

# U4 Expert Answer



## The status of information on corruption in the forestry sector

### Query

**What is the state of information on corruption in the forestry sector? How is the situation in relation to particular regions? Are there best practices to learn from?**

### Purpose

To explore the state of information on corruption in the forestry sector.

### Content

1. Corruption in the forestry sector
2. State of information on corruption and forestry
3. Best practice approaches
4. Further reading

### Summary

Corruption in forestry undermines not only the profitability and sustainability of the world's forest resources, but also weakens broader governance systems in countries where it occurs. Finding ways to deal with these issues is challenging due to the limited research in this area. The secretive nature of corruption also means that robust and comprehensive data on corrupt activities in the forest sector is difficult to generate. Where it is discussed, corruption is often considered primarily as an element of forest governance. This is despite evidence that corruption in the forestry sector may have impacts far beyond this individual sector and may be a key factor in the inability

of countries to deal with illegal logging. Though many forest-rich countries have appropriate laws and knowledge of forest science, this does not necessarily translate into good forest management practices. Part of the explanation for this appears to be that corruption impedes enforcement and implementation of such good practices.

In order to deal with corruption in the forestry sector, the nature of the problem must be understood and its importance recognised. Increasing transparency and participation are key measures that should be adopted as part of a holistic approach to strengthening forest governance systems. Initiatives that include multilateral cooperation and engage the people and institutions concerned with good forest governance will have the greatest chance of success.

## 1 Corruption in the forestry sector

Several studies have shown links between the quality of governance and the rate of deforestation in the world's main forest producing countries. Transparency International's Corruption Perception Index (CPI) shows higher levels of perceived corruption in those countries where illegal logging is most prevalent.<sup>1</sup>

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For example, Indonesia ranks 111 out of 180 countries in the 2009 CPI and it is estimated that more than 50% of logging in the country is illegal. New Zealand, the country with lowest perceived levels of corruption in 2009, reports only a few cases of logging infringements each year. Corruption may therefore be a potential driver of illegal logging and poor forest management. However, corruption in the forestry sector also has broader implications for governance as it requires the complicity of different sectors to be carried out successfully. This “corruption contagion”<sup>1</sup> can affect customs, police, local politicians and transport authorities and undermine the rule of law.<sup>2</sup>

Corruption in the forestry sector appears to thrive where forestry officials are given broad discretionary powers with limited official oversight. This may be exacerbated in remote areas where there is little opportunity for public scrutiny. The effects of corrupt activities are most debilitating in developing countries and economies in transition such as Indonesia, Papua New Guinea, Brazil, the Democratic Republic of Congo or Tanzania. Forestry corruption in these contexts poses a barrier to development as it deprives government of revenues, potentially undermines legitimate business activities and threatens the livelihoods of people who rely on forests to survive.<sup>3</sup>

A World Bank study suggests that, in the short-term, corruption reduces proper oversight of forest practices leading to destructive, inefficient logging operations focused on immediate profits. In countries such as the Philippines where forestry corruption is a long-standing problem, this leads to reduced investment and an overall decline in forest industries. While other economic factors may have also contributed to these changes, the Philippines – which was once a major exporter of logs in the 1960s-1980s – has now become a net importer.<sup>4</sup>

The literature on illegal logging often calls for improved monitoring and strengthened law enforcement, but may not consider the underlying problems of corruption that undermine attempts in these areas. Much work has been done on developing mechanisms to prevent illegal logging, for example, developing timber tracking technology, satellite monitoring and increasing conservation areas. However, technical measures of

this nature alone are unlikely to be effective against corruption.

It is the nature of corruption to undermine political will for reforms that are considered detrimental to the maintenance of corrupt relationships or arrangements. Those in positions of authority may be captured by the interests they are supposed to regulate for the common good. An example of this difficulty, cited by Kishor and Damania, is the case of Cambodia where the government appears to have improved its capacity to detect forest crimes but is unable to prosecute them, in part due to corruption challenges in the judicial system.<sup>5</sup>

## 2 State of information on corruption and forestry

A brief review of the literature related to deforestation and illegal forest activities indicates that increasing attention is given to the quality of forest governance.

