for Agricultural Development (IFAD), and a further US\$7 million from the Central African Forest Initiative (CAFI). The Republic of Congo is also engaged in REDD+, the World Bank FIP and signed a VPA with the EU in May 2010. It submitted its Emission Reduction Program (ER-Program) in December 2018, which aims to implement REDD+ as model for sustainable development in a 12.4 million hectares programme area. In May 2021, the RoC finally signed an agreement with the World Bank FCPF that will unlock up to US\$41.8 million to reduce 8.4 million tons of carbon emissions through 2025 under the ER-Programme.

Transparency of governance arrangements

The FLEGT VPA has been a model for multi-stakeholder governance, as civil society was

recognised by national authorities as a credible partner for the first time, playing a clear role in the process.

Substantial progress has also been made on increasing transparency in the forest sector through the VPA transparency annex, the creation of an independent forest monitor, and the inclusion of timber in the reporting scope of the Extractive Industries Transparency Initiative (EITI). As a result of these processes, civil society organisations have also strengthened their overall capacity to influence and monitor a wider set of forest-related policies and regulations. However, fundamental governance challenges persist – limited access to information being the key issue. Most respondents felt there was no or inadequate consultation of civil society.

Engagement with communities

Civil society participation in the VPA and REDD+ processes take place mainly through two platforms: (1) the Plateforme pour la Gestion Durable des Forêts (PGDF) and (2) the Cadre de Concertation des Organisations de la Société Civile Congolaise et des Peuples Autochtones sur la REDD+ (CACO-REDD).

Although civil society groups have generally participated in the process of revising the forest law and the elaboration of forest policies, including the Readiness Plan Proposal (RPP) and other technical meetings on REDD+, some claim that they were not able to meaningfully participate in the drafting of REDD+ documents.

Even though the FLEGT process and other processes have greatly improved the inclusion of civil society in forest and environmental decision-making processes, the effective participation of these stakeholders is still hampered by some underlying factors including internal divisions and fragmentation which affects its capacity to play its role effectively.

When asked if independent civil society actors participate significantly in the governance and funding implementation process, around half of those surveyed felt that participation was more as observers rather than in an active role, while around a third of respondents did not consider there to be any meaningful civil society participation.

Corruption risks

The Republic of Congo is ranked 165th out of 180 countries on the 2020 Corruption Perceptions Index. Although it has an anti-corruption framework in

place, its implementation remains weak. Limited coordination between government ministries means that permits for land use can be contradictory and overlapping, contributing to the prevalence of illegal timber harvesting.

According to reports and surveys, corruption is commonplace in the forestry sector. The RoC's strategy to control tax collection and stop corruption along the supply chain is however both unclear and ineffective. EIA investigations indicate that it is commonplace for industrial logging companies to bribe officials to get concessions and secure impunity. Some improvements have been achieved through the VPA and other processes. Major legislative reforms have been carried out in an inclusive manner, including a new law to protect Indigenous Peoples' rights. There is also now formal recognition of the role of independent forest monitoring carried out by civil society.

Impact of forest climate finance

Despite some notable advances in forest and climate governance driven in particular by the implementation of the VPA, significant challenges remain. Communities are rarely involved in decision-making processes, and the accountability of state actors is limited in conflict resolution and the fight against corruption. There is a critical need to harmonise and strengthen sectoral policies and climate commitments, including to advance the VPA and better integrate forest governance into the NDC.

According to survey and interview respondents, forest-related climate finance processes have led to negative impacts on local communities and Indigenous people. Programmes have in some cases enabled land grabbing, cut off communities' access to firewood and agricultural activities and left them without alternatives and proper compensation for lost land.

Recommendations

1. **Transparency and access to information.** Access to information standards should be mandatory in all the programmes and frameworks: proactive, timely and useful information clauses should be embedded in all frameworks. Information on the ownership of implementing entities, documentation of agreements, and financial flows should also be made available.
2. **Civil society and community participation.** Existing platforms should be preserved and enhanced to ensure that civil society and Indigenous Peoples representatives are afforded more space to participate in decision-making processes. Capacity-building support for civil society should go beyond technical issues to include assistance with improving civil society governance and coordination. Capacity-building of stakeholders should prioritise the further inclusion of women and Indigenous Peoples.
3. **Corruption risks.** Increase forest and trade monitoring by local and national authorities to reduce corruption, enhance capacity and resources of independent civil society monitoring.
4. **Governance.** Systematically review climate finance projects to address concerns regarding land expropriation and marginalisation of women and Indigenous Peoples. The REDD+ and PREFOREST projects should develop clear, independent redress mechanisms to reduce or manage conflict arising from remunerations, and to ensure that they do not result in the expropriation of land by powerful elites. There should be capacity-building support to ensure that local actors are aware of and can access the GCF's Independent Redress Mechanism and World Bank Grievance Redress mechanisms, if required.

ENDNOTES

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