

Session 5: Corruption risks in NRM and REDD+

Workshop on Corruption Risks and Anti-
Corruption Strategies in Climate Finance

Manila, Philippines

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Do natural resources corrupt?

- There is an **ambiguity** about natural resources
- Importance for **economic growth** and **development**, but also involve many **problems** and **challenges**
- Two issues of corruption are seen as important in relation to natural resource sectors: **rent-seeking** and **patronage**
- “**Resource curse**” debate mainly focused on **extractive industries**, although significant body of knowledge on corruption in **other resource sectors** too (forestry, fisheries, land)
- Nuances of corruption in **types** of resources, the **challenges** they present and the **policy options** for addressing them

Two relationships between corruption and natural resources

1. Resources may cause corruption – endowments of appropriable resources may result in high level of rent seeking
2. Systems set up to manage resources may fall prey to corrupt practices – leading to suboptimal outcomes

What determines whether corruption will occur in a resource sector?



- **The rent-seeking perspective:**
 - Where resource rents are high and institutional quality is low, a number of entrepreneurs will choose to become rent-seekers
 - Suggests that those countries with good institutions will avoid corruption, while those with bad institutions will not
- **The patronage perspective:**
 - Resource rents provide opportunities to pay off political supporters to stay in power
 - The critical institutions from this perspective are those that govern the distribution of public spending
- **The diversified economy perspective:**
 - Where public revenues are derived from a wider economic base, rent-seeking may be less likely

How natural resource management is corrupted



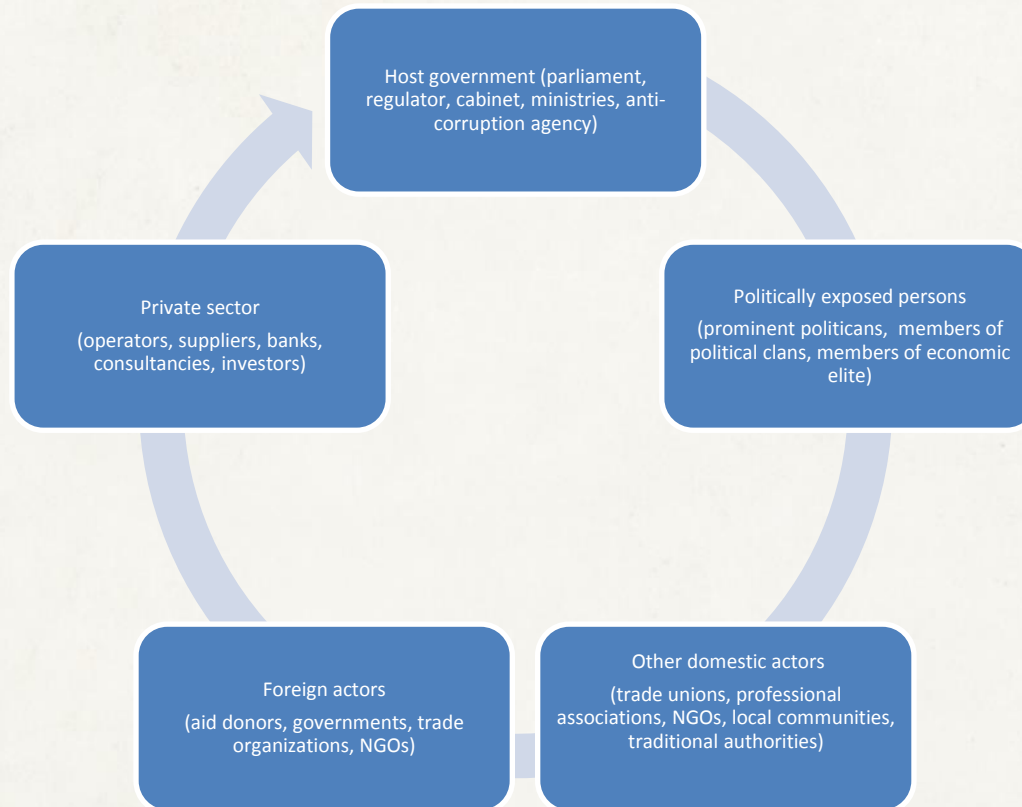
- **Preconditions:**
 - Personal benefit for those involved
 - Those involved must have authority over decisions
 - Those involved must have the opportunity to act corruptly within their institutions
- **Actors:**
 - Various actors can be involved – important to understand various actors' roles
- **Corruption risks before operation:**
 - Many uncertainties in early stages of managing a resource: Various incentives for actors to seek to unduly influence due process
- **Corruption risks during operation:**
 - Terms of resource management are not always respected and monitoring is required
 - Monitoring systems can themselves become the subjects of corruption, and this is more likely where monitoring and regulation enforcement capacity are already weak



