

# GOVERNANCE STRUCTURES FOR REDD+: WHAT WILL THE SOLUTIONS BE?

by

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## Abstract

This paper analyses alternatives for national REDD+ governance structures – i.e., a) a market/project based architecture; b) a system with national REDD+ funds outside existing national administrations; c) a national REDD+ fund organized under the present administration; and d) conditional budget support. While a solution with a market/project based structure has been favored by many, we conclude that this is the most problematic alternative. Concerning the other three, the national/local conditions will be of importance. If REDD+ involves a large part of a country's forested area, establishing a good link to the general forest and other sector policies will be necessary.

Keywords: REDD+; governance; markets; national funds; budget support; legitimacy; tropical forests

## 1. INTRODUCTION

A core issue for the post-Kyoto climate regime concerns how to obtain reduced deforestation and forest degradation (REDD+)<sup>1</sup>. Deforestation takes presently place mainly in tropical countries and is an important source of carbon emissions (IPCC 2007). Moreover, REDD is seen by many as a low cost climate mitigation option (e.g., Stern 2006). Hence, there is interest in the North for paying the South to reduce deforestation, and in this way also reduce own mitigation costs. This demands the establishment of institutions – both at the international and national level – to generate the necessary financial resources and to transfer these in ways realizing REDD+ activities.

This paper focuses at the national part of such a structure. More specifically the aim is to carry out an analysis of a set of potential national governance structures, where the degree of market and government involvement and control varies. It is a response to the acknowledgement that in-depth analyses concerning governance issues especially at the national level are lacking (Gregersen et al. 2010; Corbera and Schroeder 2011). The selected structures include:

- a) a market/project based architecture
- b) a system with national REDD+ funds outside national administrations
- c) a national REDD+ fund organized under the national administration
- d) conditional budget support

While the global and national obligations for reductions of green-house gases will be set in international negotiations, the national governance structures for REDD+ will influence who will be involved in defining national responsibilities and how policies ‘on the ground’ will be formed and implemented. Reduced deforestation will not only influence greenhouse gas emissions, but also livelihoods for millions of people. Hence, REDD+ could result in changed, even impaired, livelihoods for people already facing demanding conditions. Certainly, in this context, the structure of the decision-making processes all the way from goal-formulation to evaluation, and the issue of who participates and decides, will be of great importance. In relation to this, it should be noted that REDD+ has by some been seen as a potential ‘triple win’ policy – as a way to both reduce poverty and the loss of biodiversity in addition to climate mitigation.

The choice of governance structure for REDD+ is politically disputed. A core issue concerns the role of using markets as opposed to state administrations. This debate reflects a general trend on how “to do governance” which at present emphasizes more use of markets both in general (e.g., Pierre and Peters 2000) and in the case of REDD (e.g., Okereke and Dooley (2010). Opportunities relate to less central control and more locally generated, adaptive and innovative solutions. Opposing views to this neo-liberal trend emphasize that a contracted state reduces accountability, results in loss of communication channels between the state and its citizens, and lead to more patchy and unreliable service delivery. More power to less accountable local elites is mentioned. Issues around markets and fairness are also emphasized. The choice of national REDD+ structures must be seen and understood in this wider context.

As REDD+ is still at the drawing table, our analysis will be based on experiences from similar governance structures – mainly the Clean Development Mechanism (CDM), payments for environmental services (PES), Conservation Trust Funds (CTF), forest funds, and general budget support. The analysis also demands a deepening into the specificities of REDD+ and how the experiences obtained from the above cases could fit in a REDD+ setting.

The paper has the following structure: First, we emphasize some theoretical aspects for the governance of deforestation and degradation, including a definition of a set of criteria for the analysis. Second, we offer a specification of the options we have selected for our evaluation of national REDD+ governance structures. This is followed by a comparative analysis of the chosen structures. This section constitutes the main part of the paper. We then discuss core findings and conclude.

## 2. ANALYZING GOVERNANCE STRUCTURES FOR REDD+

### 2.1 General perspectives

Governance encompasses both the structures and processes that shape social priorities, how conflicts are acknowledged and possibly resolved, and how human coordination is facilitated. Governance is hence more than government as it includes also actors such as communities, businesses and NGOs (see Lemos and Agrawal, 2006). The framing of human action and interaction is core, emphasizing power, involvement and legitimacy.

Governance structures or ‘architectures’ can be seen as consisting of two main components (Vatn 2011):

- The *type of actors* involved, characterized by their capacities and competencies, rights and responsibilities;
- The *structures facilitating the interaction/coordination* between the actors.

Both actor types and systems of interaction are institutionalized features. Hence, they are structured by a set of conventions, norms and formal rules (Scott 2008; Vatn 2005). The actor types involved, their capacities, interests and specific roles in the actual governance structure influence the outcome. The same goes for the kind of interactions that is facilitated.

Concerning the actors, one may distinguish between private, public and community organizations. Certainly, each category covers a wide variety of institutionalized structures. Nevertheless, each group carries some distinct features concerning decision-making. Concerning the interaction between these actors, we may typically distinguish between market exchange, command and various reciprocal arrangements. We may also encounter situations where no rules are defined. We should also note that one finds increasing emphasis on ‘hybrids’, meaning mixed forms of the above actor and/or interaction structures – e.g. Lemos and Agrawal (2006); Sikor (2008). The various capacities of the different actors and forms of interactions are of great importance to our analysis. Governance systems are different not least concerning the following aspects:

- *Rights and responsibilities*: These structures define which interests are formed and protected. They concern both the rules defined for policy formulation and implementation, and those defining access to economic resources – e.g., property rights. The

overall legitimacy of institutional systems is very much related to the procedures established for decision-making and the implementation at various levels of society.

