

U4 Expert Answer



Corruption risks and mitigating approaches in climate finance

Query

What evidence exists on corruption risks particular to climate finance, and what is the current evidence base on effective corruption mitigation approaches?

Purpose

We want to ensure that our climate finance is in keeping with good practice on managing corruption risks, both in terms of our own bilateral programmes and our contributions to larger funds. Our particular interest is in adaptation finance.

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Caveats

This query response is largely based on a previous response from 2014: [Corruption risks and mitigating approaches in climate finance](#). The purpose of this response is to elaborate on new developments and provide recent evidence of effective corruption mitigation approaches.

Summary

There are major integrity and corruption challenges associated with climate finance. The huge amounts of money flowing from public and private sources, disbursed by international donors, national governments and local actors often lack adequate transparency and accountability mechanisms, with little information available concerning how these funds are spent, how they are generated and to what end.

The main corruption risks related to climate finance vary according to the phase of the process: undue lobbying and conflict of interest are more of a risk at the policy development and project approval stage, while bribery, nepotism, and embezzlement are the main risks at the execution stage of mitigation and adaptation projects.

Increased oversight and third party monitoring of policy and project development would mitigate corruption risks at the planning stage, while greater expenditure monitoring, redress mechanisms and increased transparency would decrease corruption risks in the project implementation phase.

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U4 is a resource centre for development practitioners who wish to effectively address corruption challenges in their work. Expert Answers are produced by the U4 Helpdesk – operated by Transparency International – as quick responses to operational and policy questions from U4 Partner Agency staff.

Although there is limited empirical research on corruption risks in climate finance, there are a growing number of studies on climate finance flows and the execution of adaptation and climate change mitigation projects. Promising developments related to the transparency framework of the Paris Agreement suggest there will be an increased focus on international and national accountability in climate finance, action and results in the coming years.

1. State of research on corruption risks in climate finance

While 74% of the US\$391 billion global climate finance budget is raised and spent in the same country (Climate Policy Initiative 2015), climate finance is also a rapidly expanding field in international development. Leaders of developed countries have pledged to leverage up to US\$100 billion in climate finance per year by 2020 (Dagnet et al. 2015). Current rates of disbursement are considerably lower; a study commissioned by the French and Peruvian Governments in their capacities as presidents of COP21 and 20 respectively concluded that US\$62 billion in public and private sources were directed from developed countries to developing countries in 2014 (Nakhoda et al. 2015). However, following the Paris Agreement at the Conference of Parties (COP21) to the UN Convention on Climate Change (UNFCCC) in late 2015, investment in climate action is set to increase as countries worldwide aim to meet adaptation and mitigation targets laid out in their Nationally Determined Contributions (NDCs) (UNFCCC 2016a). According to an estimate by Climate Funds Update (2016), the UK's US\$6 billion International Climate Fund makes it currently the largest bilateral donor in climate finance.

Climate money can be invested in both mitigation and adaptation programmes. Mitigation strategies aim to curb global warming, for example, through investments in renewable energy, clean transport or reforestation projects (United Nations Environment Programme 2016). Adaptation refers to interventions aimed at reducing the impact of climate change, such as major investments in large infrastructure projects like sea walls, flood defences, irrigation systems or emergency shelters (Victorian Centre for Climate Change Adaptation Research 2016).

The World Bank defines climate finance as “the resources to catalyse the climate-smart transformation of development trajectories by covering the additional costs and risks of climate

action, creating an enabling environment and building capacity in support of adaptation and mitigation as well as encouraging research, development, and deployment of new technologies.” (World Bank 2010).

According to the UNFCCC (2016b), this refers to “local, national or transnational financing, which may be drawn from public, private and alternative sources of financing.” Considering the expansive nature of this definition, evidence of corruption within climate finance is hard to quantify and equally challenging to conceptualise.

While numerous reports and studies have looked at evidence of corruption in fields related to climate finance, such as energy, water, forestry, waste or construction, such corruption risks are generally considered from a “sectoral” perspective, rather than in terms of the linkages with climate finance.

Indeed, the kinds of sectors in which climate finance investments are made are considered to be particularly vulnerable to corruption. World Bank working papers estimate, for instance, that corruption in the construction and infrastructure industries accounts for anywhere between 5% to 20% of the total costs in developing countries (Kenny 2006; Kenny 2007).

Despite the growing number of civil society organisations dealing with climate change, empirical academic evidence documenting corruption associated with climate finance governance remains limited.

Nonetheless, in the last few years, several studies and reports have identified a number of factors that make climate funds especially vulnerable to corruption (UNDP 2011; Transparency International 2011; Werksman 2010; Forstater and Rank 2012; Transparency International 2014; Terpstra et al. 2015; Peterson Carvalho & Terpstra 2015). These are considered in the following section.