### [“Illegal Logging and Global Wood Markets: The Competitive Impacts on the U.S. Wood Products Industry](#)

This report by Seneca Creek Associates/Wood Resources International is a primary source for most studies that draw links between corruption and illegal logging. This was the first report that made clear the relationship between the two activities and demonstrated the impact corruption has on the global timber trade. Despite its significance, the report’s main focus is the economics of the timber trade and it devotes less than two pages to the topic of corruption. It does not attempt to unpack implications except as they relate to financial aspects of the legitimate timber trade.

### [The Impact of Corruption on Deforestation: Cross-Country Evidence](#)

In this study, the authors have compared data from corruption indices such as the Corruption Perception Index (CPI), International Country Risk Guide (ICRG) index, and Business Intelligence (BI) index with rates of deforestation in different countries over time. Their findings support the proposal that reducing corruption will reduce illegal forest activities.

### [The Underlying Causes of Forest Decline](#)

This paper from the Center for International Forestry Research looks at the socio-economic and political

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<sup>1</sup> Corruption in the forestry sector requires the collusion of officials from a range of sectors to succeed. This may lead to an erosion of the integrity of governance systems more broadly.

causes of forest decline, concluding that corruption is a major underlying cause of forest decline.

### [Breaking the rings of forest corruption: steps towards better forest governance](#)

This report uses Guyana as a case study to illustrate how corruption prevents proper control by government agencies of illegalities in forest concessions.

### [Cambodia's Family Trees](#)

This report, which was banned from distribution in Cambodia, details the involvement of family members and associates of the country's Prime Minister in illegal forest activities.

### [Forestry, Governance and National Development: Lessons Learned from a Logging Boom in Southern Tanzania](#)

This report demonstrates the relationship between governance, forestry and national development in the context of Tanzania where illegal logging is suggested to cost the economy millions of dollars per year.

## Information gaps

There remain gaps in the state of knowledge on corruption and the forestry sector. The requirement for more extensive research in this area is likely to increase in urgency with the development of programmes for Reducing Emissions from Deforestation and Degradation (REDD). Details for how these programmes will be implemented are still to be finalised but demonstration activities in Asia, Africa and Latin America are already underway. Up to USD 30 billion a year could be transferred to forest-rich developing countries for the preservation of forests. These funds hold the potential to compound problems of corruption unless its causes and consequences are better understood and addressed.<sup>6</sup>

Corruption is a difficult problem to quantify as it is by nature secretive and hidden. In working against corruption it is perhaps not always necessary to know how much corruption occurs but rather to understand its effects. Empirical data on consequences of corruption in the forestry sector is scarce, with information rather based on perceptions and anecdotal evidence. In general the figures that exist are estimates based on analyses of national forest inventories, interviews with relevant stakeholders in forest producing regions, reports from NGOs and timber trade data. When looking at corruption in the context of the

forestry sector, uncertainties are compounded by the imperfect state of information on forests collected by governments and international agencies. National forest inventories provide the basis for most statistical data, but they are often incomplete. Gaps in information may be found on existing volumes of forests, the quality of the resource, distribution of species and geographical location. Without this baseline data, it is difficult to make precise calculations about how the world's forest resources are being affected by corruption.<sup>7</sup>

## Terminological confusion results in a failure to focus on the real problem

There are a number of initiatives and studies that describe the occurrence of corruption as part of a broader discussion of forest governance. For example:

### [Roots for Good Forest Outcomes: An Analytical Framework for Governance Reforms](#)

This World Bank report is a recent attempt to provide an analytical framework for diagnosing forest governance weaknesses. It has been designed as the first stage in a process that will continue with field testing and development of forest governance indicators.