- *Information/knowledge*: Production and distribution of information and knowledge are essential in any governance structure. Quality, access, context and transparency are important systems-dependent dimensions. Equally important is what kind of information and knowledge is accepted as basis for decisions by the various actors.
- *Transaction costs*: This concerns costs of interactions between actors – i.e., costs of information gathering, formulation of goals, agreements or contracts, and control of agreements. Transaction costs vary both due to the characteristics of the issues/goods involved and the type of governance system (Williamson 1985). Some services may be easily handled through the market while for others high measurement and contracting costs may make public systems more favorable.
- *Motivation*: Motivations and interest formation vary across both types of actors and forms of interactions. The role of social vs. individual interests is important as well as what the content e.g., self-interest is (March and Olsen 1995; Vatn 2009). Willingness to cooperate as opposed to acting strategically is therefore expected to vary across governance structures.

Taken together these aspects of a governance structure are expected to influence the outcomes that are produced, their costs and how these are distributed. These are contentious issues and studying governance structures involve several important normative questions.

## 2.2 The specificities of REDD+ in a governance context

Forests have particular characteristics as carbon sinks that poses specific challenges for policy. Being biological systems, forests are subject to natural variations and perturbations. This implies that carbon storage is uncertain in both time and space. As the idea of REDD+ at present is to pay only for changes in carbon stocks that would not otherwise have taken place (Angelsen 2008), this situation poses issues both for specification of responsibility and additionality – i.e. what would have happened if a REDD+ project had not been instituted. Finally, leakage is a great challenge as reduced deforestation in one region may be offset by increases elsewhere (Wunder 2008).

Forests represent vast economic resources. They form livelihoods for millions of people as they deliver firewood, timber, fodder, NTFPs, clean water and not least land to clear for agriculture. The idea of REDD+ is to compensate for reduced access to these resources. Apart from what to compensate for, the issue of who to compensate will depend on several issues concerning rights to land, payment systems, transaction costs and power relations. The poorest people in rural areas are the landless. They often depend heavily on forest livelihoods (Vedeld et al. 2007). Nevertheless, since they do not own the land, they may not receive any compensation for lost livelihood options. Rather they may be further marginalized by REDD+ as competition over land increases. Similarly, the conditions for agriculture, including expansions into new land to feed a growing population, may become completely changed. Therefore, one may also need to establish programs to support changes in farming practices, make new sources of nutrients available etc. (Vatn et al., 2009). This highlights the multi-sectorial characteristics of REDD+.

It is also hoped that REDD+ will increase biodiversity. Tropical forests are very rich in biodiversity. Protection will therefore be an important way to reduce biodiversity losses. However, it is not given that where carbon is cheapest to store, there is also most biodiversity to protect.

Finally, large sums of money are expected to be flowing into REDD+ (Meridian Institute 2009). It could even out-compete present national forestry programs in many countries. Moreover, it may attract people with other motivations than reducing carbon emissions and ensuring co-benefits. As the forest sector in many regions is already haunted by corrupt practices – e.g. Smith et al. (2003); Milledge et al. (2007) – a financially large REDD+ will increase both opportunities and temptations for mismanagement.

### 2.3 Evaluation criteria

Evaluating national REDD+ architectures demands a set of criteria. In this paper we focus on the legitimacy of the various governance structures. Moreover, we believe that the legitimacy both of the structure itself and the kind of processes it facilitates is as important as the results obtained. It is in particular important how different interests are included in policy-formulation and implementation processes, and how decision-makers are accountable to those the decisions concern. Concerning the results<sup>2</sup>, we will use a version of the 3Es framework – effectiveness, efficiency and equity – e.g., Angelsen (2008):

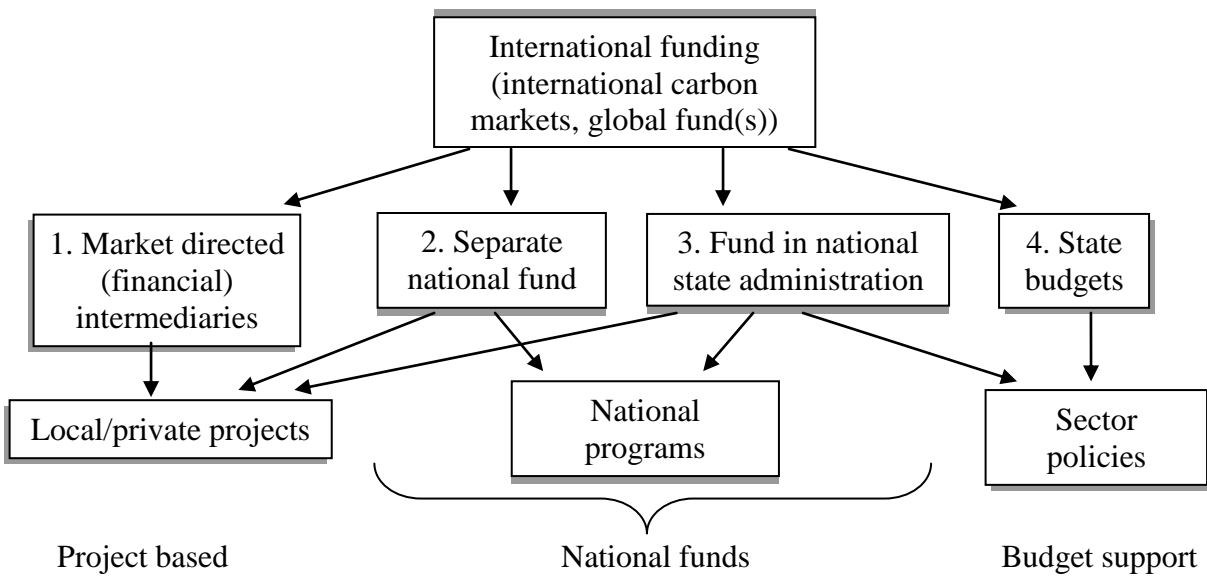
- *Process legitimacy*: Concerns how acceptable policy processes are for national authorities, civil society/local communities, donors and other international organizations engaged in REDD+. This concerns involvement and real influence – i.e., who are the eligible participants at different stages and levels of the REDD+ process – transparency and accountability.
- *Output legitimacy*:
  - o *Effectiveness*: Concerns how well the policy is at meeting its overall goals. Specific aspects concern the capacity to raise funds, the ability to avoid leakage, and to ensure additionality and permanence. Implicit in the above is the capacity to coordinate across sectors and levels of government. Implicit are also motivational aspects – including risks of corruption.
  - o *Efficiency*: Concerns the ability to reach goals at lowest costs. This involves both the direct cost of e.g., reduced deforestation and the transaction costs related to the system of decision making, contracting, delivering payments, monitoring, reporting etc.
  - o *Capacity to deliver on co-benefits*: Concerns the effects on poverty reduction/equity and biodiversity preservation. Rights issues, transaction costs and motivational issues are core as they influence the use of REDD+ resources.

