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Corruption and forest revenues in Papua

Under a sustainable, well-managed, logging regime, Papua – the most densely forested part of Indonesia – can potentially contribute substantial forest revenues for socio-economic development. Yet, it remains the poorest region in the country, in part due to widespread corruption involving public and private actors. Specific changes to the forest revenue management system are required to address corruption. Donors can support these changes by engaging in capacity building for auditors, accountants and investigators, and through technical assistance for improving forest monitoring and production reports.

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Papua's forestry sector: an overview

Papua's forests represent the last frontier of tropical forests in Indonesia, following the almost total exploitation of forests in Sulawesi, Sumatra and Kalimantan. With 42.2 million ha of forest, Papua is also the most densely forested region of the country, representing 38.5% of Indonesia's total tropical forests.

From the early 1970's, the late former President Suharto used his New Order regime (Orde Baru, 1968-1998) to exploit forests to finance Indonesia's economic development. This policy was continued by subsequent regimes following Suharto's fall in May 1998. The Indonesian government set aside 12.7 million ha of Papua's forests, or 30% of the region's total forests, for the development of forestry businesses, including logging and wood product development. In addition, the government allowed agricultural and mining companies to clear 9.3 million ha of natural forests to be converted into plantation and mining sites. In total, more than half of Papua's forests are now used to fuel economic development both in Papua itself and in Indonesia in general.

Under a sustainable logging regime, Papua's forests could potentially produce around 7 million m³ of wood annually from cutting just 87,300 ha of forest. Because of government policy to reduce wood production from natural forests, actual wood production in Papua is only around 2 million m³ per year. This does not account for wood produced by clearing natural forests for plantation or mining purposes or for wood produced via community logging. In 2000, in the early days of the reform era, the Indonesian government allowed Papua's communities to form cooperatives and apply for a logging license. This license allowed the holder to cut trees within a range of 250 to 1000 ha. The Ministry of Forestry (MoFOR), however, revoked these licenses in 2004 due to a widespread misuse of this right.

Papua's forests provide significant revenues to the private sector, to central and local government, and – to some extent – to local communities. With the market price of logging around US$200 per m³, the forests contribute around US$400 million annually to the local, national as well as to the regional economy. Wood produced in Papua provides revenues for the central government, the provincial government, and to local district governments. For wood felled in Papua, these governments receive around US$12.5 per m³, and annual government revenue from logging in Papua is estimated to be around US$25 million in total. This total is shared between the central government (53.6%), the provincial government (2.56%), the district government that produced the wood (38.72%), and the surrounding district governments (5.12%). These significant forest finances – and finances from other natural resources such as minerals and gas – have contributed to large revenues for provincial and district governments in Papua. The annual provincial government budget is around US$400 million, while district governments have around US$200 million at their disposal.

Despite its abundant natural resources and intense economic activity, Papua is still the poorest region in Indonesia, with infrastructure, health, and education facilities among the worst in the country. 39% of its population of 2.5 million live below the poverty line. The economic benefits from the exploitation of forests and other natural resources have evidently not been properly channelled for the purposes of poverty reduction and public infrastructure development. From a total economic value of timber transactions in the region of US$ 400 million, less than 5% trickles down to the local population. The rest is shared by forest traders in Jakarta and in large cities such as Singapore and Hong Kong. Government revenues from logging operations are not properly collected and controlled, causing limited and uncertain distribution of these revenues to Papua's local governments and people.

Corruption is an important factor in explaining why revenues from Papua's forests have not delivered the expected socio-economic benefits. Though government officials have the power and mandate to properly manage forest finances, the incentives for making forest revenues work for the Papuan people are weak. Part of the problem relates to low wages among government officials. Bribes worth 100 times more than their mediocre incomes (US$500 a month) are certainly hard to resist, especially where sanctions from law enforcement agencies are largely absent. But more fundamental institutional and informational problems within the revenue collection system also exist, providing opportunities for bribery and mismanagement on the part of both government officials and private sector employees.

Revenue corruption – who and how?

Forestry companies – including concessionaires and industrial timber plantation companies – with a valid logging license, must pay fees to the government before they can log under their concession. The two main fees are the Dana Reboisasasi and Provisi Sumber Daya Hutan. The former is essentially a fund created for restoring forests, while the latter is a fund for providing government services in the forestry sector. The total fee for cutting trees is US$12.5 per m³. These forest revenues are classified as central government revenues, and must initially be paid to the Ministry of Finance. Later, they are distributed back to local governments and to the MoFOR.