### [The Governance of Forests Toolkit](#)

This toolkit produced by the World Resources Institute, Imazon (Brazil) and the Instituto Centro de Vida (Brazil) aims to provide a common definition and conceptual framework for understanding governance of forests in developing country contexts.

Few studies go beyond acknowledging the existence of corruption to look at the causes, its broader implications or provide strategies to address it. Where these issues are discussed, corruption is considered mainly as it relates to illegal logging and is often considered a different aspect of the same problem. A World Bank commissioned report advises for that publication "the terms 'corrupt' and 'illegal' forestry activities should be read as referring to the same generic issue".<sup>8</sup>

A 2005 article from the Durrell Institute of Conservation and Ecology highlights this issue of the lack of attention paid to corruption and the obstacle this presents for the conservation movement. Sustainable forest management requires law enforcement, political support and financial resources but these are

undermined by the presence of corruption. The authors argue that while corruption is often acknowledged, the extent of the problem and its impact on biodiversity protection is not well understood. To address this lack of knowledge, indicators should be developed to measure the extent of the impact governance changes have on conservation outcomes and the results compared over time. Until corruption is recognised as a key driver in the problem other initiatives to prevent deforestation will not see lasting results.<sup>9</sup>

## Geographic distribution of information

Within the limited resources available on corruption in forestry there appear to be some geographical areas that receive more attention than others. Although there are studies that look at the situation in Africa and Latin America, Debra Callister has noted a regional bias in forest governance literature towards studies of the situation in Asia-Pacific and suggested a range of reasons that might account for this:<sup>10</sup>

- the importance of the timber industry in the country
- the extent of forests
- level of NGO and other international interest in the country's timber industry
- government attention to problems of illegal forestry
- media freedom and interest in the issue within the country
- the actual extent of the problem

The results of the Seneca Creek analysis suggest that the occurrence of corruption and suspicious timber supply in Indonesia, China and other countries in the region is greater than elsewhere. In addition, a World Resources Institute study from 2008 established that "the worst deforestation took place in Latin America and Asia, while Africa accounted for only 5.4% of total tree clearance". It is unclear to what extent these results may influence the focus of international forest policy and research.<sup>11</sup>

A potentially important issue is the limited amount of information available on this topic that considers the issue at a regional level. Most studies look at illegal logging (and to varying degrees, corruption) as it occurs in the national or provincial context and are carried out using different methodologies and approaches. Areas of focus are varied, for example:

### [Bulldozing Progress: Human rights abuses and corruption in Papua New Guinea's large scale logging industry](#)

This is a detailed report into alleged human rights abuses and the corruption that prevents national laws from being enforced.

### [Seeing the Wood for the Trees: Forestry Governance in the DRC](#)

This case study by the South African Institute of International Affairs looks at systemic challenges for the forestry sector in the Democratic Republic of Congo and models of governance that may help to overcome them.

While some of the lessons learned from national level studies may be applicable in other areas, turning this information into a coherent framework of analysis has yet to be done. As a result the data lacks consistency, making it difficult to arrive at precise comparisons. A regional approach would complement the existing research particularly as forest issues and the effects of corruption are often trans-boundary involving international trade flows and multi-national actors. The Durrell Institute paper found that research should be expanded to allow multi-site and cross-national comparisons of experiences to identify transferable solutions.

## 3 Best practice approaches

Currently there are no fully developed best practices specifically aimed at assessing and addressing corruption in the forestry sector at a global or regional level. There are some initiatives that have attempted to deal with the associated problems of forest governance, though they are more general in scope and at an early stage of development.

