ILEA AND REDD

Bambang Setiono
CIFOR

The Eight Meeting of Asia Forest Partnership & AFP Dialogue 2009
WG 3: Economic and International Implications of Illegal Logging and REDD



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ILEA Integrated Law Enforcement Approach
(Reducing Deforestation using Anti Corruption and Anti Money Laundering Instruments)






Deforestation in Indonesia

Tabel/*Table* I.1.3 : PERHITUNGAN DEFORESTASI 7 PULAU BESAR DI INDONESIA TAHUN 2000-200
Deforestation Rate in 7 Main Islands in Indonesia 2000-2005

No.	TAHUN/ *Year*	DEFORESTASI/ *Deforestation* (Ha/Tahun)							
		Sumatera	Kalimantan	Sulawesi	Maluku	Papua	Jawa	Bali & Nusa Tenggara	Indonesia
1	2	3	4	5	6	7	8	9	10
1	2000 - 2001	259.500	212.000	154.000	20.000	147.200	118.300	107.200	1.018.200
2	2001 - 2002	202.600	129.700	150.400	41.400	160.500	142.100	99.600	926.300
3	2002 - 2003	339.000	480.400	385.800	132.400	140.800	343.400	84.300	1.906.100
4	2003 - 2004	208.700	173.300	41.500	10.600	100.800	71.700	28.100	634.700
5	2004 - 2005	335.700	234.700	134.600	10.500	169.100	37.300	40.600	962.500
JUMLAH/ *Total*		**1.345.500**	**1.230.100**	**866.300**	**214.900**	**718.400**	**712.800**	**359.800**	**5.447.800**
Rerata/ *Average*		**269.100**	**246.020**	**173.260**	**42.980**	**143.680**	**142.560**	**71.960**	**1.089.560**

Sumber/ *Source* : Badan Planologi Kehutanan
Forestry Planning Agency

Keterangan/*Note* :
Hasil citra spot vegetasi resolusi spasial 1 Km/ *Based on the interpretation of SPOT Vegetation Image with spatial resolution of 1 Km*



Deforestation in Indonesia

No	Region	Year	Forest Cover (ha)	Deforestation (ha)	
				Total	Per year
1	Sumatra	2007	15,066,399.20	(5,075,812.97)	(1,015,162.59)
		2002	20,142,212.17		
2	Kalimantan	2006	26,431,346.94	(4,189,378.15)	(1,396,459.38)
		2003	30,620,725.09		
3	Papua	2006	28,595,907.62	(191,669.63)	(63,889.88)
		2003	28,787,577.25		

Source: ELSDA Institute, Agustus 2008

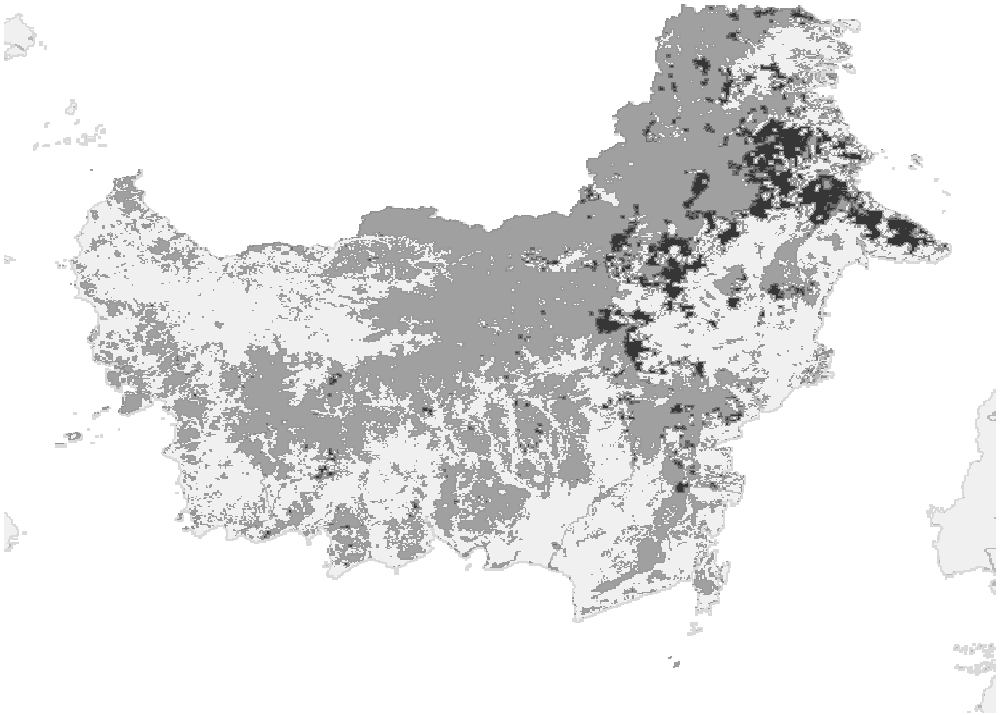
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Wealth from Forests