District level

Under the current payment system, local governments – through the district forestry service unit (DFSU) – have the primary responsibility for collecting forest revenues. They have information on the planned and actual logging conducted by each forestry company within their jurisdiction. They also have the power to issue payment documents and to control this payment. Finally, they have the authority to examine the consistency of wood produced by a forestry company and the amount paid in fees.

These cash payments must go directly to bank accounts owned by the MoFOR. There are three main opportunities for bribery here, however. First, the DFSU can allow certain amounts of logs to go unreported so that forestry companies do not have to pay fees. This corrupt practice is very costly to the forestry company, however, since it must then also bribe all government and law enforcement officers involved in the wood's movement from forest to market. Second, the DFSU may take bribes for allowing companies to plan more logging than their concessions allow. This practice allows forestry companies to incorporate illegal logs they collect or buy in their wood production reports. Third, the DFSU can work with bank officials to endorse false payment documents as if the forestry company had made payments. A key weakness here is that the current payment system does not provide solid sanctions for improper payment, while it is also difficult to track payments for each individual forestry company.

Provincial level

A second level of corruption takes place in the Provincial Forestry Services Unit (PFSU). PFSU officers control annual wood production plans by forestry companies with valid logging licenses. They can approve annual plans, however, only once the forestry companies pay their fees. With this power, they can examine all fee payment records, including evidence of transfers to accounts held by the MoFOR. Ideally, the PFSU should receive documents related to actual wood production and the payment of fees by all forestry companies from its DFSU colleagues. Unfortunately, however, under the current autonomous local government system, the DFSU is not subordinate to the PFSU. As a result, the former can potentially ignore the latter's requests without sanction, including where there is an obligation to provide documents related to forestry companies.

Bribes worth more than a billion Rupiah (or about

US$100,000) per year, can lead the PFSU to approve a company's annual plans without proper control of its fee payments or the amount of logs to be cut. An annual plan approved in this way will typically indicate much higher annual wood production than that under a sustainable forest logging operation. This is used by forestry companies to include illegal logs in wood production reports as if they were from legal logging concessions. This form of 'wood-laundering' has been practised by forestry companies in other parts of Indonesia for many years.

National level

A third level of corruption in forest revenues can take place within the MoFOR. Acting as a 'deputy' to the Ministry of Finance, the MoFOR controls the bank accounts where forestry fees are deposited by forestry companies. As an institution, the MoFOR also has information on both the planned and actual production of wood by certain forestry companies – namely forestry concessionaires and industrial timber plantation companies. These companies are controlled by the MoFOR and are major producers of wood in Indonesia, accounting for more than 50% of total annual national wood production, amounting to around 40 million m^3.

In addition to this information, the MoFOR should also receive documents related to the payment of forestry fees from both the DFSU and PFSU. These documents are not necessarily received by the MoFOR, however. When they are received, they may still not include the required level of detail on each forestry company. Since neither the DFSU nor PFSU is subordinate to the MoFOR, both forestry units can ignore the Ministry's requests for information without sanction. The MoFOR has no system in place capable of quickly revealing information on the detailed payments of forestry companies. Were this information available, it could contribute to more effective control of these payments. The MoFOR does, on the other hand, have detailed information on actual wood production. Bribes paid by forestry companies can, however, prevent MoFOR officials from examining these payments for wood produced.

The MoFOR can also use forestry fees deposited at its bank accounts in a corrupt manner. Since the Ministry of Finance allows these fees to be kept for a week, Ministry officials have the opportunity to use these funds in overnight financial markets. In collusion with officials at the banks where the fees are deposited, MoFOR officials can provide overnight loans to financial markets and earn significant amounts of interest. This interest will go unreported to the Ministry of Finance and may be used for personal and institutional purposes by those at the MoFOR with control of the accounts. There are no economic or managerial reasons to keep the fees for a week in the MoFOR's accounts. Indeed, forestry companies could simply pay these fees directly to the bank accounts of the Ministry of Finance and allow the MoFOR to monitor each fee payment via a proper accounting system.

