



Governance in the Forest Sector: The Need for Information and Monitoring

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Organization

- **Fundamental causes of the problem**
- **Scale of the Problem**
- **Search for solutions**
 - **Need for information and monitoring**

The Problem

- **Corruption in the forest sector is globally pervasive – Congo to Canada and Asia to America**
- **It has many forms:**
 - **Criminal:** illegal logging, smuggling, extortion
 - **Legal but corrupt:** lobbying for concessions, state capture, institutional erosion, rent seizing
- **Scale is vast – but quantitative estimates remain elusive**
 - Impacts are both direct (losses in forest sector) and indirect (losses in other sectors)

Causes: Why are forests so corruption prone?

- Forests have unique characteristics:
 - Generate *public benefits* when conserved:
 - Carbon sequestration, wildlife habitats, watershed benefits and other ecological services.
 - But they generate private benefits when felled:
 - Profits to logging company, employment, tax revenue, bribes, etc
- So strong incentive to over-harvest beyond sustainable (publicly optimal) limits

Problem further aggravated by high rents and low oversight

- Trees grow slowly -> sustainable supply is relatively inelastic.
- Demand for timber escalating
- *Demand exceeds Sustainable Supply.*
- Profits from *unsustainable logging* > Profits from *sustainable logging*.
- Most felling occurs in remote locations with limited PUBLIC oversight or information

HIGH RENTS + LOW OVERSIGHT

⇒ OPPORTUNITIES FOR CORRUPTION ABOUND

So What -- Why worry about forest related corruption?

- **Commercial Scale Illegal Logging:**
 - Big business with links to other crimes (drug, arms and people smuggling)
- **Corruption Contagion:**
 - Logs are bulky and can only be sold with **connivance and collaboration of other institutions** (transport, customs, police.....)
 - Impacts and costs spread through economy

- **Institutional Erosion:**

- To capture high rents **need weak institutions** with limited oversight and low levels of transparency
 - Empirical evidence finds that institutions with oversight routinely dismantled or weakened to facilitate rent grabbing
 - Weak institutions -> impede development and growth

Life of an Illegal Log

- Illegal Logger \$2.2 m³

- Broker \$20 m³
 - (Buying illegally)

- Overseas broker
 - \$160 m³
 - (Buying legally)

- Buyer sawn or molded log in USA
 - \$800-\$1,000 m³

Contributions by Industry USA

Industry	Amount of Contribution (\$ million)	%
Medical and Pharmaceutical	4.32	13.5
Tobacco and cigarettes	2.46	7.7
Timber and Pulp	2.27	7.0
Wines and Liquor	1.46	4.5

Solutions

- Search for mechanisms that **reward sustainability** and **penalize unsustainability**
- But solutions need to be realistic (*incentive compatible*): **reforms that undermine self interest will not be adopted**
- Growing scarcity of timber:
 - Rents (profits) from unsustainable harvesting will remain high
 - Need mechanisms to create **demand for good governance**
 - **Raise costs of illegal felling**

Information as a tool to facilitate good governance

1. Information on legal status of product:

- **Timber Certification Schemes**

- But claimed that this unfairly raises production costs and so penalizes sustainable harvesting

- **If so suggests need for *taxes on uncertified products***

Information on status of forests:

- **Remote sensing – objective information on forest status**
- **If made public (global monitoring) - tool for creating public pressure for good governance**
- **Galvanize international cooperation and provide a platform for action**
 - **Links to climate change debate: Opportunity to raise awareness and generate revenue for conservation**

Conclusions

- No simple remedies to problem.
- Need to **tackle root causes:**
 - **high rents and low oversight**
- Global remote sensing part of the answer
 - Information in public domain – improve oversight
 - Tool to generate global awareness and demand
- Need to be accompanied by other measures designed to penalize undesirable and reward desirable