### Data gathering

In order for there to be any success in preventing corruption in forestry there must first be sufficient knowledge and understanding of the state of the forest resource. The Food and Agriculture Organisation (FAO)'s Global Forest Resources Assessment relies on the often incomplete information supplied by national governments. Strategic partnerships such as between the World Resources Institute (WRI) and the Indonesian government provide an avenue to address the problems of capacity that lie behind these gaps. Working with partner organisations in Indonesia WRI

has assisted the Ministry of Forestry to map the national forest resource, compiling information on rates of deforestation and existing timber concessions and plantations. Over time these maps can be used in conjunction with digital technology to monitor the activities of forest operators and determine where boundaries are overstepped or breaches occur. Data has also been compiled on the sources of raw material used by major processors and can be analyzed to determine the presence of timber of uncertain origin. This information provides evidence for use in prosecuting offenders.<sup>12</sup>

## Understanding corruption and the quality of governance in the forestry sector

Because corruption and weak forest governance operate as a complex system, it is important to develop a good understanding of their underlying dynamics. Transparency International has developed a Forest Governance Integrity Programme that builds on experience in developing anti-corruption tools as a basis for advocacy and capacity development work. Given the difficulties of corruption research, the programme looks at the performance of existing anti-corruption initiatives as a proxy for assessing changes in corruption. For example, one approach could be to examine ombudsmen's reports to see if there has been any change in complaints about inappropriate land seizures and monitor whether these complaints have been addressed. This sort of information, when viewed in the context of a broader monitoring framework can form the basis of understanding about the effectiveness of anti-corruption initiatives in a particular country. This can then be compared to similar data from other countries. The programme takes a regional approach, using the same methodology in a range of countries to analyse: the conditions that give rise to corruption; what public institutions are particularly vulnerable to corruption; and what laws, policies and review mechanisms are in place to prevent corruption in the timber supply chain. This analysis can be used to support recommendations for improved forest governance.<sup>13</sup>

Transparency initiatives as mentioned earlier can serve to curb corruption and form a key pillar of good forest governance in delivering accountability and reducing the opportunities for corrupt activities to take place. The World Resources Institute's Governance of Forest Initiative and the World Bank's Framework for Governance Reforms mentioned above are both

examples of initiatives that highlight the importance of transparency.

## Follow-the-money: tracing financial flows to expose illegal activities in the forestry sector

Another example of addressing corruption through 'proxy' mechanisms is the approach in Indonesia to curb illegal logging by means of anti-money laundering legislation. Indonesian legislation was changed to recognize illegal logging as a predicate offence that can result in money laundering.<sup>2</sup> The mechanism that supports this legislation is the Reporting and Financial Transaction Analysis Centre (PPATK) which receives reports on suspicious financial transactions from banks and other financial service providers. This mechanism creates a financial disincentive for forest crimes and has had success in Indonesia with exposing flows of illicit money. However, due to a lack of investigating authority given to the PPATK prosecutions have not yet followed.<sup>14</sup>

## International cooperation

The international community has recognised the need for cooperation with countries that struggle to deal with corruption and poor forest governance. An element of this shift is the additional recognition of the impact of demand-pressures on forest governance and the need to foster responsible consumption. Where political will is lacking or governance capacity is reduced due to state capture<sup>3</sup>, multi-lateral initiatives can create a space for reform to take place. The European Union (EU) Action Plan on Forest Law Enforcement, Governance and Trade (FLEGT) uses leverage provided by the purchasing power of the European market to elicit high-level political commitment to governance reform in forest producing countries. FLEGT employs Voluntary Partnership Agreements (VPAs) in which countries sign up to binding agreements to work towards:<sup>15</sup>

<sup>2</sup> According to Article 2 (h) of UNCAC, the term "Predicate offence" means any offence as a result of which proceeds have been generated that may become the subject of an offence as defined in article 23 of this Convention; article 23 of the UNCAC on 'Laundering of proceeds of crime'.

<sup>3</sup> State capture: A situation where powerful individuals, institutions, companies or groups within or outside a country use corruption to shape a nation's policies, legal environment and economy to benefit their own private interests.