Tabel/*Table* IV.3.1 : PERKEMBANGAN EKSPOR HASIL HUTAN LIMA TAHUN TERAKHIR
Forest Product Exports for the Last Five Years

No	PRODUK *Commodity*	2002		2003		2004		2005		2006	
		Volume (Kg)	Nilai/*Value* (US$)	Volume (Kg)	Nilai/*Value* (US$)	Volume (Kg)	Nilai/*Value* (US$)	Volume (Kg)	Nilai/*Value* (US$)	Volume (Kg)	Nilai/*Value* (US$)
1	2	3	4	5	6	7	8	9	10	11	12
1	Kayu Gergajian/ *Sawnwood*	357.563.156	124.753.559	202.497.760	85.839.013	65.268.004	26.876.307	9.999.918	3.408.881	43.794.280	37.008.627
2	Kayu Lapis/ *Plywood*	3.584.237.103	1.748.309.583	3.306.448.275	1.662.910.935	2.603.043.170	1.576.874.293	2.214.770.962	1.374.670.271	1.979.110.376	1.506.681.493
3	Pulp	2.245.179.892	706.928.782	2.375.244.333	791.214.785	1.676.962.175	588.743.851	2.552.965.878	932.708.467	2.812.624.096	1.124.049.592
4	Veneer sheets	3.315.899	1.651.517	5.402.807	2.944.231	55.057.662	33.098.652	3.981.857	9.316.986	7.920.784	19.951.921
5	Particle Board ((including OSB)	111.335.483	24.118.488	126.676.019	25.837.501	48.133.019	11.630.378	30.176.668	5.376.426	11.673.389	4.620.243
6	Fibreboard	198.674.833	44.142.389	170.861.581	34.552.048	200.694.802	47.222.841	234.789.022	55.092.669	204.948.497	49.351.886

Sumber/*Source* : Badan Pusat Statiistik
The National Statistics Agency

Keterangan/ *Note* :
- Kayu Gergajian meliputi kode HS/ *Sawnwood with HS Code* : 44.07
- Kayu Lapis meliputi kode HS/ *Plywood with HS Code* : 44.12
- Pulp meliputi kode HS/ *Pulp with HS Code* : 47.01 ; 47.02. ; 47.03 ; 47.04 ; 47.05 ; 47.06
- Veneer sheets meliputi kode HS/ *Veneer Sheets with HS Code* : 44.08
- Particle Board meliputi kode HS/ *Particle Board with HS Code* : 44.10
- Fibreboard meliputi kode HS/ *Fibreboard with HS Code* : 44.11







