

Combating Illegal Logging and Corruption in the Forestry Sector

Strengthening Forest Law Enforcement and Governance

The widespread failure of forest governance—characterized by illegal logging, associated illegal trade, and corruption—directly undermines sustainable economic growth, equitable development, and environmental conservation. It puts at risk poor and forest-dependent populations, which rely on timber and non-timber forest products; undermines responsible forest enterprises by distorting timber markets and reducing profitability; and results in a loss of government revenue that could be invested in sustainable forest management or general economic development.

Illegal logging and other forest crimes of various kinds are common in many parts of the world and often involve players in both producer and consumer countries. The World Bank estimates the market value of global annual losses from illegal cutting of forests in public lands at over \$10 billion—more than eight times the total official development assistance flows for the sustainable management of forests.

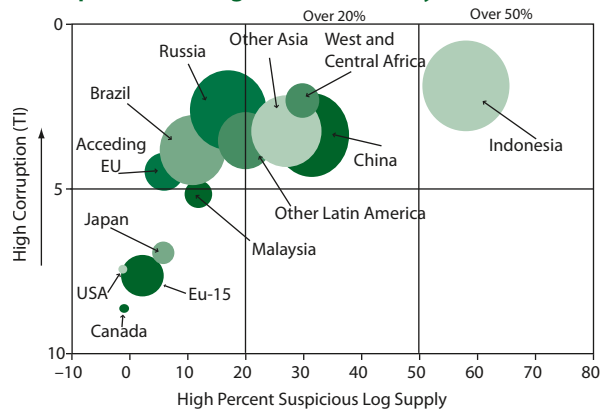
Corruption—another symptom of weak forest sector governance—is evident in the

form of bribes, extortion, kick-backs, protection money, and, most sinister of all, the erosion of institutions beyond the sector and across the economy. More often than not, it will facilitate the occurrence of illegal acts, especially large-scale illegal logging (see Figure, right, indicating a high correlation between illegal logging and corruption). About \$5 billion per year is estimated to be lost due to uncollected taxes and royalties on legally sanctioned timber harvests due to corruption (World Bank 2002 estimate).

Fundamental Causes

A combination of high scarcity rents, discretionary powers, and low accountability are the fundamental drivers of illegal logging and corruption in the forest sector. Unlike other resources, forests provide a wide range of public benefits only when they are preserved (for example, through watershed protection, carbon sequestration, and biodiversity pro-

Corruption and Illegal Forest Activity



Note: Bubble size represents the volume of suspect roundwood, including imports.
Source: Seneca Creek Associates 2004.

tection); and they provide private benefits (such as timber rents) principally when they are harvested. So there is a need for high levels of intervention to assure optimal and sustainable levels of harvesting, while at the same time ensuring adequate protection of the public benefits.

Typically, state forest management agencies are entrusted with managing the conflicting objectives of conserving global assets and generating resource rents. These agencies are underfunded, and their officials work for meager salaries. But since timber is scarce relative to demand (and harvesting costs are

Voluntary Corporate Codes of Conduct to Promote Legal and Sustainable Forestry

Corporate codes of conduct are voluntary initiatives by which corporations, either independently or as members of associations, commit themselves to follow self-defined principles of social and environmental responsibility.

IKEA's long-term goal is to source all wood in the IKEA range from forests certified as being well-managed. Recognizing that conditions to support responsible forestry must be in place before certification can be achieved, IKEA works with a "staircase model" to promote legal and sustainable forestry among its suppliers. This model has four levels to establish minimum requirements on wood material, and uses a step-by-step approach to place higher demands on suppliers. Requirements include the legal sourcing of wood products. IKEA, in partnership with WWF, has developed a wood tracking system to ensure that there are no leakages along the chain of custody. The partnership has also established producer groups committed to extracting only legally sanctioned harvests.