Traditionally, the literature on legitimacy has focused on ‘due process’ emphasizing legality. Over the years the issue is broadened including issues concerning the form of participation (e.g., discursiveness), justice and fairness in distribution of power and outcomes (e.g., Dryzek 2001; Bäckstrand 2006; Paavola and Adger 2006; Okereke and Dooley 2010). In the REDD+ discourse ‘capacity to deliver on co-benefits’ is formulated as a separate goal to that of reducing carbon emissions. As equity considerations/poverty alleviation is part of ‘co-benefits’, we have chosen to use the latter as our third element of output legitimacy.<sup>3</sup>

### 3. OPTIONS FOR NATIONAL REDD+ GOVERNANCE STRUCTURES

As emphasized, we evaluate four types of national governance structures for REDD+ (Figure 1). The market/project based system for REDD+ financing would be a system where actors – dominantly firms – with carbon emission reduction responsibilities buy reductions through funding

REDD+ projects. This would be a system similar to that of today’s CDM. The second option is a fund outside the national administration, like the existing Conservation Trust Funds. Such a fund could operate through its own REDD+ programs ‘on the ground’ or through making resources available for other actors managing specific projects or programs.



**Figure 1 Options for national REDD+ funding architecture**  
(Reproduced from Vatn and Angelsen 2009)

The third and fourth options involve the state and state administration directly. The idea behind option three – a fund in the national state administration – is to involve some of the capacities and competences of present state administrations. Allocation of resources is, however, made by a separate board with REDD+ responsibilities only. Money from this fund could in principle be directed towards projects run by others, own programs, but also payments through various state sector administrations/programs. Concerning budget support, the idea is to allocate REDD+ money directly to the state administration. The money will hence become part of the ordinary state budget process and sector policies.

In Figure 1, the international level is also included. The choice of a national REDD+ structure may be constrained or facilitated by the choice of the international funding system. To study this issue would go beyond the aim of this paper. We still emphasize that REDD+ resources may be made available through international carbon (compliance) markets – like the



present CDM – or they may come through different forms of international funds. Compliance markets – i.e. a system where agents with reduction responsibilities according to a post-Kyoto agreement receive certified emission reductions (CERs) for REDD+ payments – are often linked to a project based structure with market intermediaries. It is, however, also possible to combine a compliance based system with an international fund. This fund simply issues CERs to actors with reduction commitments, as the resources of the fund are subsequently used to buy reductions in deforestation. This would entail that resources, also from the private sector, could be made available for transfers even to state budgets.

#### 4. EVALUATING THE REDD+ GOVERNANCE OPTIONS

Our analysis is mostly generic. Certainly, strengths and weaknesses of the different options will depend also on the situation in each particular country. We mention some of the most important context specific issues, while a detailed analysis of these can only be covered in studies directed at particular countries.

##### 4.1 A market/project based architecture

The main empirical basis for assessing capacities and effects of a market/project based architecture is data from CDM and to some extent PES projects. Market/project based systems draw especially on the capacity of markets to deliver cost-effective solutions. If part of a compliance market solution, it will establish a structure that offers strong motivation to find low cost carbon mitigation solutions. Its potential for attracting large resources to REDD+ has also been emphasized – e.g. Karousakis and Corfee-Merlot (2007); Saunders et al. (2008). This kind of private funding is seen as necessary to make REDD+ successful. Finally, it is argued that by using markets, one may reduce substantially the problem of corruption and mismanagement so often observed in government administrations in many developing countries.

While these are strong arguments, there are also data and arguments that point towards problems. Concerning process legitimacy, the expected size of REDD+ may create challenges for a market solution. While the market as an institution enjoys high legitimacy in the private sector, the issue may be differently evaluated by governments involved – especially those at the receiving end. As already noted, REDD+ has the capacity to potentially outnumber the amount of resources presently available in the national public forest sector. This implies that REDD+ may

dominate the forest sector financially and side-line the state/national forest sector management. Moreover, a market/project-based approach could influence the ability of the state administration to improve transparency, accountability and participation in decision-making in a negative way reducing wider legitimacy.

It could be argued that the market solution is a good way to involve local communities. Market trades are voluntary and should ensure bottom-up processes. In the given context – where local communities often have few resources to position themselves in negotiations – they will typically be the weaker party. Protecting interests of local communities/indigenous people therefore seems to demand specific action – see also Okereke and Dooley (2010); Thompson et al. (2011).

Moving next to effectiveness, it is not given that a compliance market will attract large resources to deforestation projects. The CDM experience offers some insights. In 2009, only about 1% of CDM projects in the pipeline were forest related (UNEP, Risoe Centre, 2010). According to Robledo and Ma (2008) this ascribes not least to complicated rules making forest projects relatively expensive to initiate. Note also that CDM only includes afforestation and reforestation. Deforestation was not included due to even more demanding control and measurement problems. To ensure sufficient resources to REDD+ through a CDM like system, one might therefore have to make forest investments compulsory, going against the logic of the market/project model.