Wealth from Forests

Jenis Barang	2006	2007	2008
I. Ekspor Nonmigas	80.577.788	93.142.234	107.568.713
a. Berdasarkan Dokumen Kepabeanan 1)	80.091.764	92.598.084	106.843.157
1 Binatang hidup, produk hewani	1.783.679	1.958.144	2.383.012
2 Produk nabati	1.428.349	1.703.360	2.224.311
3 Lemak, minyak dan malam	6.415.363	9.873.125	14.992.348
4 Makanan, minuman, minuman keras, dan tembakau	2.260.548	2.627.033	3.604.448
5 Produk mineral	11.969.810	13.083.851	13.905.769
6 Produk industri kimia dan industri seienis	4.267.043	5.405.887	5.873.045
7 Plastik, karet dan barang dari plastik dan	7.150.786	8.111.518	9.642.797
8 Kulit dan barang dari kulit	302.711	367.924	366.958
9 Kayu, barang dari kayu dan barang anyaman	3.281.824	3.142.569	2.895.939
10 Pulp, kertas dan barang dari kertas	3.921.513	4.415.212	5.290.501
11 Tekstil dan barang tekstil	9.377.336	9.768.100	10.136.993

Source: Bank Indonesia

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Major Drivers of Deforestation

Land clearing for oil palm and coal mining
Overcapacity of wood-based industry
Lack of local job opportunities
Local government autonomy
Lack of financial integrity

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Typology of forestry crimes:

Improper licensing for cutting or clearing forests
Weak supervision on timber movement
Overcapacity of wood-based industries
Transfer pricing

Modus	***Means***
Bribery and corruption	Global Financial Markets
Using front companies	Global Trade
Using local community	Global technology
New regulation	



Case 1. Improper licensing: land clearing for oil development

Persons Involved in SDG Case:

Marthias, Surya Dumai Group (SDG), Suwarna Governor. PT Bumi Simanggaris Indah, PT Kaltim Bhakti Sejahtera , PT Marsam Citra Adiperkasa, PT Tirta Madu Sawit Jaya, PT Sebuku Sawit Perkasa, PT Bulungan Argo Jaya, PT Rapenas Bhakti Utama , PT Bulungan Hijau Perkasa, PT Borneo Bhakti Sejahtera, PT Bumi Sawit Perkasa, PT Berau Perkasa Mandiri