Scale and nature of climate finance

Scale of money flows

Risks of corruption are likely to be exacerbated by the huge amounts of money flowing through new and relatively untested mechanisms and financial markets (UNDP 2011). Risks are also likely to be greater as recipient countries often have weak institutions and governance frameworks, low absorptive capacity and poor institutional records for public accountability (Transparency

International 2011), meaning that once these funds are received there are fewer chances of them being tracked and their expenditure monitored.

The scale of the governance and oversight challenge is vast, especially in light of new commitments made at the 2015 Conference of Parties (COP21), which include overhauls of energy infrastructure and additional investments in renewables and energy efficiency measures estimated at US\$16.5 trillion through to 2030 (Schloss 2016).

Pressure to disburse

The urgency of climate spending puts actors under pressure to disburse funds quickly, leading to increased flows over a short period of time, with pressure to demonstrate impact and success stories. This may create the wrong incentives for donors, undermine the effectiveness of projects and increase vulnerability to corruption. Increased pressure to fast-track climate spending can exacerbate underlying corruption risks (UNDP 2011; Transparency International 2011).

Fragmentation of climate finance

There is an increase in the number and diversity of funding sources from both public and private origins, which often overlap in nature, purpose and governance. Delivery mechanisms are varied and increasingly complex, and may include loans, grants, repayable assistance, guarantees, equity or other financial instruments (Green Climate Fund 2015).

There is also wide divergence in the governance of these funds, with different standards and practices, and varying levels of transparency and coordination between them (UNDP 2011). Diverging anti-corruption standards among donors may send mixed messages to recipient countries and undermine the anti-corruption agenda. A lack of governance standards within private sector initiatives (PSIs) also contributes to the complexity of international climate finance. A 2015 study of 101 private sector initiatives to mitigate climate change showed that only 8% of PSIs provided information about project costs; it found that information about how the finance was raised, delivered, used and monitored was largely absent in all the case studies reviewed (Pauw et al. 2015).

There is also fragmentation and overlap between development and climate change adaptation and mitigation activities, which creates some confusion and challenges in terms of tracking,

reporting and providing effective oversight of climate change investments.

Adaptation finance are funds designed to prepare countries for the negative effects of climate change so as to prevent further damage to populations and property. There is little consensus among donors, academics and beneficiary countries about which expenditures can be classified as adaptation expenditures: some donors consider basic disaster preparedness infrastructure (like dykes, sea walls and drought preparedness irrigation), while others would also include climate education, drought/flood resistant crops and waste management services as adaptation expenditures (Pickering et al. 2013).

While there has been relative overall improvement of monitoring, reporting and verification related to climate investments since the COP17 and COP19, monitoring and reporting continues to be enforced more stringently in developed countries, while there are notable gaps in developing countries (Dagnet et al. 2015). A positive measure with the potential to facilitate climate finance tracking in developing countries is the International Aid Transparency Initiative. The Adaptation Fund was adopted by the initiative in 2014 and provides annual information with the aim of improving the quality of data it publishes (International Aid Transparency Initiative & Development Initiatives 2015).

Challenges in definition and measurement

There is a need to develop a system to measure, report on and verify the relevant financial flows across a variety of sources, with a view to assessing whether targets are met (Buchner et al. 2011). However, the lack of a common internationally agreed-upon definition of what constitutes climate finance is real a barrier to the development of a common basis and methodology for tracking, measuring and reporting on climate finance.

The UNFCCC Standing Committee on Finance is meant to be the main oversight organism for climate finance. Since 2012, it requires recipient countries to provide information, by way of update reports, on the funds received from the Global Environment Facility, bilateral donors, the Green Climate Fund, as well as multilateral institutions "for activities relating to climate change, including support for the preparation of their Biennial Update Reports" (Adaptation Watch 2015). However, the absence of international standards and tracking guidelines means there are substantial differences in the amounts, frequency

and types of funds that are reported, creating significant methodological complications when it comes to identifying whether countries have met their pledged commitments (Dagnet et al. 2015).

The UNFCCC standing committee has recognised this, admitting that it “encountered challenges in collecting, aggregating and analysing information from diverse sources...each of these sources uses its own definition of climate finance and its own systems and methodologies for reporting.” It further noted that the “wide range of delivery channels and instruments used for climate finance also poses a challenge in quantifying and assessing finance” (Adaptation Watch 2015).