Another serious challenge for the market/project solution concerns leakage. The experience with CDM illustrates this. To be viable, monitoring and control schemes (MRV) must be set up outside the project areas as well. If leakage is observed, the project based system will, however, have no power in itself to correct for this as there is no arrangement coordinating activities on the ground except the power of involved nation states to dismiss projects.

REDD+ compliance markets will direct action towards buying carbon in standing forests. Curbing deforestation may, however, demand action in other sectors, e.g., energy and agriculture. To the extent successful REDD+ actions demand cross-sector engagement, a solely market/project based solution has a large handicap. As important is the fact that much deforestation is the result of illegal logging and poor governance. These are issues that the market/project approach itself will not be well suited to engage with (e.g., Saunders et al. 2008).

This links to the issue of corruption. Will a market-based REDD+ have the capacity to avoid/reduce that? The literature on CDM is not very encouraging. One problem is that both sellers and buyers will gain from fictitious trades – i.e., reductions that show up mainly ‘on paper’. There are thus issues concerning additionality of projects and the problem of overestimated effects – e.g., Schneider (2007); Sovacool and Brown (2009:325).

While transaction costs seem to explain the low level of forest projects under CDM, there is little data documenting the actual level of these costs. In the case of PES, Wunder et al. (2008) indicates that transaction costs are in the order of 30–100% compared to payments. Studying agri-environmental programs, Rørstad et al. (2007) conclude that complexity of a transaction vastly increases transaction costs. Markets work well for standardized commodities. As soon as one moves to more specific trades with complex and often idiosyncratic goods like environmental services, using state payments/taxes as opposed to market trades may simplify the process substantially – see Vatn (2010) for a more detailed development of this argument. The fact that property rights for forests are often contested strengthens the argument.

Finally, also concerning co-benefits, the experiences with market based solutions are varied. Reviewing the literature, we make the following core observations:

- CDM has delivered rather weakly on co-benefits – in the CDM context related to sustainable development like employment generation and welfare improvements. Those buying emission reductions are looking for the cheapest carbon options. For co-benefits to do well in a market setting, these must then be jointly produced with the cheap carbon. Olsen (2007) and Olsen and Fenhann (2008) show that this is often not the case.
- In line with this, CDM funds do not tend to flow to the poorest regions. Hence, Africa has received a very low percentage of CDM investments (UNFCCC, 2009). One reason is that poor people may have less secure property rights, and transacting with them is relatively costly compared to low carbon effects gained per trade (e.g., Lipper and Cavatassi 2004, Cosbey et al. 2005). It is also observed that the CDM market may create a ‘race to the bottom’ (e.g., Olsen and Fenhann 2008; Sutter 2003).
- Venter et al. (2009) point towards similar issues for biodiversity protection as for poverty alleviation. There are trade-offs between cheap carbon and high levels of biodiversity protection, while the challenges here seem clearly smaller than those for poverty alleviation.

- CDM has attracted substantial resources and researchers emphasize that it has caught the attention of many intermediaries that rather are ‘after the money’, causing the wider aims of CDM to be side-lined to some extent (e.g., Lloyd and Subbaro, 2009)
- The type of market also influences motivations for carbon traders. Neeff et al. (2009) document willingness to pay for co-benefits in the voluntary market. While buyers of CDM credits look for cheap carbon, those operating in voluntary markets ‘buy’ consumer trust. This illustrates how the compliance institution itself may narrow the focus of traders.

One should finally note that the kind of intermediaries involved may make a difference concerning performance. Some NGOs get involved as intermediaries for wider reasons than earning income from the trades. While we have found no studies analyzing differences between types of intermediaries, we note that the Gold Standard for carbon credits was developed by NGOs to strengthen the emphasis on sustainable development in the case of CDM (Stenslie (2010).

#### 4.2 Funds outside existing national administrations

Conservation trust funds (CTFs) are the core type of funds outside existing national administrations of interest to us. Such funds have existed since the early 1990s, and they presently count about 50 (Spergel and Taïeb 2008). While predominantly found in Latin America and the Caribbeans, there are also CTFs in Africa and Asia, and in some former Soviet Union states. CTFs are dominantly organized to finance biodiversity protection. It should be noted that CTFs often operate as intermediaries in PES projects. We also note that in analyzing experiences with CTFs, there are rather few sources to rely on, especially research based assessments.

CTFs operate at national levels and many have been established by special national legislations or decrees (Spergel and Wells 2009). They are a sort of public-private partnerships as their boards typically have representatives from civil society, business, academic organizations, donors and government officials. Non-governmental representatives normally have majority (GEF 1998).

The literature on CTFs indicates high overall process legitimacy. Even if there has been criticism of donor dominance especially in early years of a fund, CTFs are typically established in rather close collaboration between donors and the hosting state (Moye 2002). The rather wide

representation in most boards has further strengthened legitimacy. The system built for these funds tries to ensure good transparency concerning the use of money. In many CTFs the board members are appointed as individuals to avoid too close ties to specific interests. This may provoke issues of accountability, though. The literature does not mention that any such critique is raised, while we note that establishing CTFs implies to push environmental decision-making out of the standard political process. Spergel and Taïeb (2008) emphasize that the business sector is also generally positive to CTFs while the somewhat lower visibility offered to donors compared to the market/project based system may be an issue.

Concerning effectiveness, the establishment of CTFs was motivated by a wish to attract increased resources to national environmental protection activities. According to Spergel and Wells (2009) many finance ministries initially opposed the establishment of such a structure, but were persuaded to accept the solution due to its ability to access otherwise inaccessible private funds. Despite this, the main source of CTF finances is still public. According to Spergel and Taïeb (2008) they cover almost 75 percent of the funding for CTFs worldwide.

The literature emphasizes great uncertainty concerning the impact of CTF activities. The focus has been more on ‘process’ than ‘impact’ monitoring. Baseline data are often lacking and monitoring of results on the ground is weak (GEF 1998; Spergel and Taïeb 2008). This is a major weakness, but not an argument against CTFs specifically. It should be possible to remediate this by increased demands from donors.