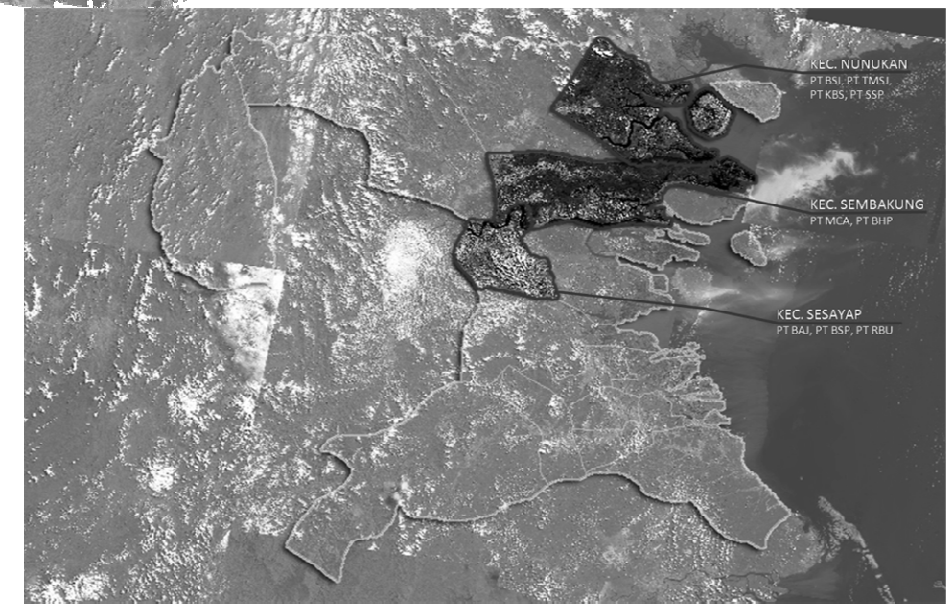
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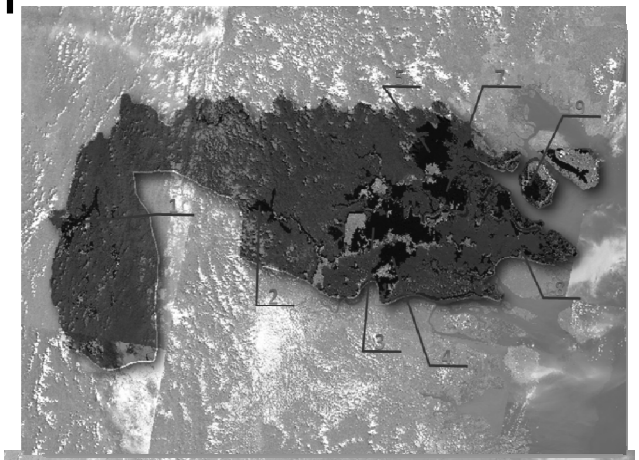
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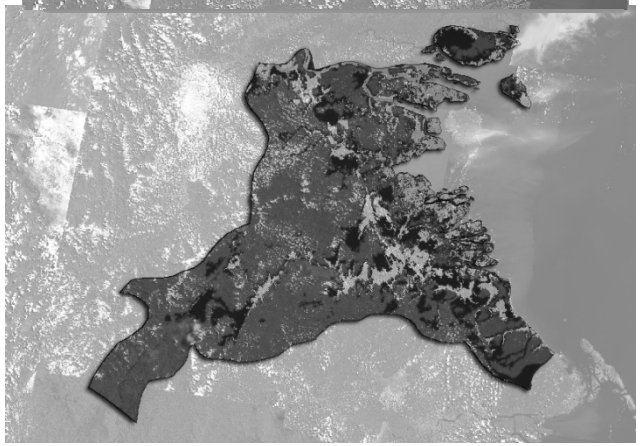


Case 1. Deforestation, State Loses, and Corruption









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Court Decision on SDG cases:

Marthias violated article 3 of the Corruption Law

Corruption Court sentenced him for 18 months in prison and fine of Rp.200 million or 6 month imprisonment.

Central Jakarta High Court sentenced him for 18 months and fine of Rp 4.6 billion

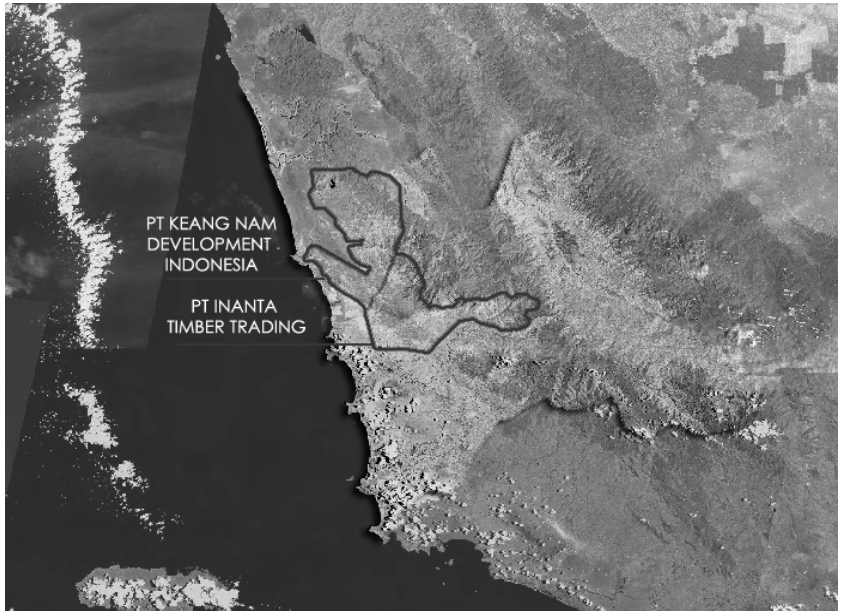
Supreme Court sentenced him for 18 months and fine of Rp 346.8 billion