Even where there have been attempts at creating an international standard, such as the Climate Change Adaptation statistical markers introduced by the OECD in 2010 (OECD 2011), the results have been questionable. A study by Jughans and Harmeling (cited in Adaptation Watch 2015) assessing the credibility of the adaptation marker system concluded “that roughly 65% of all activities reported as adaptation were unrelated or lacked a rationale for listing adaptation as a principal or significant objective”. Similarly, another study (Adaptation Watch 2015) found that of 5,201 OECD member country projects considered to have climate as a “significant objective” under the adaptation marker system, 70% were not clearly related or lacked adequate information. A study on adaptation funding in Nepal found that less than half of funding listed as adaptation related corresponded fully or partially to adaptation activities (Baral & Chhetri 2014).

While climate finance is supposed to be additional to and above official development assistance (ODA) targets, contributions to adaptation are often reported as ODA and vice versa, and are likely to be double counted in the absence of adequate guidance (Klein 2011). Funding specifically labelled as “climate finance” represents only a small part of the resource flows which may have an impact on “climate-smart development”.

At the national level, for example, international funding commitments made within the framework of the UNFCCC contribute to public budgets in relevant areas, such as forest conservation, renewable energy, flood defence and agricultural development, but represent only a subset of overall public spending in these relevant sectors. There are also other public and private investments and contributions to these sectors which may not have a specific climate-related aim (Forstater & Rank 2012).

Furthermore, differing levels of fiscal transparency and diverse procedures for marking and labelling of climate-related co-financing provided by national governments to “match” international contributions also provide a challenge in efforts to track this funding. For example, some countries in sub-Saharan Africa, such as Tanzania, Ethiopia, and Uganda, do not have the same disclosure obligations for extra-budgetary climate finance or international donations ear-marked for climate mitigation or adaptation, making tracking of commitments difficult (Bird 2014).

There has been a drive to develop comprehensive databases to quantify climate finance. The Heinrich Boell Stiftung together with the Overseas Development Institute has developed an overview accessible on the website www.ClimateFundsUpdate.org. For a comprehensive list of databases, please see the U4 Anti-Corruption Resource Centre’s 2015 [International Standards and Best Practices for Aid Flows, Revenue Transfers, and NRM](#).

Beyond measurement issues regarding the monetary dimension of climate finance, the assessment of results, especially in mitigation finance, is difficult due to the sophistication of climate networks and technologies. Moreover, given the global nature of the problem and the likely delayed impact of mitigation interventions, it can be hard to evaluate results on a national or even regional basis within project lifecycles (Cooper & Pearce 2011).

Specific risks associated with various disbursement mechanisms

There are specific risks associated with various spending mechanisms such as loans, grants, sector-wide approaches or budget support. In a 2010 paper, Jakob Werksman from World Resources Institute (WRI) stresses that corruption-related risks largely depend on the nature of the investment in particular sectors and countries, arguing that it may be easier to track project-based loans than budget support in some countries (Werksman 2010). Supporting this argument, a 2014 study that looks at 12 EU budget support programmes focused on environmental and climate mitigation found that delays in disbursement were experienced in all but one of the 12 programmes despite having established disbursement timeframes. The study also found performance assessment of the use of the funds was generally lacking due to limited monitoring and, when applied, performance

monitoring arrived in later portions of the programmes (Bird & Ferrandes 2014).

The national governance and institutional context may be key to determine whether budget support is an appropriate option, to identify country-specific risks and to develop effective strategies to address these risks. Among other recommendations, the report by Werksman stresses the importance of understanding the political economy in each country to identify various stakeholders' incentives and develop effective risk-mitigating strategies.

Lessons learned from risk management approaches in development aid and humanitarian assistance (see Johnsen 2015) could help to improve understanding of the corruption risks associated with various funding mechanisms and modalities in climate finance.

New, complex and largely untested funding architecture

The institutional set-up used to raise and allocate climate funds may also have an impact on corruption risks, based on the accountability, transparency and integrity mechanisms in place in the various institutions involved. At present, it is composed of a complex web of international and national institutions, mechanisms and policies (Forstater & Rank 2012).

A number of new and existing institutions at the international and national levels are being used or created for managing the billions of dollars at stake in climate finance. These include the Global Environmental Facility, the Climate Investment Funds, the Adaptation Fund the UN-REDD+ programme, as well as multilateral development banks, international finance institutions, bilateral institutions, the Clean Development Mechanism and, most recently, the Green Climate Fund.

Resources can be channelled directly to national institutions in recipient countries or through bilateral or multilateral implementing agencies. Some recipient countries, such as Bangladesh, Brazil, China, Ecuador, the Maldives and Thailand, among others, have also set up national funds, some administered by the UNDP (Forstater & Rank 2012).