Stora Enso, a European timber and paper company, actively works to combat illegal logging and related illegal activities where it operates. The company's strategy to ensure the legal origin of its wood purchased in Russia includes:

- Recognizing and analyzing the risks related to legality and sustainability issues
- Focusing on long-term partnerships and investments
- Having local representative networks
- Increasing its own logging operations
- Keeping the supply chain as short as possible
- Offering training and cooperation to promote supplier's awareness of sustainability issues
- Having active stakeholder dialogue and development projects

While it is too early to assess the impact of such initiatives, they are likely to become increasingly important instruments in the fight against illegal logging and forest corruption.

Sources: World Bank 2006, IKEA 2006.

low), the rents from depleting forests remain high, and there are strong incentives to subvert regulations and pay bribes to capture a greater share of the resource. In addition, forestry officials usually operate in remote areas, far from public scrutiny, and with broad discretionary powers. Forest officers may have a great deal of latitude to certify compliance with the law, or collude in illegal acts. The propensity for malfeasance and the incentive to accept bribes in these circumstances is clearly high. With limited oversight, abundant rents, and poor incentives, the opportunities for corruption abound. Neither production areas nor protected areas are immune from corrupt practices and illegal logging.

A Search for Solutions

Demand-side interventions. Controlling scarcity rents by reducing demand for timber requires implementing environmentally and socially responsible procurement policies at all levels. In the case of corporate codes of conduct, corporations, either independently or as members of associations, commit themselves

to follow self-defined principles of social and environmental responsibility. IKEA's "staircase model" (see Box, above), which raises the standards expected of their wood suppliers in a step-wise manner, is a promising approach in this regard. Strong alignment of public procurement policies—in countries such as the United Kingdom, Denmark, and Japan—with legally sourced timber is also a



key step in addressing the problem. Developing green consumerism holds potential to streamline demand once "green" timber can command a reasonable price premium.

Increasing timber supplies. The multistakeholder Global Vision for Forest 2050 Project estimated that plantation forests—managed exclusively for wood and fiber on just 4 percent of forest

STRENGTHENING FOREST MANGEMENT AND GOVERNANCE IN INDONESIA

lands—could meet 50 to 60 percent of world demand in 2050. Clearly, investing in industrial plantations is a feasible approach to the elimination of scarcity rents. The Bank has been actively supporting plantation development in countries such as China and India. Forest certification is another approach to increasing the supply of timber from well-managed forests, and can help control illegal logging and other forest crimes. Currently, about 140 million hectares of forests are under various types of certification schemes. There is huge potential for expansion, especially for tropical forests.

Monitoring, increasing transparency, and accountability. The remoteness of forests offers rich opportunities for illegal logging and corruption. Detection, monitoring, and surveillance are important tools in combating these problems. The use of satellite data offers a cost-effective method to monitor forest cover. It also provides the option for a variety of stakeholders to use this information for effective surveillance and detection of forest crimes. Innovative approaches are being successfully implemented in Brazil, Cameroon, India, Indonesia, and Russia. Where local capacity is inadequate, hiring an independent forest monitor can make a positive contribution to increasing transparency and accountability, as has been done in Cambodia, Cameroon, and Ghana, for example. In Bolivia and Ecuador, systems of independent surveillance and monitoring by the public have brought forest operations into open scrutiny and promoted improved accountability on the part of public officials.

As indicated above, making headway in this difficult and complex area requires action on several fronts.

As part of its wider effort to promote sound forest management, the Bank currently finances more than \$300 million in forest law enforcement and governance activities in its portfolio of forest projects. See Box, right, for a description of forest governance work

Indonesia's forests are among the most extensive, diverse, and valuable in the world. Covering over 70 percent of the total land area, the Indonesian forest estate generates income and jobs, and provides livelihoods for millions of people, as well as nearly 10 percent of non-petroleum export revenues.

Indonesian President Susilo Bambang Yudhoyono has made improving forest governance and curbing corruption top priorities and has directed relevant government agencies to accelerate efforts to curb illegal logging, one of the main problems in forest

sector management. Poor governance, corruption, and law enforcement have hampered the Indonesian government's ability to effectively manage forests, collect forest revenue, attract forest investment needed to revitalize

Indonesia's timber industry, promote Indonesia's timber products in international markets where demand for legal timber is growing, and thus ensure that Indonesia's forests make an important contribution to the economic and social development of Indonesia.