Mining sector corruption: Forms and impacts

Area	Who and how	Potential impacts
Issuing of licenses	Officials may extort bribes from firm or firms may offer bribes to officials to issue a license, speed up a process etc.	Undermining of regulatory process, best firm/bid may not win license
Compliance with license conditions	Firms deliberately breach conditions, or officials request bribes to overlook them	Social and environmental conditions may be breached
Mining revenues	Firms fraudulently understate output or profit, or officials accept false declarations for bribes	Fewer revenues collected by the state
Compensation and obligations to local citizens	Officials or community leaders steal compensation, or local citizens wrongly claim land as theirs	Too little or no compensation to local citizens potentially leading to unrest, compensation wrongly paid to local citizens
Contracts with contractors and suppliers	Tenderers pay bribes to win contracts, or officials accept fraudulent claims for bribes	Undermining of regulatory process, best firm/bid may not win tender, possibly resulting in poor quality work
Post-extraction falsification of quality	Firms bribe officials to issue false declarations	Undermines quality control and reputational premium on products
Theft of product and equipment	Workers or local citizens steal mineral products and equipment	Undermines profitability and sustainability of mining activities

The political economy of corruption in natural resource sectors



Deforestation and corruption



- Goods and services provided by forests each year valued at USD 4.7 trillion
- Around half of all remaining forests are found in the tropics and subtropics, particularly the Amazon and Congo Basins and the Indo-Malayan region
- Deforestation has increased dramatically over the past century, with 16.1 million hectares of natural forests estimated to have been lost globally each year during the 1990's. Of this, 15.2 million hectares was lost in the tropics
- Between 1990 and 2005, the average deforestation rate has been estimated at 13 million hectares each year. Only two countries, Brazil and Indonesia, accounted for some 40% of this
- Transparency International rates forestry as the 10th most corrupt sector globally

What is REDD+?

- A global framework to halt deforestation and the degradation of forests
- Sets-up projects to conserve forests in tropical countries
- Compensates people for economic opportunities (e.g. in mining or logging) they lose in order to conserve forests
- Checks whether trees are actually saved and whether financial benefits are well-distributed
- Money is channelled through agreements between countries (e.g. Norway and Indonesia) and through international organizations (e.g. the World Bank and UN system)

Corruption threats for REDD+

U4 Prezi:

<http://www.u4.no/themes/redd-integrity/>

Case example: Indonesia

- In 2011 Norway pledged USD 1 billion to Indonesia for REDD+
- REDD+ introduces a more complex payment system than the traditional timber concession system in place since the 1970s
- Forest sector corruption cases brought by the Indonesian Corruption Eradication Commission (KPK) have used timber harvest data to convince judges financial losses to the state have occurred. But carbon is difficult to measure, so getting similar data for forest carbon is a challenge
- Governance, data management and human resources are weak in the forest sector, particularly at local and provincial levels
- REDD+ in Indonesia has mainly been developed through forest sector agencies, without much involvement from law enforcement and audit bodies

Case example: DRC

- Since 2009 work has been underway to prepare the DRC to implement REDD+ at national and local levels
- The Mai Ndombe project is the first REDD+ project to be implemented in the DRC, and protects 300,000 hectares of tropical forest
- DRC is characterized by a long history of conflict and poor governance, including in the forest sector
- Weak institutions and poor enforcement of existing legislation allow illegal and informal logging to occur
- Logging permits have been improperly issued, authorized volumes not respected, and taxes not paid on forest resources
- Corrupt behaviour that has so far emerged in REDD+ implementation include kickback payments on consultancy contracts and workshop per diems, the politicization of REDD+ government positions, and the non-transparent reporting, contracting, and use of REDD+ funds