When new institutions are being established, this can present an opportunity to hold them to international standards of transparency and integrity, such as in the case of Poland's EcoFund or the Brazilian Amazon Fund (Werksman 2010). However, the success of such approaches largely

depends on the specific context of each country, as the funds are exposed to corruption risks at country level.

A relevant case study is that of the Bangladesh Climate Change Trust Fund (BCCTF), established in 2009 to allocate a portion of the national Bangladeshi budget. Transparency International Bangladesh investigated the execution of the funds on cyclone resistant housing in the southern coastal region of Bangladesh and found that the project had not been completed more than a year after the funds had been allocated (Transparency International Bangladesh 2012). The Bangladeshi government reacted to the investigation by finishing the housing and pledging to incorporate many of the recommendations proposed (Kahn 2014), although government support for the fund subsequently tailed off and significantly less funds were allocated to the fund in the years following (Ministry of Forests and the Environment of Bangladesh 2016).

There is a growing interest in "direct access" funds, channelled through accredited national entities rather than through multinational development banks to implement adaptation projects. Direct access permits donors to bypass intermediaries, guaranteeing national access to funds, and yet uphold governance standards through verified accreditation schemes (Schäfer & Kreft 2014). The Adaptation Fund, for example, operates almost exclusively through direct access, while the Green Climate Fund (GCF) developed "enhanced direct access" in 2014, a modality that works through national gateway intermediaries to finance projects in areas the GCF considered strategic in the country, but that are ultimately chosen by national and local representatives (Müller 2014).

This approach can present a set of context-specific corruption and governance challenges, and presently, many countries have not been able to access these types of funds due to their lack of necessary fiduciary safeguards. Many institutions that have been accredited note that access to funds has been facilitated through direct access, but found the accreditation process arduous and time consuming and received limited guidance from accreditation bodies (Masullo et al. 2015).

International architecture

There are various levels of governance standards and integrity management systems in place in international institutions, which are likely to have an impact on each institution's ability to adequately prevent and address corruption risks.

Transparency International (Elges & Martin 2014) conducted a mapping and assessment of the anti-corruption accountability framework and safeguards of six multilateral climate funding initiatives: the Adaptation Fund, Climate Investment Funds, the Special Climate Change Fund, the Least Developed Countries Fund, the Forest Carbon Partnership Facility and UN-REDD. The study found that none of the funds have a comprehensive, fund-wide zero-tolerance for corruption policy and tend to depend on a complex system of policies that leaves room for confusion regarding accountability (Elges & Martin 2014). The assessment also found the funds generally lacked clear accountability mechanisms for decision-making processes or sanctions for unethical or corrupt behaviour.

More recent studies have focused on quality management related to transnational climate governance initiatives. A report from the University of Zurich analysed 109 such initiatives from 2005 to 2015 and found that 45% of them lacked any type of monitoring and evaluation system to assess results. Quality control of these initiatives is necessary for institutions and governments to be held accountable for the execution of climate finance funds (Michaelowa & Michaelowa 2015).

The Green Climate Fund (GCF) is an interesting case study to illustrate these challenges. The GCF requires participating countries to nominate, provide a legal opinion on, and maintain a national designated authority (NDA) to act as an interface between the GCF and national governments. In turn, the NDAs play a key role in identifying and vetting bodies seeking to become “direct access entities” able to draw on resources from the fund (Green Climate Fund 2015). The aim of this accreditation process is to ensure that accredited entities are able to manage GCF resources in line with the highest fiduciary standards as well as monitor and mitigate any environmental or social risks their projects may entail (Green Climate Fund 2015).

Furthermore, in 2014, the GCF established the Independent Redress Mechanism with the aim of assessing GCF operations, as well as addressing complaints by recipient countries and local stakeholders. It also formed the Independent Integrity Unit to investigate fraud and corruption (Green Climate Fund 2014). These accountability mechanisms have been viewed as a step forward in international climate finance as they permit beneficiaries to file complaints, which should help promote more accountability at the project evaluation and disbursement stages (Richard

2016). Nevertheless, criticisms have been made regarding restrictions to those entitled to file formal complaints and delays in operationalising these concepts (Richard 2016). There are also some concerns among the policy community that, given its small staffing levels, the GCF will be forced to outsource many of its tasks and responsibilities, reducing oversight and increasing the risks of illicit or unethical behaviour (Shiuna 2015).

National institutional set-up

The governance and institutional framework of both donors and beneficiaries is a key determinant of opportunities for rent-seeking, and the close involvement of the public sector may act as a facilitating or inhibiting factor for corruption, depending on the country and local contexts (Werksman 2010). In many countries, domestic sources of funding constitute significant portions of climate finance: in Tanzania, for example, the ODI estimates that between 2008 and 2011, 59% of funds destined for mitigation and adaptation came from internal state or private sources rather than international funds (Bird 2014).