Indonesia's good forest governance initiative is built upon two pillars: *transparency* and *the rule of law*. In consultation with civil society, donor agencies and the private sector, the Ministry of Forestry and other relevant institutions have begun, with the support of the World Bank, two parallel, complementary initiatives designed to improve the fundamental pillars of forest governance:

Promoting Transparency

The initiative's goal is to make accurate and up-to-date forest sector information continuously available to decision makers. This includes: a) improving the *information management process* that generates and archives information on Indonesia's forest and timber resources; b) establishing a *comprehensive disclosure policy* that clearly articulates what information can be publicly disclosed and what is confidential; c) developing *effective disclosure mechanisms* that allow multiple stakeholders to access accurate and up-to-date information on Indonesia's timber and forest resources; and d) encouraging an *improved decision-making process* able to use the information.

Promoting Law Enforcement

The government is implementing and supporting a comprehensive framework of measures, designed in extensive multistakeholder consultations, to prevent, detect and suppress forest crimes and improve law enforcement in Indonesia. This framework includes the following: a) support for the establishment of a *forest crime case tracking system* that will allow multiple stakeholders to monitor and hold the government to account for its law enforcement operations and judicial processes; b) assistance with the implementation of Indonesia's *anti-money laundering* legislation, as it relates to forest crimes; c) continued support for an *interagency forest law enforcement strike force*; and d) support for participation by the Indonesian government in the *Asia FLEG process*.



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supported in Indonesia. Some of the specific areas addressed in Bank projects are:

- ◆ Development of forest policies, regulations, and management plans
- ◆ Capacity development for public agencies to better address forest crimes
- ◆ Support for public awareness activities
- ◆ Support for natural resource inventories, transparency in concession allocation, forest certification, and chain-of-custody verification
- ◆ Development of forest monitoring and law enforcement reporting systems
- ◆ Provision of equipment and capacity development for staff responsible for management of protected areas

In addition to financing investment projects and related technical assistance, an essential and increasingly important part of the Bank's contribution is the analytical and advisory activities carried out for client countries. In recent years the Bank has produced several important publications that include discussion of forest law enforcement and governance issues ranging from country-level assessments of illegal logging and other forest crime to thematic assessments on issues such as reforming forest fiscal systems,

THE REGIONAL FOREST LAW ENFORCEMENT AND GOVERNANCE (FLEG) MINISTERIAL PROCESSES

Three Regional FLEG ministerial processes have been initiated so far—in East Asia (2001), Africa (2003), and Europe and North Asia (2005). All three FLEG processes have been remarkably successful in eliciting high-level political commitment and fostering a spirit of shared responsibility. Strong partnerships have been formed among various producer and consumer governments, development agencies, civil-society organizations, and forest industry companies and their associations sharing a common concern with improving forest governance. The ministerial processes have also been successful in drawing the attention of policy makers to new and innovative tools—such as customs collaboration and anti-money-laundering laws—to combat illegal logging and forest corruption.

On the demand side, FLEG recognizes the responsibility of “consumer nations” (through controlling demand-side pressure) and has built on initiatives such as the G-8 Forest Action Program on illegal logging. On the supply side, the FLEG process addresses the underlying causes of corruption and illegal logging. The FLEG umbrella includes a joint approach by producer and consumer countries, including technical meetings where experiences with FLEG issues are shared, intergovernmental negotiations for the drafting of a declaration and/or action plan, and stakeholder dialogues supporting these negotiations. The processes seek to create the political commitment and analytic foundations at the national and regional levels to effectively address these complex and politically sensitive issues.

and verifying and monitoring the chain of custody and legal compliance in the timber industry.

Since 2001, the Bank has also been actively involved in catalyzing a high-profile Forest Law Enforcement and Governance (FLEG) process (see Box, above), which is strongly supported by development partners and key country governments alike. The regional FLEG processes have aimed to create the high-level political commitment and the political space at national and regional levels to address issues related to illegal log-

ging and other forest crime in partnership with governments and other major stakeholders from civil society and the private sector.

Key References

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