CTFs face some of the same restrictions as market/project based systems concerning coordination across sectors. Spergel and Taïeb (2008) note that some observations depart from this trend. They refer to the experience with the Mexican Nature Conservation Fund and its capacity to coordinate its activities with official Mexican policies. Similarly, CTFs operate to a large extent through funding projects. Hence, some of the problems mentioned in relation to this issue raised in Section 4.1 would also apply here.

A reason for establishing CTFs has been to reduce corruption by increasing transparency. Another argument is to ensure independence from governments by increasing donor confidence that funds will be spent efficiently and avoid redirection of resources to other government uses (Starke 1995). The literature on CTFs does not document problems with corruption. Note, however, that the comparably higher emphasis on corruption in the CDM literature may follow from the different goals, not different systems *per se*. Most CTFs are oriented at funding national

parks and other ways to protect biodiversity. No compliance issues are involved, no credits issued. Hence, there are fewer motives towards manipulating data on impacts.

Turning to efficiency, it has been argued that CTFs increase costs by establishing an extra management level between buyers and sellers – see Bayon et al. (1999). This argument is not well substantiated. Making this kind of transaction is demanding, and using intermediaries seems hard to avoid. Rather, professional intermediaries could reduce transaction costs (*op. cit.*). How efficient CTFs are at doing that job is difficult to assess given present data. GEF (1998) documents that funds have operating costs in the range of 25-30% of the total budget. Spergel and Taïeb (2008) record somewhat lower administrative costs – in the order of 10-20%. The transaction cost figures presented earlier for PES more generally were a bit higher (15-50% if recalculated to the above format). The difference may be explained by the fact that the latter also included transaction costs for the local organization running the projects. Note moreover that many PES projects are channeled through CTFs. Hence, there is overlap between the data.

Arguments in favor of CTFs also concern their capacity to avoid the rigidity of many state and local administrations. In line with this, Spergel and Taïeb (2008) offer examples of very bureaucratic management systems if e.g., the CTF is controlled by a ministry. Certainly, the potential gain that the CTFs represent here depends on the kind of public management system in the host country. Added to that is the issue of political accountability mentioned above.

Payments for environmental services may not have a well-defined receiver. In relation to this, Bayon et al. (1999) emphasize that effective CTFs tend to expand beyond the role of a pure financial mechanism into building institutional capacity at the local level. This shows that creating new local governance structure is often needed to make trades or payments work.

Turning finally to co-benefits, there is not much experience documented from CTFs. As they are dominantly oriented towards protecting biodiversity, one could expect them to be both positive to and capable of taking biodiversity issues into account. Note, however, that the dynamics of the situation will be different when the focus turns towards carbon.

Concerning poverty issues, there has generally been a conflict between biodiversity conservation and securing local livelihoods. This concerns not least protected area management (e.g. Vedeld 2002; Hutton et al. 2005). As CTFs dominantly support the financing of such areas (GEF 1998; Spergel and Taïeb 2008), the issue is likely also a problem for them. Spergel and Wells (2009:81) point towards a specific aspect of this stating that “CTFs sometimes struggle with

governments that want to use CTFs for poverty alleviation projects which are not related to conservation.” We should also note that in many cases, the CTFs have donor bearings and/or a management culture with quite strong conservation values and competences, tending not to be involved in community based management or outreach activities.

#### 4.3 Conditional budget support

To change the operation of the forest sector in a country, why not pay the state directly to do so? As REDD+ may grow large, involving the government may seem both unavoidable and also warranted both concerning funding and land resource planning and management. Discussing this option, we looked into literature on budget support and conditionality. Development aid in the form of budget support has increased substantially since the late 1990s (IDD and Associates 2006). It implies “channeling donor funds to a partner country using its own allocation, procurement and accounting system” (Koeberle and Stavreski (2006:7). One reason for this move was rather weak results with standard project and even program aid since it was fragmented and weakly coordinated with national policies.

It also represents a shift in thinking towards establishing a partnership between donor(s) and the recipient country, responding to a critique of ‘old style’ conditionality as in the lending practices of the IMF and the World Bank. It was realized that ‘good policies cannot be bought’.<sup>4</sup> Several arguments are emphasized concerning strong conditionality (e.g., Checkel 2000; Killick 1997). First, using conditionality when goals of donors and the recipient government are in conflict is not very effective. Second, payments are very often made despite conditions not being fulfilled as donor representatives want to disburse money already allocated. This influences willingness to comply. Third, conditionality tends to reduce the engagement of the host country. An ‘ownership’ problem is created. Finally, conditionality “fares badly in national contexts marked by poor or fragmented policy environments” (Checkel 2000:3).

The interpretation of the above findings varies substantially across the literature. While authors like Killick (1997) and Svensson (2003) emphasize that conditionality is normally not formulated in a way that is consistent in incentive terms, Checkel (2001:560) underlines that the issue is not just about incentives, but also about developing a changed agenda “where mutual learning and the discovery of new preferences replace unilateral calculation.”

While this solution scores high on process legitimacy in relation to the political leaders of the host country, the legitimacy among the business sector actors may, however, be much weaker. The acceptance among forest owners and local communities, but also the wider public in the host countries will very much depend on the type of government in place and its capacity and willingness to involve these interests. Certainly, there are many examples of bad treatments of local communities and there are reasons to fear that re-centralization may follow from REDD+ (e.g., Phelps et al. 2010). Effective and fair involvement of communities and marginalized people is both important for REDD+ legitimacy and a great challenge to state administrations in many developing countries (e.g., Colfer 2011).