It is also of crucial importance to understand the complex network of national actors and institutions involved, in particular how the stakeholders and institutions responsible for climate finance decision making and disbursement relate to each other, and what integrity and accountability systems they have in place.

Two recent reports observe a similar accountability gap between how climate finance is generated and delivered at the international and how it is disbursed at the national and local levels.

Firstly, Transparency International’s Climate Finance Integrity Programme conducted an anti-corruption and governance assessment of climate finance in six countries (Bangladesh, Dominican Republic, Kenya, the Maldives, Mexico and Peru) (Transparency International 2013). The report highlighted that contradictory financial information is supplied by various sources (from government ministries, donor websites and tracking initiatives such as Climate Funds Update) in the countries analysed. The authors also note obstacles in distinguishing climate finance from other budget lines and note the difficulty in tracking and overseeing finance flows.

Secondly, a report from the World Resources Institute and Oxfam tracked adaptation funding between 2008 to 2013 in the Philippines, Nepal,

Zambia and Uganda (Terpstra et al. 2015) found that while information about climate finance was available on request, the information tended to be in aggregate form or was too incomplete to allow the finance to be tracked with any degree of accuracy

For more information on national set-ups, please see the 2014 query response [corruption risks and mitigating approaches in climate finance](#).

Local institutional set-up

The role of local governments in channelling climate finance is also of crucial importance. Global Witness suggests that, when used appropriately with stringent financial safeguards, allowing sub-national and local entities to directly access funds and bypass national governments may be an effective way for financial flows to reach project-level activities and reduce misallocation at the national level (Global Witness 2012).

A 2013 paper by the WRI provides some insight into experiences in Nepal and the Philippines, as both countries emphasised climate finance transparency and accountability provisions at the local level. Nepal, through its 2011 Climate Change Policy vowed to spend 80% of climate aid at the local level. As a complimentary action, Local Adaptation Plans of Action (LAPAs) were established to increase citizen participation at the local level and to establish firm accountability mechanisms in adaptation fund management (Terpstra et al. 2013). Experiences in the Philippines were similar, where climate change adaptation planning is being mainstreamed into the local development planning process. Local government units are mandated by national legislation (The Climate Change Act) to align local development plans with the National Climate Change Action Plan. (Terpstra et al. 2013).

Research thus far has primarily focused on the international and national levels, and the local architecture for managing climate finance has not received enough attention to date, which constitutes a major knowledge and research gap (Global Forum 2013). At the same time, a lot of money is spent locally on smaller-scale projects, emphasising the need for studies at this level.

2. Evidence of corruption in climate finance and programming

Corruption risks related to climate finance is generally discussed in three categories: the flow

of funds between and within countries, including the generation, distribution and allocation of funds; the corrupt actions involving the execution of these funds; and the monitoring and verification of results.

Lobbying, state and policy capture

New institutions, laws and policies are being developed for climate finance. Early evidence presented in Transparency International's Global Corruption Report suggests that there are many grey areas and loopholes that could be exploited by corrupt interests. This risk of policy capture is exacerbated by the level of complexity, novelty and uncertainty associated with many climate issues and the fact that climate change and finance are complex areas to engage with (Transparency International 2011). The highly technical nature of climate adaptation and mitigation work makes it easier for a small number of experts and vested interests to control and potentially distort information and the policy debate.

There is ample evidence to suggest extensive lobbying by the fossil fuel industries within international policy circles (Schalatek & Fuhr 2012). Numerous organisations have spoken about the influence of fossil fuel lobbies and the lack of transparency governing lobbying worldwide (Transparency International 2011). Some argue that fossil fuel lobbying has essentially captured international climate policy, steering the international community towards carbon trading and adaptation rather than mitigation initiatives that would mean a loss of the energy market share (Whittington 2012). This is echoed by recent reports by Corporate Accountability International (2015) and Corporate Europe Observatory (Sabido 2015) which claim that the topics and approaches to address climate finance at COP21 have been heavily influenced by the fossil fuel lobby.

A worrying trend in international climate finance is the concept of "concession for aid", whereby bilateral public and private donations are approved on a basis of advantages to the donors rather than perceived need. A form of policy capture, there is some evidence of developing countries permitting tax breaks or relaxing regulation in exchange for climate aid or disaster relief assistance (OECD & Climate Policy Initiative 2015).

