



Creating Prudent Banks and Sustainable Forest-Based Industries: The Anti-Money Laundering Approach

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Presentation for
The Future of Forests in East Asia and China: New Markets for
Ecosystem Services & Trends in Regional Forest Trade and Finance
Kuala Lumpur, Malaysia, October 7-8, 2004



Outline



- Banks and Forests
- Unsustainable Forest-Based Industries
- Financial Risk Related to the Forestry Sector
- Opportunities and Challenges with the AML regime
- Policy Recommendations



Banks and Forests



- The Driving Force behind the utilization of forest resources
- Local banks and international banks
- Prudent banks and high-risk forest based projects
- Opportunities and challenges with the AML regime



Unsustainable Timber-Based Industries

- Important contributions to the economy
- Threats to natural forests and livelihoods
- Timber revenues invested in non-timber businesses
- Breaking, Avoiding, and Bending Laws and Regulations
- Oil palm and mining industries in (protected) forest areas



Major Financial Risk for Banks

- Default risk
- Legal risk
- Reputation risk

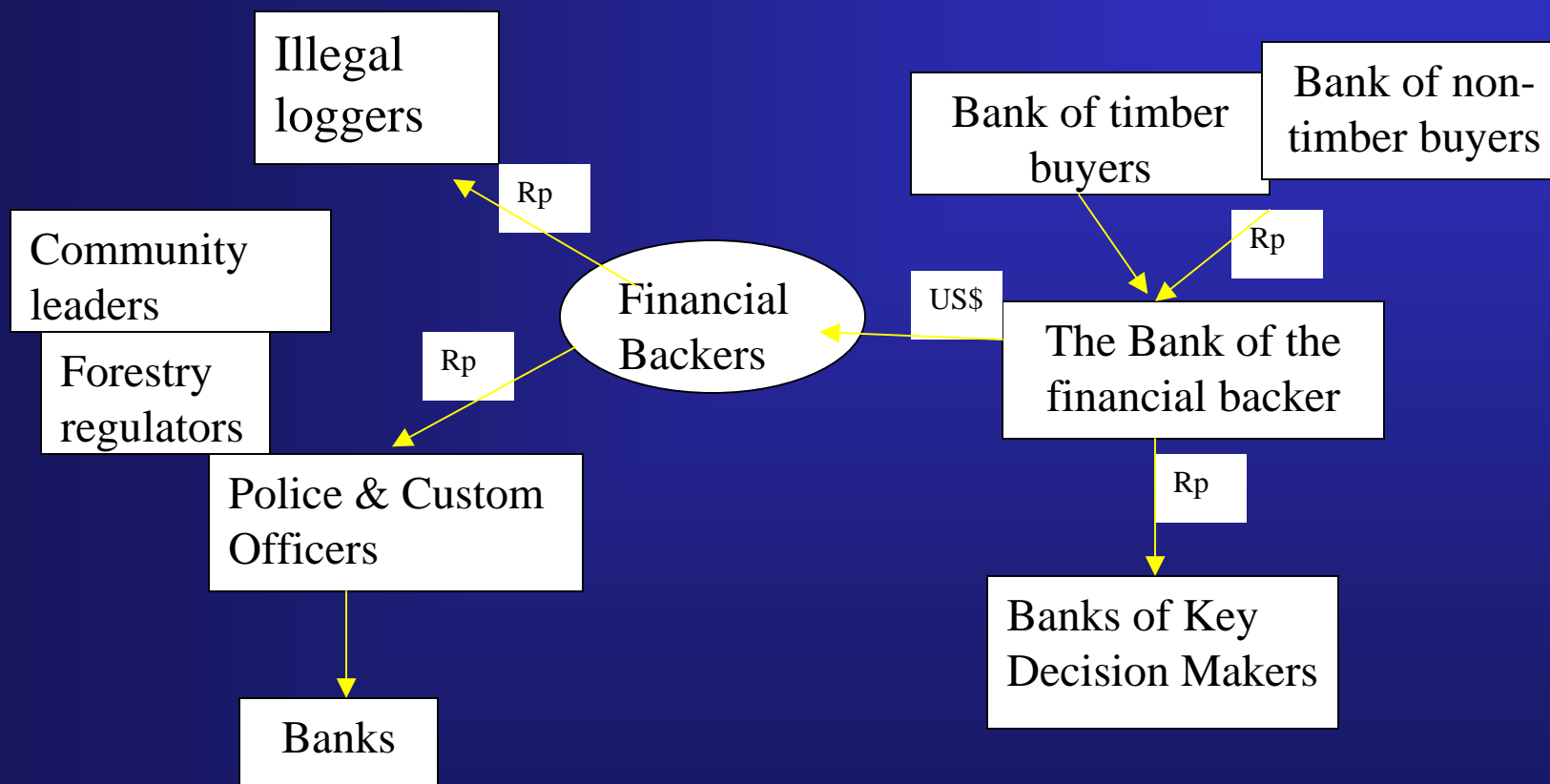


Sources of Financial Risk in the Forestry Sector

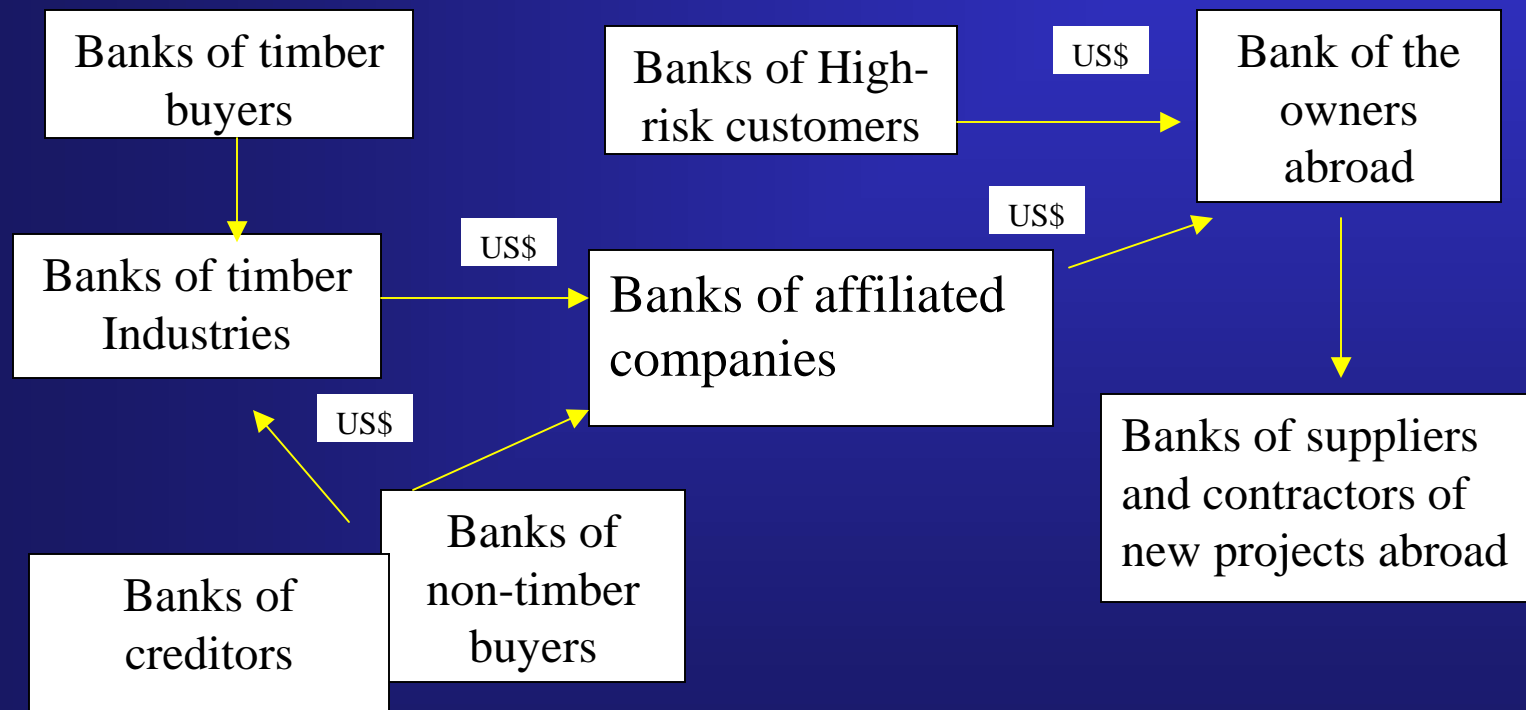


- Illegal logging, illegal log trade, and log smuggling
 - Financial backer
 - Bribery and Corruption
 - Lack of security for responsible individuals
- Conflicting Government Policies
- Politically Exposed Timber Industries
- Expansion of Timber Industries
- Transfer Pricing
- Creative Accounting Losses