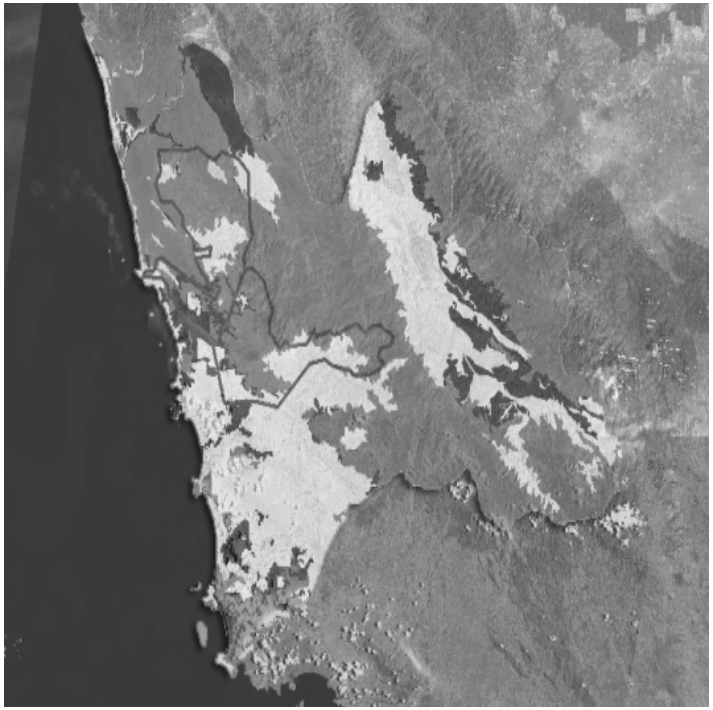


Case 2.
Weak Supervision and enforcement

Persons Involved in the Case:

Adelin Lis, PT Keang Nam Development Indonesia, PT Mujur Timber







Court Decision on Adelin Case

State Court of Medan freed Adelin Lis from any charges managed by State Prosecutor.

Supreme Court sentenced Adelin Lis for 10 years in prison and fine of Rp.1 billion or 6 months imprisonment. The court also sentenced Adelin Lis for returning State Loss in the amount of Rp 119.8 billion and US$ 2.938.556,24.



Case 3.
Over capacity of Wood-based industries

Persons Involved in the Case:
Bupati Pelalawan, Riau T. Azmun Jafar,
Gubernur Riau, PT. Merbau Pelalawan Lestari dan Bupati Pelalawan
PT. Citra Sumber Sejahtera dan Bupati Indragiri Hulu
PT. Bukit Batabuh Sei Indah dan Bupati Indragiri Hulu
PT. Putri Lindung Bulan dan Bupati Pelalawan
PT. Mitra Kembang Selaras Bulan dan Bupati Pelalawan
PT. Rimba Lazuardi dan Menteri Kehutanan
PT. Siak Raya Timber dan Menteri Kehutanan
pulp industries in Riau

Azmun Jafar was guilty for corruption at both State court and High Court. The current sentence was: Jail sentenced of 16 years, fine of Rp.500 million, and state loss recovery payment of Rp.12.37 billion. State prosecutors have to seize proceeds of crime worth Rp.1.2 trillion controlled by 15 companies.