Bribery, clientelism and cronyism

Adaptation planning and implementation

Of the dedicated climate finance initiatives monitored by Climate Funds Update, 24% of the funding since 2003 has gone towards adaptation (Canales Trujillo et al. 2015). Of this, 76% is destined to 20 countries considered to be “vulnerable” to climate disasters or with poorly developed national government infrastructures (Canales Trujillo et al. 2015). The GCF aims to allocate at least half of its resources to adaptation in countries that are particularly vulnerable to the impacts of climate change. These countries will include least developed countries (LDCs), small-island developing states (SIDS) and African states (Green Climate Fund 2015).

There are many opportunities for nepotism and cronyism in the process of identifying and prioritising adaptation plans and deciding which projects to allocate funding to. Many decisions need to be made with regard to resource allocation, location and beneficiaries of projects, establishment of management structures, appointment of staff, selection of technologies, procurement processes, etc.

Corruption can affect the decision-making process and can occur at all stages of project design and implementation. In particular, high-level actors, political elites, and powerful national and international companies may capture the process through corrupt means to ensure that programmes benefit certain groups and vested interests at the national and international level (UNDP 2011).

Such forms of corruption may involve (Chêne 2014):

- bribery, nepotism and clientelism resulting in plans favouring specific interest groups rather than areas of greatest need, such as land owners seeking priority for particular regions
- rent-seeking and abuse of discretion in the implementation of funds, giving priority to infrastructure projects with greater opportunities for bribery
- fraud and collusion to ensure favourable treatment, such as provision of inaccurate or incomplete information by industry groups to ensure the adoption of specific technologies, funding of research to support specific approaches and methods, etc.
- corruption in procurement processes of large infrastructure projects, which typically involve

many sub-contractors, and are highly complex and technical, making procurement processes easy to manipulate through bribery, collusion between industry stakeholders, kickbacks in the management of contracts, etc.

- appointments of staff managing and implementing adaptation projects, such as members of supervisory boards and committees managing resources, may also be vulnerable to nepotism, patronage and clientelism, and “selling” positions with high rent-seeking potential
- petty bribery: there are also many opportunities for petty bribery in the delivery of essential services such as water, food and health services to local communities

The current lack of oversight mechanisms in adaptation finance has been identified as a cause of concern in a number of countries. TI Bangladesh, for example, has tracked adaptation finance since 2012 and asserts that all of the public and private funds related to climate change adaptation in Bangladesh between 2012 and 2015 lacked appropriate anti-corruption and conflict of interest processes (Khair 2015).

The lack of sufficient integrity mechanisms offers opportunities for illicit and unethical behaviour. In the Maldives, for example, corrupt officials in the government treasury and National Disaster Management Centre embezzled US\$1.6 million from funds designed to help the country recover from the 2004 tsunami and better protect itself from climate-related events in the future (Shiuna 2015).

Mitigation planning and implementation

Corruption risks in mitigation activities are not fundamentally different from the forms of corruption that can occur in adaptation programmes, as they also involve major investments in large infrastructure projects and strategic technological choices which are all vulnerable to policy capture, bribery, nepotism, patronage and clientelism.

Corruption in the allocation of national mitigation funds, especially related to forestation initiatives is well documented in Indonesia, for example. The Centre for International Forestry Research (CIFOR) describes the case of Indonesia where, around US\$600 million was stolen from Indonesia’s “reforestation fund” in the mid-1990s (Barr et al. 2010; see also CIFOR 2016).

However, there is a specific set of corruption and governance challenges associated with newly

developed incentive-based mechanisms, such as the initiative for Reducing Emissions from Deforestation and Forest Degradation (REDD), which are meant to directly link market/financial incentives to the reduction of greenhouse gas emissions resulting from deforestation and forest degradation.

Previous queries, [overview of corruption risks in REDD+ in the Congo Basin](#), and [Mozambique: overview of corruption and anti-corruption](#) consider how REDD+ can be susceptible to corruption. In Mozambique, for instance, monitoring inspections were “relaxed” through bribes, and private logging companies illegally harvest timber on REDD+ protected land, selling their products through illicit means (Martini & Albisu Ardigo 2014).

Proving “additionality”, that is reductions in emissions that would not have taken place without additional support, is particularly challenging. Experience with the Clean Development Mechanisms (CDM) indicates that, in practice, the concept of additionality is difficult to prove and monitor, with several studies confirming that many projects under consideration should not have been awarded additionality status, as they would have been carried out anyway and therefore will not yield additional emissions (Dobson 2015).

Several cases of corrupt or unethical behaviour have surged from mitigation finance. The newspaper *El Universal* discovered that after the Mexican government approved the General Climate Change Law, tourism companies based on the Caribbean coast lobbied the government to reduce the rate of implementation of new mitigation policies so that the tourism industry would not suffer from these actions, despite most of these projects being centred on vulnerable population centres (Varillas 2015).