- policy and legal reform
- improved governance and transparency
- capacity building
- improve control, track & verify legal compliance
- better capture revenues and rents
- secure & improve market share

## Multi-stakeholder approach

It is increasingly accepted that to have any success in dealing with the complex issue of forest governance, the groups of people that have a direct stake in forest governance outcomes must be involved in the process of developing governance frameworks. Anti-corruption initiatives should therefore seek broad stakeholder engagement in formulating specific initiatives and in monitoring the effectiveness of their implementation. Global Witness has developed a model to guide civil society involvement in the monitoring of forest governance. Independent Forest Monitoring is based on the creation of a partnership between the authority responsible for the forestry sector of a country and an appointed independent monitoring organisation. Keys to success are noted to be the government's commitment to the process and the public credibility of the monitoring organisation. The monitoring organisation conducts field investigations to scrutinize the work of official law enforcement officials and compiles reports on instances of corruption or illegal activities. To ensure full transparency this information is made publicly available at all levels of government, industry and civil society and is expected to be acted upon.<sup>16</sup>

## 4 Further reading

### [FAO Forestry Paper: Best practices for improving law compliance in the forest sector](#)

This paper from the Forest and Agricultural Organisation of the United Nations and the International Tropical Timber Organisation summarises the work being done at national and international level to combat forest crime and address problems of forest governance. The report looks at the need to rationalize the policy and legal environment; institutional capacity building; improving data and knowledge; and the political economy of forestry sector law compliance.

### [Corruption in the forestry sector and illegal logging: the problem, its implications and approaches to combating it](#)

This policy brief from the German development agency GTZ provides an overview of the problem of corruption in forestry, looking at the consequences and providing some possible approaches to addressing it.

### [Forest concessions and corruption](#)

This U4 issue paper discusses how corruption affects the forest industry particularly in the context of concessions and licensing. Policy recommendations are made with emphasis on the role of the international community and development aid systems.

### [Corruption and forest revenues in Papua](#)

This U4 brief discusses the way corruption occurs in the Indonesian forestry sector at district, provincial and national level. The focus is on risks of corruption in forest revenue management where the author recommends specific actions that should be undertaken by the Indonesian government and international donors.

## References

- <sup>1</sup> ["Illegal" Logging and Global Wood Markets: The Competitive Impacts on the U.S. Wood Products Industry](#)
- <sup>2</sup> [Discussion paper on illegal logging by the government of New Zealand](#)
- <sup>3</sup> [World Bank News Release, Weak Forest Governance Costs Us\\$15 Billion A Year](#)
- <sup>44</sup> [Corrupt and Illegal Activities in the Forest Sector](#)
- <sup>5</sup> [U4 Paper, The Many Faces of Corruption](#)
- <sup>6</sup> [Guardian news article, "UN's forest protection scheme at risk from organised crime, experts warn"](#)
- <sup>7</sup> [WRI Paper, Bridging the Information Gap: Combating Illegal Logging in Indonesia](#)
- <sup>8</sup> [Corrupt and Illegal Activities in the Forest Sector](#)
- <sup>9</sup> [Robert J. Smith and Matthew J. Walpole, "Should Conservationists Pay more Attention to Corruption?"](#)
- <sup>10</sup> [Corrupt and Illegal Activities in the Forest Sector](#)

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<sup>11</sup> [WRI Report, "Groundbreaking Study Finds the "Hotspots" Most Responsible For Deforestation"](#)

<sup>12</sup> [Bridging the Information Gap: Combating Illegal Logging in Indonesia](#)

<sup>13</sup> [Transparency International Forestry Sector Corruption Manual](#)

<sup>14</sup> [CIFOR Occasional Paper no. 44: Fighting Forest Crime and Promoting Prudent Banking for Sustainable Forest Management](#)

<sup>15</sup> [EFI Policy Brief 3: What is a Voluntary Partnership Agreement?](#)

<sup>16</sup> [Global Witness, Independent Forest Monitoring](#)