Finally, corruption can also involve the Ministry of Finance itself. Corruption at this level is not related to the payment of forestry fees, but rather to the repayment or distribution of forest revenues back to the MoFOR, the provincial government, and district governments – a process often referred to as 'profit sharing'. The Ministry of Finance receives transfer payments from the MoFOR every week for those payments deposited a week earlier. Since this is an aggregate payment without detailed information on each individual forestry company, it is impossible for the Ministry of Finance to control the payments' accuracy and adequacy. As a result, officials at the Ministry of Finance have little faith in the process of profit sharing led by their colleagues at the MoFOR. They are also aware that the MoFOR has no proper system to track payment of forestry fees from each company to each district government. Overall, the process of profit sharing is often very complicated and distribution commonly fails to occur in the year it should. Forest revenues collected in 2003, for example, were only distributed in 2007. Bribes are sometimes given to officers at the Ministry of Finance who control the budgeting for profit sharing to facilitate quicker access to forest revenues.

Key recommendations

Given the extent of opportunities for the corruption of forest revenues in Papua, it is not difficult to imagine that the revenues received by the Ministry of Finance, and reported by the MoFOR, the Papuan provincial government, and district governments, are significantly less than those expected. In 2004 and 2005, the government reported receiving only Rp.59.76 billion for the Dana Reboisasasi forest restoration fund and Rp.63 billion for the Provisi Sumber Daya Hutan forestry service fund. These amounts are only 26% and 80%, respectively, of the expected revenues for these funds. Similar results are evident for the further distribution of forest revenues, and there appears to be no association between the wood produced in Papua and the level of profit sharing to either the provincial government or to the relevant district governments.

If properly managed, forest products have the potential to provide financial resources to alleviate poverty in many regions of Indonesia. Given its abundant forest resources, Papua, in particular, does not need to borrow money to improve the welfare of its people. However, reforming its management of these resources – specifically, introducing accountability and transparency into the collection of forest revenues – is a key precondition for welfare improvements. The relationship between forest products actually produced and resulting government revenues must be clearly established if the proper financial resources are to be made available for poverty alleviation. The following are key recommendations for how the Indonesian government and donors can contribute to this aim.

Recommendations for Indonesian authorities

The Indonesian government – at national, provincial, and district level – should address corruption in forest revenues through specific changes to the current revenue management system:

- The Ministry of Finance should introduce a proper accounting system for the payment of forestry fees and produce an annual financial report that includes a forestry revenue report. The accounting and reporting system should be used and managed by the Ministry of Finance, the MoFOR, and the Provincial and District Forestry Sector Units.
- The Supreme Audit Board should verify the adequacy of this forest revenue accounting system and provide an audit opinion on the adequacy of forest revenues.
- Payments of forestry fees should be controlled by the Ministry of Finance, including direct payments of fees to bank accounts within the MoFOR. This practice is consistent with the law regarding non-tax government revenues.
- The Ministry of Finance should become actively involved in the control of wood production via its control of the payment of forestry fees.
- Law enforcement agencies (particularly the Indonesian Anti-Corruption Commission) should begin active investigations at all levels of the forest revenue management system. These investigations should begin with a review of government treasurers in the Ministries of Forestry and of Finance. In addition, government officers at provincial and district levels responsible for revenue collection should also be subject to investigation.

Recommendations for donors

Donor governments should support efforts by international actors (including the Center for International Forestry Research, CIFOR) and Indonesian players (such as the ELSDA Institute, an Indonesian NGO promoting sustainable economic busienss practices, and the Indonesian Working Group on Forest Finance), to implement an Integrated Law Enforcement Approach (ILEA) to the Indonesian forestry sector. Unlike other initiatives, this approach does not focus on controlling the movement of wood. Rather, it focuses on developing concrete indicators for deforestation, for the performance of forestry companies and forestry government officers, and for the money forests generate. The underlying motivation is to increase the accountability of forestry companies and government officers in terms of the powers given to them to manage Indonesia's forest wealth.

Specifically, donors should:

- Provide capacity building assistance for government agencies involved in implementing ILEA, including state auditors and accountants, as well as investigators from the Anti-Corruption Commission.
- Provide technology to government agencies and civil society actors involved in monitoring logging activities in remote forest areas, for example real time Geographic Information Systems.
- Provide technical assistance to government agencies for producing credible financial and timber production reports. ■

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Further reading

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