In another case, TI Bangladesh uncovered an alleged bid rigging scheme where non-governmental organisations belonging to public authorities won million dollar contracts to build an emergency reserve bio-gas plant. This last case involved forging signatures and falsifying identities to embezzle a work fare program related to the building and maintenance of the bio-gas plant (Khair 2015)

3. Good practices in corruption risk mitigation for climate finance

Regulating and monitoring lobbying practices

It is key to understand how the various groups of stakeholders interact and to what extent they influence mitigation and adaptation policies. Only a few countries have mandatory lobbying registries that allow researchers to track and identify money flows poured into lobbying activities to influence the climate change policy debate (Despota 2011).

Direct tracking of expenditures enables the comparison of spending by various interest groups and helps identify the respective weight of various businesses and stakeholders in shaping climate change policies.

For example, the Centre for Public Integrity documented spending and lobbying activities undertaken by various groups in the US in the run-up to a Congress policy debate on climate change legislation (Lavelle 2009). In countries where there is no mandatory registry of lobbying activities, researchers can use other methods to assess the influence of businesses and other groups in shaping climate change policies, such as participation in open stakeholder meetings and documentation of the policy development process through the review of communications relating to draft legislation.

Active engagement by civil society can help to balance the representation of interests in policy discussions and monitor lobbying practices. Ahead of the Paris COP21 talks and agreement, the organisation Corporate Europe Observatory published two reports to assist participants and civil society actors to better participate in the talks and monitor lobby actions around the talks.

The first report, titled “The Corporate Cookbook”, reviewed how lobbying influenced the debates around the talks, and informed decision makers of alternative viewpoints that should be considered during the talks (Sabido 2015). The second document, *Lobby Planet Paris: A Corporate Guide to COP21*, provided a guide to corporate lobbying at Paris COP21, outlining where lobbying takes place, the messages that will be used to “override” topics of discussion, and the corporate sponsors of events at COP21 (Corporate Europe Observatory, Aitec, & Attac France 2015).

Assessing governance and anti-corruption management systems of the various finance mechanisms

Anti-corruption safeguards should be integrated into the design of adaptation and mitigation interventions, and into the core structures of climate policies and institutions (Transparency International 2011). While multilateral and bilateral institutions already have mechanisms in place, these should include assessing whether the various bodies tasked with managing climate finance have adequate safeguards to ensure transparency and accountability of climate funding. There are signs that many international finance institutions are becoming more committed to improving internal management systems to increase transparency and accountability, as demonstrated by a review of reporting requirements of the UNFCCC in 2012 and the establishment of the Independent Redress Mechanism by the Green Climate Fund.

Ensuring transparency in financial flows

Financial flows related to climate finance can be misrepresented in a variety of ways, with the possibility of double counting and risks of over-representing climate-related spending. There are a number of existing tools to track and present climate financing commitments and disbursement, such as the Voluntary REDD+ database (www.reddplusdatabase.org), the Climate Funds Update (www.climatefundsupdate.org), the Adaptation Fund registry (www.iatiregistry.org/dataset/af-14) and major donors' climate finance contributions (www.publishwhatyoufund.org/). With regard to REDD+, Global Witness recommends the consolidation of existing databases into a single financial tracking and reporting system consistent with the OECD Credit Reporting System (Global Witness 2012).

Global Witness and Publish What You Pay recommend adopting the International Aid Transparency Initiative best practice on aid flows for adaptation and mitigation flows (Global Witness 2012; Forstater & Rank 2012). This voluntary, multi-stakeholder initiative offers a useful shared standard to make information about aid spending easier to find, use and compare.

In a similar way, some national initiatives have been developed to track national financial commitments and spending related to adaptation and mitigation projects. Notable examples of these include an initiative by Transparencia Mexicana to map federal and state finance

(Transparencia Mexicana 2015) and by Grupo de Financiamiento Climático para América Latina y el Caribe, which has started tracking international climate finance destined for Peru, Ecuador, Argentina and Chile, as well as domestic finance within all four countries (Grupo de Financiamiento Climático para América Latina y el Caribe 2016).

Research should also focus on tracking developed country pledges for climate funding, and assessing whether commitments made are “new and additional” to commitments made as part of official development assistance. For example, WRI compiled a summary of developed country fast-start climate finance pledges, focusing on tracking and reporting on pledges made by donor countries (WRI 2012). In the aftermath of the COP21, there is a greater need for this than ever.

Measuring the success and effectiveness of climate funding is also an important field of research. While initiatives to track finance have proliferated, an effective system to track results is still lacking. The Paris Agreement included a commitment to establish a “capacity building initiative for transparency” which would effectively help developing countries improve on transparency in climate change action. Similarly, a multi-stakeholder project, the Initiative for Climate Action Transparency (2016) is trying to do the same.