Transparency may be an issue as money is now paid through national budgets and it will not be easy to follow its specific use. That is in a sense an effect of the logic behind budget support. If the money is paid conditionally on the basis of performance – i.e., level of reduced deforestation – one could argue that there is no problem. It is the amount of carbon stored, not how it is done that matters. This assumes that donors ignore the process of establishing reductions and who gets compensated – e.g., co-benefits. As the conditionality literature shows, these issues could be fraught with problems. The question of accountability is equally important. The government may come in a kind of squeeze. Its basic accountability is towards its constituencies. On the other hand, in the case of REDD+, accountability is with the buyers of carbon stored. This could be a large problem for REDD+ as it will have clearer focus on specific delivery than e.g., budget support to health and education.

Moving to effectiveness, we observe several issues. Concerning raising funds, one may argue that budget support works well only when foreign states are the ‘buyers’. This conclusion is, however, dependent on the international architecture chosen. If private businesses receive carbon credits – certified emission reductions (CERs) – when paying into an international fund, there should be no difference compared to a market/project system. There might, however, be an issue with voluntary payments, demanding maybe a parallel structure.

Concerning leakage, a solution with budget support has, at least in theory, the capacity to outperform the two other systems reviewed so far. In principle, the state has the best capacity to establish national level monitoring as well as the power to ensure that action in one locality is not countered by increased deforestation at other locations. One must note that the capacity of states



varies considerably. It cannot be taken for granted that the administration is capable or even willing to establish and run the necessary programs well.

Ensuring additionality is strongly linked to transparency and accountability. An argument behind using CTFs was not least to avoid money being diverted to other issues (Spergel and Taïeb 2008). Hence, for budget support to perform well, it might be necessary to define quite strict performance based conditionalities. As strong conditionality might reduce the cooperative will of the host country, there is a ‘trade-off’ here that cannot be avoided.

Concerning the issue of sector coordination, we note again that budgetary support has the capacity to outperform project-based and CTF-based systems. Certainly, most governments struggle with sector coordination. Despite this, being part of the same administration opens up opportunities that go far beyond that of the pure market/project solution or separate funds.

Concerning efficiency, budgetary support has the advantage of using existing systems. No alternative structures need to be established – see also Koeberle and Stavreski (2006); Lawson et al. (2005). The fact that public agents strongly dominate as ‘intermediaries’ in PES programs is an indirect support to the supposition that using public systems offers opportunities to keep transaction costs down – see Milder et al. (2010). However, in many countries, the local administrations are weakly developed, and REDD+ would demand further improvements. We also note that ‘bureaucratic’ rules may hamper the efficiency of public administrations. Certainly, the level of rigidity varies across administrations and across countries. Hence, the importance of this argument is contextual.

In many of the countries where REDD+ will be instituted, state administrations are often plagued with corruption and poor management. Corruption may seem to be especially rampant in countries strong on natural resources – not least forestry (e.g., Robbins 2000). It may still be argued that REDD+ can and should be used to strengthen public administration at various levels simply because forestry management needs to be a public responsibility. This has both to do with the necessary accountability to the public and the fact that strengthening the national systems will have long run positive effects on the political system.

Turning finally to co-benefits, the argument in favor of budget support concerns the possibility to make strong links to present policies on poverty alleviation and biodiversity preservation. Both issues are important for governments in many potential REDD+ hosting countries. One should nevertheless observe that there is no guarantee that such a wider set of

goals will be taken into account. National biodiversity programs are often accused for not taking the interests of rural poor seriously (e.g., Hutton et al. 2005). Policies to reduce poverty have often been criticized for being ineffective – e.g., Hulme (2010); Chronic Poverty Research Centre (n.y.). Certainly, in these areas, success will depend heavily on the engagement and will of the government in the specific countries. It is especially here the issue of conditionality is particularly sensitive.

#### 4.4 Funds inside the national administration

Could a fund inside the national administration (national funds) counteract the weaknesses with standard budget support while still maintain the gains? Here the literature on the so-called forest funds is the most relevant source of insights. These funds have a history going back to the 1920s (Fontaine 1961). They are of varying formats – spanning from quite autonomous funds being organized very much like CTFs, via funds that are run by a specific public agency, to funds being just a separate account in the budget of a ministry.

In our context, forest funds that are run by separate boards or agencies are of greatest interest. They are still public – kept within the national administration – but have various degrees of autonomy from the standard ministerial authority. According to Rosenbaum and Lindsay (2001) even this class of forest funds may have very different governance structures. There are funds run by a special agency placed within a ministry – e.g., the Bolivian FONOBOSQUE localized as a separate entity under the Ministry of Sustainable Development and Environment. There are funds with greater legal autonomy like a public agency, trusts or government owned corporation. The Costa Rican FONAFIFO fits this description being a trust fund granted ‘relative autonomy’ with a board of directors constituted by three representatives from the public sector and two from the private (FONAFIFO 2011). In these cases, the government appoints the board/administration, formulates statutes and secures its finances, but does not engage directly in decisions concerning the use of the money. As FONAFIFO illustrates, boards may include non-governmental representatives. Separate auditing normally exists for this kind of funds, while the standard state auditing authorities may sometimes be used. An example of the latter is the South African National Forest Recreation and Access Trust.

A dominant objective of forest funds is reforestation and afforestation both on private and public lands (Rosenbaum and Lindsay op.cit.). The funds may also support administrative

activities. In fact, there are also several cases where the funds are used to finance ordinary public forest administrations. Purchase of land for public objectives is also observed as an aim for forest funds.

In the literature on forest funds, systematic evaluations of their functioning are almost non-existent. Some elements are found in Rosenbaum and Lindsay (op.cit.) and in Landell-Mills (1999). But as Rosenbaum and Lindsay emphasize, their evaluations are mainly to be seen as hypotheses as they are not based on any systematic and in-depth studies. Based on these sources and on our own more general assessments, we may still offer some insights.

In the case of overall political legitimacy, these kinds of funds generally receive strong support from national authorities as creators of these funds. We should note, however, that as in the case of CTFs, the ministries of finance have voiced arguments against the solution as it reduces overall budget coordination. There is no clear information available on how the solution is viewed by industry or civil society. The literature emphasizes, however, the potential for increased accountability and transparency dependent both on the rules governing the operation of the fund and to what extent industry and civil society are included in the board.