Case 4. Transfer Pricing

Table 5.2 Indah Kiat's income strategy during the financial crisis (USD million)

No	Items	1999	2000	2001	2002	2003
1	Net Sales	1,311.52	1,544.27	1,100.23	1,197.71	1,345.84
2	Gross Profit	542.80	532.55	195.83	168.72	152.70
3	Expenses:					
	Operating expenses	109.02	144.40	123.71	108.46	138.01
	Provision for doubtful acc	-	413.32	1.02	-	-
	Interest expenses	181.52	282.86	294.27	259.88	260.73
	Loss on foreign exchange	-	-	-	77.27	75.50
	Asset Write-off	148.62	32.54	-	-	-
	Tax expenses	-	42.52	-	-	-
	Other		94.05	59.97	25.21	17.48
	Total	439.16	1,009.68	478.96	470.81	491.73
4	Net Profit (loss)	4.03	(400.68)	(182.39)	(266.31)	(286.63)
5	Tax benefits	3.49	-	63.68	30.58	49.73

Source: INKP Financial Statements per 31 December 2000, 2001, 2002, and 2003

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INTEGRATED LAW ENFORCEMENT APPROACH (ILEA)

For Protecting Forest and Livelihood

THE ROAD MAP

ILEA Integrated Law Enforcement Approach

(Reducing Deforestation using Anti Corruption and Anti Money Laundering Instruments)



INTERNAL CONTROL OF FORESTRY MANAGEMENT

- Timber production
- DR and PSDH revenues
- Wood-based exports
- Domestic wood trade
- Transparent licensing procedures
- Forestry investment
- Deforestation rate and thematic map

GIS BASED ENVIRONMENTAL AUDIT/INVESTIGATION

- Deforestation rate and land used changes
- Performances of forestry agency and company
- Political exposed Persons (PEP)
- Wood product export & domestic trade
- Timber revenues
- Forestry crimes, money laundering, and corruption

PRUDENTIAL BANKING

- International best practices
- KYC policies and Audit
- Customer and financial due diligent
- Customer profiles including PEP
- Cash transaction reports
- Red flags

ACCOUNTABILITY

- Financial reports of forest-based companies and government agencies
- DR and PSDH collection system
- Financial analysis

- Major threat of deforestation and state lost
- Environmental audit report
- Typology and red flag
- Suspicious transaction report
- Financial analysis report

Anti Money Laundering

Anti Corruption

INVESTIGATION & PROSECTION OF ORGANIZED AND WHITE COLLAR CRIME

PROCEEDS OF CRIME

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ROAD MAP AND INSTRUMENT
Internal Control of Forest Management

The Ministry of Forestry, Provincial Forestry, District Forestry, NGO

INTERNAL CONTROL OF FORESTRY MANAGEMENT

- Timber production
- DR and PSDH revenues
- Wood-based exports
- Domestic wood trade
- Transparent licensing procedures
- Forestry investment
- Deforestation rate and thematic map

Major threat of deforestation and state lost

SUMMARIES

- High risk companies and government agencies
- Business Process and typologies
- PEP
- Indication of crimes and states loss

AUDITING OR INVESTIGATION

- Companies
- Government agencies
- Corruption
- Money Laundering
- Illegal logging

SUMMARIES

- Deforestation rate
- Forestry investment
- DR and PSDH Revenues and sharing
- High cost economy
- State loss
- Typology
- Red flags
- Suspects
- Proceeds of crimes
- Penal laws
- Evidence

KPK
Anti Corruption

PPATK
Financial
Intelligent

POLICE & AGO
Anti Money
Laundering

PROCEEDS OF CRIME

SUMMARIES

- KYC Implementation
- Proceeds of crime
- Suspect
- Mutual Legal Assistance

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ROAD MAP AND INSTRUMENT
Auditing or Investigation

Indonesian Supreme Audit Board (BPK)