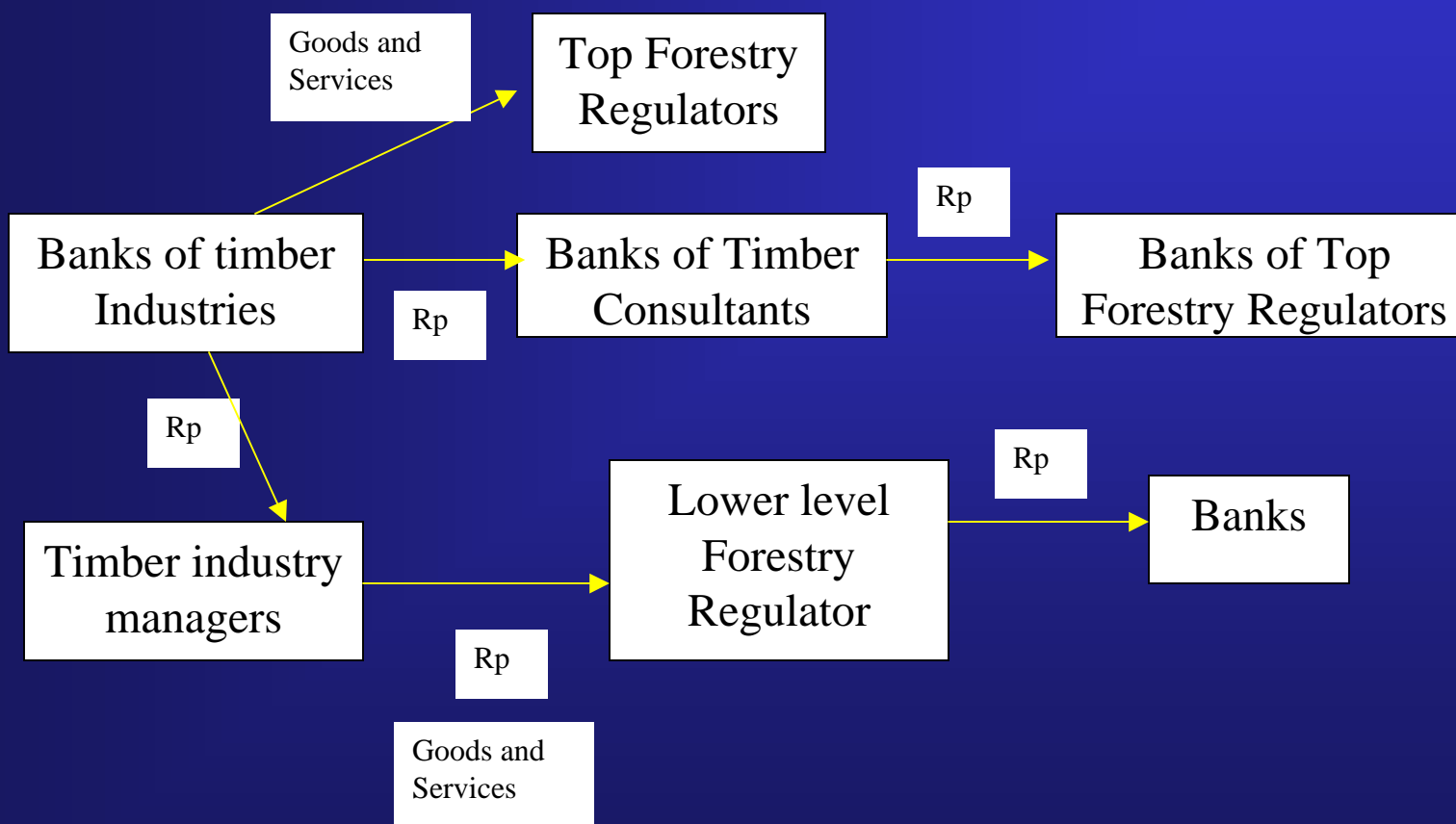
Typology I: Illegal logging & Corruption



Typology II: Transfer Pricing



Typology III: Corruption





Incentives to use the AML regime

- Not required to know of criminal conduct
 - KYC principles
 - High Risk Countries, Business, and Customers
 - STR
- Does not breach the bank secrecy law
- Information provided is intelligence information
 - A special protection program
 - Anti tipping-off



the Police's Role



- Access to financial information and analysis
- Freezing assets
- More types of legal evidence
- Current illegal logging cases under investigation



Policy Recommendations



- Banks should categorize forestry businesses as high-risk businesses
- Banks should create a List of High Risk Customers in the Forestry Sector
- Banks should report STR on customers reported by NGOs and the media as being implicated in forestry crimes
- The police should begin to investigate the financial backers of illegal logging, by using the AML law
- Using International AML regimes for curtailing forestry and environment crimes