Looking at effectiveness, the literature emphasizes the positive effect of forest funds on long-term planning. The forest sector presupposes a long-term management perspective and a fund solution responds to the needs that this creates by moving decisions away from annual budgetary processes (Fontaine 1961; Landell-Mills 1999; Rosenbaum and Lindsay 2001). Certainly, this is also important for REDD+ where permanence is a core issue. It is also argued that an autonomous or semi-autonomous fund ensures reduced levels of corruption by increasing transparency. The literature is, however, somewhat contradictory on this point. After having emphasized ways separate funds may counteract corruption, Rosenbaum and Lindsay (op.cit.:17) mention that in an environment tolerating corruption “keeping money outside the normal oversight inherent in the government budgeting process may increase the opportunities for corruption.” Undoubtedly, local conditions, the system for administering the fund and the system for auditing all play a crucial role in determining the effectiveness of this governance structure.

Concerning leakage and cross-sector coordination, the fund solution should have many capacities similar to the system with budgetary support. One may argue, though, that national funds will imply a weakening of the capacity to ensure cross-sector coordination. We do not have data to assess this, and it could as well be argued that a national fund would be in a better

position to ‘force’ cooperation through its autonomy and capacity to specify this as a condition for awarding resources to sector ministries.

Regarding efficiency, there are again some similarities to budget support. If the fund is organized in such a way that it can utilize already existing public administrations to put necessary actions in place, no new systems need to be set up. Nevertheless, problems may appear in the necessary process of coordination, making this solution weaker than that of budgetary support. On the other hand, the system with national funds could make it easier to short-cut several levels of public administrations through establishing direct relations to the local level where the REDD+ actions take place. Finally, national funds can also be instituted in a way freeing the administration from rigid bureaucratic rules – see also Rosenbaum and Lindsay (2001).

Concerning lastly co-benefits, the capacity of national funds comes close to that of budget support. It could even be argued that the fund model makes it easier to institute specific liability for taking on wider responsibilities – i.e., responsibility for biodiversity protection and poverty alleviation.

Before we close this section, we also want to mention the results of an in-depth assessment of the Indonesian reforestation fund (Barr et al. 2010). While the above analysis of the funds solution is rather positive, their analysis is quite critical, especially of the Soeharto period, showing how a substantial part of the money available was diverted away from the purpose of reforestation. Substantial resources even ended up in private accounts belonging to public officials. We think, however, that the experiences here are more relevant as a caution against what may happen in the case of a corrupt political regime than being informative about forest funds *per se*. In relation to that, it should be noted that Rosenbaum and Lindsay (2001) classify the Indonesian fund as an ‘accounting device’. It was not managed by a separate board, but by a ministry. Hence, it is very different from the kind of fund we have had in mind for REDD+.

## 5. DISCUSSION AND CONCLUSION

REDD+ may become an important initiative for future climate policy. The challenges are, however, great. Especially the belief that REDD+ is to become a ‘triple win’ is demanding to realize. The way it is organized will have decisive impacts on its capacity to deliver reduced carbon emissions, improved local livelihoods and biodiversity protection. Stakes are high; similarly the chances of failing.

Among the alternative governance structures analyzed in this paper, no one comes forward as clearly best – see also summary in Table 1. What stand out are the many challenges that organizing REDD+ at the national level will face. It should also be noted that the choice of solution must depend on the local contexts in each case – especially the political culture, which present institutions are in place, and the relative importance of REDD+ in the actual country. Some more general conclusions may still be emphasized.

**Table 1. Comparing REDD+ governance structures**

<b>System Criteria</b>	<b>Projects/market based system</b>	<b>Separate national funds</b>	<b>Funds in state administrations</b>	<b>Budgetary support</b>
<b>Process legitimacy</b>	High legitimacy among private sector, but if REDD+ resources grow large, concerns appear for hosting states; democratic ‘deficit’. Issues concerning transparency and accountability.	Fairly high legitimacy among all core actors. If REDD+ grows large, an issue with the lack of control by hosting state – i.e., issues concerning accountability. Good on transparency.	High legitimacy among hosting state. Somewhat lower among private sector. Good on transparency and accountability.	High legitimacy among hosting state. Lower among private sector. Good on accountability (regime dependent), but issues concerning transparency.
<b>Output legitimacy: Effectiveness</b>	Strong attraction of private funding, but REDD+ may have problems with competing for these funds. Weak on leakage, additionality, permanence and coordination across sectors. Vulnerable to corruption	Good attraction of funding – best from public. Medium strong on leakage. Fairly good on permanence. Issues on additionality. Rather weak on sector coordination. Somewhat vulnerable to corruption	Attraction of private funding depends on international regime. Rather strong on leakage and permanence. Issues on additionality. Fairly good on sector coordination. Somewhat vulnerable to corruption	Attraction of private funding depends on international regime. Rather strong on leakage. Issues on additionality. Issues concerning permanence. Rather strong on sector coordination. Vulnerable to corruption
<b>Output legitimacy: Efficiency</b>	Cost-efficient REDD+ investments. Relative high on transaction costs.	Fairly good capacity to keep transaction costs down	Good potential to keep transaction costs down. Issues concerning most low cost REDD+ options	Good potential to keep transaction costs down, but depends on administrative structure. May not ensure most low cost REDD+ options
<b>Output legitimacy: Capacity to deliver co- benefits</b>	Expected to be weak on poverty alleviation. Weak also on biodiversity protection if in conflict with cheap carbon mitigation options	Has capacity to deliver co-benefits, but demands special control and attention in statutes.	Relative strong capacity to deliver on co-benefits, but demands special control and attention in statutes.	Relative strong capacity to deliver on co-benefits, but demands special control and attention in agreements.