GIS BASED ENVIRONMENTAL AUDIT/INVESTIGATION

- Special purpose audit
- Performance audit
- Financial Audit

Ministry of Forestry
Provincial Forestry
District Forestry
Ministry of Agricultur e
Provincial Agricultur e
District Agricultur e
Ministry of Mining
Provincial Mining
District Mining
Ministry of Trade
Provincial Trade
District Trade
Ministry of Industry
Provincial Industry
District Industry
Ministry of Finance
Provincial Finance
District Finance
PELINDO
DG Sea Transportation

SUMMARIES

- Deforestation
- High risk companies and government agencies
- Timber production
- Wood export and domestic market
- High cost economy
- DR and PSDH Revenues and sharing
- Forestry investment
- Business Process and Typologies
- PEP
- Indication of crimes and state loss

FRAUD INVESTIGATION

- Companies
- Government agencies
- Corruption
- Money Laundering
- Illegal logging

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SUMMARIES

- Proceeds of crimes
- Suspect
- Evidence
- Penal laws

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PROCEEDS OF CRIME

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Auditing or Investigation

ROAD MAP AND INSTRUMENT

Indonesian Custom Office (DJBC)

GIS BASED ENVIRONMENTAL AUDIT/INVESTIGATION

- Wood based exports
- Wood Import
- Domestic Wood trade

National Port
Provincial Port
Distric t Port
National Airport
District Airport
Provincial Airport

SUMMARIES

- Volume and $ export and import
- Domestic trade volume and $
- Wood origin
- Wood Destination
- Business process and Typologies
- High risk Government agencies
- High risk companies
- PEP
- High risk ports
- Indication of crimes
- Indication of state losses

FRAUD INVESTIGATION

- Corruption
- Money Laundering
- Illegal logging

PPATK
Financial Intelligent

SUMMARIES

- Proceeds of crimes
- Suspect
- Evidence
- Penal laws

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POLICE & AGO
Anti Money Laundering

PROCEEDS OF CRIME

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ROAD MAP AND INSTRUMENT

Prudential Banking



Bank Indonesia

BANKING COMPLIANCE
- KYC audit
- Customer due diligent
- Financial due diligent

SUMMARIES
- Suspicious financial transactions
- KYC implementation
- International best practices
- Typologies
- Red flags
- KYC policies for forest-based customers

PPATK
Financial
Intelligent

SUMMARIES
- Proceeds of crimes
- Suspect
- Evidence
- Penal laws

INPUTS
- Deforestation rate
- High risk companies
- High risk Government agencies
- PEP
- Timber production
- Wood export & domestic market
- DR and PSDH Revenues and sharing
- Forestry investment
- Business process and typologies
- Indication of crimes
- Indication of state losses

INPUTS
- Volume and $ export and import
- Domestic trade volume and $
- Wood origin
- Wood Destination
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- High risk Government agencies
- High risk companies
- PEP
- High risk ports
- Indication of crimes
- Indication of state losses

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Anti Corruption

POLICE & AGO
Anti Money
Laundering

PROCEEDS OF CRIME

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Accountability

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ROAD MAP AND INSTRUMENT



MINISTRY OF FINANCE
- DR and PSDH collection system
- DR and PSDH profit sharing

SUMMARIES
- Timber production per company
- DR and PSDH payments per company
- DR and PSDH in arrear per company
- Unpaid DR and PSDH
- DR and PSDH sharing for each government agencies
- High risk companies
- High risk government officers

→ **BPK** Fraud Investigation

IAI
- Analysis of Government financial report
- Analysis of Financial reports of forest-based companies

SUMMARIES
- Timber production disclosure
- Timber use disclosure
- DR and PSDH payment disclosure
- Forestry investment disclosure
- High risk companies

→ **New Disclosure Policies**

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MONITORING CARBON

Internal control Unit

Auditing Unit

Accountability Unit

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CARBON MARKET

Internal control Unit

Auditing Unit

Accountability Unit

Prudential banking Unit

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PAYMENT DISTRIBUTION

Auditing Unit

Accountability Unit

Prudential banking Unit

Law enforcement Unit

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THANK YOU

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