As per best practices, ODI has developed an approach to measuring the effectiveness of the national systems underlying public finance delivery, looking at three dimensions of government administration: 1) the policy environment supporting climate change expenditures, from the formulation of climate-related policies to spending through national strategies and action plans; 2) the institutional architecture and different roles and responsibilities of various government institutions involved in managing climate funding; and 3) the public financial management system through which climate change expenditures are channelled (Bird et al. 2013).

Ensuring ownership, transparency and participation in climate finance decision-making processes

Strengthening civil society participation and empowering citizens to engage with the climate change agenda is crucial for climate governance. Involving civil society organisations (CSOs) in decision-making processes and in evaluation committees could improve accountability and

increase transparency (Global Witness 2012) as well as shedding light on corruption and fraud and highlighting urgent adaptation or mitigation needs (BothENDS, 2015).

International climate finance initiatives tend to provide opportunities for civil society to participate in consultations at the programme development and approval stage. For example, the Green Climate Fund, which decided as part of its information and disclosure policy to webcast its board meetings, has an active civil society network that channels feedback on project proposals through two elected CSO observers (Green Climate Fund 2016).

Another initiative aiming to increase participation in international climate governance is the WorldWideViews on Climate and Energy Project. In advance of the COP21 talks, WWViews carried out an international consultation, producing an aggregate report on world citizens' opinions on subjects including climate finance which was presented during the COP21 (Global Coordinator of WWViews 2016).

While international funds generally have some channels for civil society participation, multi-stakeholder platforms with guaranteed civil society participation are often lacking at the national level (Khan 2014). Civil society engagement is key to ensure that the participation of intended beneficiaries and indigenous people is built into the project design and monitored throughout the project lifecycle. Transparency International, alongside the Adaptation Watch network, is developing a participatory multi-stakeholder approach to develop a governance standard for climate adaptation finance. Results of preliminary piloting of the approach in Nepal, Bangladesh and the Maldives is due to be published later in 2016.

Dispute redressal mechanisms and whistleblower protection also have an important part to play in improving ownership and accountability at the local level in climate finance projects. Dispute redressal measures are intended to complement, not replace, formal legal channels for managing grievances.

A promising development in this area is the GCF's Independent Redress Mechanism, which permits beneficiaries to file complaints against GCF projects which violate the GCF's social and environmental safeguards (Richard 2016).

Monitoring and evaluation is also a key area in which CSOs can contribute to climate governance. National adaptation funds, like the

National Employment Guarantee Fund in India, have incorporated "social audits" where civil society organisations are called on to evaluate the implementation and performance of adaptation initiatives (Sharma, Müller, and Roy 2015).

In the Maldives, the National Planning Council was formed with multi-stakeholder representation from government, the private sector and civil society to appraise and approve all development projects, including climate change projects. Decisions were publically disclosed, and included in a weekly-updated list of all projects submitted (Ministry of Housing and Environment of Maldives 2010).

In Kenya, the Transparency International national chapter is an official civil society observer to the National Implementing Entity of the Adaptation Fund, providing guidance on good governance reforms and project implementation (Transparency International Kenya 2015).

There are other instances of targeted monitoring by civil society networks. The German Watch Adaptation Fund network (German Watch 2016) is a coalition of non-governmental organisations which aims to track the development and projects of the Adaptation Fund. Worldwide, however, civil society participation in accountability frameworks for climate finance remains the exception rather than the norm.

In light of this, other initiatives to increase the profile of and transparency in climate finance, such as the Climate Parliament, are to be welcomed. With more than 700 legislators from 70 countries, the Climate Parliament meets to discuss issues related to climate change – including mitigation and adaptation finance – to develop concerted environmental policies at the international level (Climate Parliament 2016).

Finally, there is a need to foster better coordination between climate finance stakeholders and organisations that focus on improving governance and providing oversight, such as government anti-corruption agencies, audit institutions law enforcement and parliaments to ensure the success of climate finance initiatives.

Kenya's REDD+ Integrity Task Force, which is composed of civil society representatives, indigenous communities and government bodies, is a good example of this approach in action (UNDP 2014). The taskforce works to identify and mitigate potential corruption risks in the implementation and payment of REDD+. It also

provides guidance on stakeholder engagement, legislation, codes of conduct, reviews of grievance mechanisms, financial matters and guidelines on free, prior and informed consent (UNDP 2014).

Support for such initiatives by donor and implementing bodies when launching new projects and disbursing money can be a powerful means of reducing fraud and embezzlement from programmes designed to protect vulnerable communities.

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