According to our analysis the market/project based system seems to be the weakest alternative for a national REDD+ architecture. Its main appeal lies in its capacity to attract private funding. As we have emphasized, distributing REDD+ resources through an international fund offering CERs, will make the other solutions equally strong in this respect. The only type of funding where there may be a difference concerns private voluntary payments. The potential to find cost-effective REDD+ options is also an argument for this solution. It does, however, not compensate for the weaknesses found concerning leakage, permanence, coordination across sectors, transaction costs, and the expected weak delivery of co-benefits.

In relation to this, one should note the general trend towards increased use of markets in areas that earlier were thought of as typically public responsibilities – cf. the neoliberal governance trend mentioned in the introduction. This ideological orientation has influenced major players also in the donor world, like IMF, the World Bank, and most UN organizations. We believe that it is especially important to rethink the capacities of this solution not least in a REDD+ context.

Concerning the other three options, local conditions are of great importance when choosing. We find that the arguments for funds in state administration and budgetary support are quite strong compared to that of separate national funds regarding dimensions like accountability/democratic processes, coordination across sectors, capacity to avoid leakage, co-benefits and maybe also transaction costs. We find the issue of accountability/democratic processes the most important of the above. If REDD+ becomes large, it seems problematic to establish a system for combating deforestation and forest degradation that is fully separated from state decision-making and administrative bodies. Note also that in many of the actual countries, forests are dominantly owned by the state (e.g., Siry et al. 2009). Concerning leakage, none of the proposed systems can avoid leakage across national borders. This is an issue that has to be treated at the international level.

The main argument for funds outside the state administration compared to national funds and budget support is the ability to attract voluntary funding, the capacity to set up systems that do not depend on rigid bureaucratic rules of state administrations, and the potential to handle corruption better. Certainly, in countries where corruption is very pronounced in the state administration, the latter may be a robust argument. Similarly, in a situation with a rigid bureaucracy, using the present administration may not result in reduced transaction costs compared to separate

funds despite the fact that a parallel system to reach receivers of funds must be developed. In relation to both the above arguments, one should note that a well-designed REDD+ program offers the opportunity to combat corruption and ‘trimming’ state bureaucracy. Certainly, which argument is the strongest will depend on the specific situation, not least the willingness of the present government to engage in reforms of its administration.

Turning to budgetary support vs. funds in the state administration, the arguments for the former are mainly related to accountability/democratic processes and capacity to coordinate across sectors. The fund solution seems to offer better possibilities to increase transparency, ensure permanence and combat corruption when important. It may also – like separate funds – be organized in ways that avoid some of the (necessary) rigidities for standard state administrations and directly involve representatives from civil society. Finally, it may be easier for external donors to formulate stronger conditions if the fund solution is used as compared to paying via state budgets.

REDD+ is a demanding political endeavor. Independent of the solutions chosen, there are tremendous needs for capacity building. This concerns building participatory systems, necessary local institutions including the clarification of property rights, establishing principles for distribution of funds, and the development of various technical competencies not least in MRV.

Independent of the governance system chosen, there are great challenges concerning the involvement of local communities. While forests are dominantly state owned, they are to a large extent used and managed by local communities. Phelps et al. (2010) see a great danger in that REDD+ may imply (re-) centralization. Over the last 2-3 decennia forest management in developing countries has followed a trend of decentralization. If REDD+ turns this ‘tide’, much of this positive development will be lost. Hence, strong focus on the way regional and local stakeholders are empowered and included in the REDD+ process is necessary. In this lies also a fear that REDD+ can become very detrimental for the poorest rural population. None of the discussed solutions in this paper will automatically guard against such outcomes. A strong, separate and enduring focus on this problem is warranted.

Similarly, all the systems discussed above are vulnerable to corruption. REDD+ may probably bring in vast amounts of money to developing countries. This may attract organizations and individuals that are after the money rather than supporting REDD+. Again, a strong focus is warranted. Given the amount of resources in REDD+, it could, however, be used to help turn the

tion. REDD+ would represent resources to a magnitude that actually might make governance reforms in e.g., forest administrations possible. As March and Olsen (1995) emphasize, the cultivation of the role of the politicians is a core aspect of governance.

At present countries are in the very early stages of establishing REDD+ structures. The main amount of resources is going into financing REDD+ pilots at the local level – often run by NGOs and quite separated from national REDD+ processes. Our research in e.g., Tanzania indicates that at the local level actors typically expect future payments to come from the market. This seems to reflect the international REDD+ discourse – especially in the earlier stages. Looking at what is now happening at the national level, the nationally planned role of the state is much more pronounced – e.g., developments in Brazil, Indonesia and Tanzania. This is highly understandable given the potential scale of REDD and its serious macro-level political impacts on land use policies; the main resource for survival and livelihood for a majority of the population in most developing countries.

The main observation is, however, the lack of a focused and more principal debate about strengths and weaknesses of different national architectures – cf. also lacking emphasis in the international REDD+ negotiations. It is urgent that the international community takes on such a discussion. This is necessary both for the ability to make wise choices concerning the international structures – as framing the opportunities at national levels – and for supporting countries in their individual decisions.

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## ENDNOTE

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<sup>1</sup> Since COP 15 in Copenhagen in 2009 it became standard to talk about REDD+ instead of ‘just’ REDD emphasizing that also conservation and enhancement of forest stocks and sustainable forest management are part of REDD.

<sup>2</sup> The distinctions made here are inspired by Bäckstrand (2006) as she differentiates between ‘input’ and ‘output’ legitimacy.

<sup>3</sup> Full stringency would actually demanded that we had looked at effectiveness and efficiency concerning all three objectives – reduced carbon emissions, reduced poverty and increased biodiversity protection. This would have made the analyses both unnecessarily complex and repetitive, and we settled for a simpler, albeit somewhat ‘pragmatic’ solution.

<sup>4</sup> This phrase refers to an interview with Joseph Stiglitz when he left his position in the World Bank partly because of disagreement on the issue of conditionality (*The Economist* 1999). See also IDD and Associates (2006).