

## Forests, financial services and customer due diligence

### Efforts to target illegality, money laundering and corruption in Indonesian forests

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#### Key points

- There is growing recognition of the importance of the finance sector to forest landscapes. A number of financial service providers (FSPs) are introducing diverse “green banking” and sustainable finance initiatives to help manage the environmental impacts of their investments and clients.
- Customer due diligence (CDD) protocols are important, if poorly recognized legal resources for emerging sustainability efforts among FSPs. The financial sector is increasingly pressed to ensure their investments and client services are legally compliant and unconnected to money laundering or corruption.
- Most countries already require FSPs to implement CDD protocols to target terrorism financing, the drug trade and political corruption. Similar protocols are needed for addressing forest-related crimes such as illegal logging, illegal agricultural expansion and illegal wildlife trade.
- Evidence from Indonesia highlights significant progress in strengthening of CDD standards, including those related to forests, and to challenges of operationalizing CDD protocols. Since 2003, only 19 formal reports linked to the forest sector have been issued.
- CDD protocols in the forest sector will require FSPs to use new tools and expertise in order to access, analyze and verify forest-related transactions. They will also require corresponding action from banking regulators and enforcement bodies.
- While promising strategies for targeting forest-related crime, there is a need to evaluate the feasibility of implementation, and the effectiveness of using CDD and other “green banking” strategies to strengthen forest governance.

#### Links between the forest and banking sectors

Illegal forest exploitation can be extremely profitable. High-value natural resources such as timber, wildlife and minerals can generate huge profits, while illegal deforestation is often driven by the illegal expansion of commercial agriculture, mining and development. Even in the context of mounting enforcement and restrictions, these opportunities represent significant financial incentives to falsify documents, encroach into protected areas, exceed harvest quotas, and evade taxes and fees. These incentives further fuel corruption, extortion and money laundering that represent leading challenges to environmental governance (Smith et al. 2003; Smith and Walpole 2005; Sodhi et al. 2010; Luttrell et al. 2011; UNODC 2012).

There is a growing focus on the role of financial service providers (FSPs) in promoting environmental sustainability within their investments and among their customers (e.g. EIA 2013; IFC 2014; Oxfam 2014; Van Gelder et al. 2014). Service providers and banking regulators in many countries are introducing a range of “green banking” and green finance

initiatives, including environmental safeguards to promote sustainable investments and preferential investments in “green” economic sectors such as renewable energy and sustainable forest management (GiZ 2013; AFD 2014; IFC 2014; Peraturan Bank Indonesia No 14/15/PBI/2012) While many of these sustainability initiatives are focused on voluntary practices, sustainability commitments among FSPs also ensure the legal compliance of their investments and clients’ transactions.

FSPs offer a range of financial services and products that place them in unique positions to help shape and supervise their clients’ behaviors. These include a range of CDD protocols related to international commitments to Anti-Money Laundering and Countering Financing of Terrorism (AML/CFT; see Box 1; Setiono 2005a; WB 2006). Most countries already require FSPs to implement CDD protocols to target terrorism financing, the drug trade and political corruption. Similar protocols are needed for addressing forest-related crimes, and specifically to detect money laundering associated with illegality in the forest sector (Goncalves et al. 2012; UNODC 2012; USA 2014).

**Box 1. Customer Due Diligence**

Most banks already have Customer Due Diligence (CDD) requirements in place (Kishore and Damania 2007). As part of the broader Know Your Customer (KYC) principles, CDD protocols are legislated by banking regulators in most countries and require FSPs to collect and monitor client data, including identities, employment, business affiliations, normal income flows and habitual financial transactions (Mugarura 2014). By identifying, verifying and monitoring their customers, banks can ensure their customers' transactions fit their expected habits and profiles. Where there are inconsistencies (usually detected through large transactions above usual amounts) banks can help to detect cases of money laundering. In these cases, banks are usually mandated to file suspicious transaction reports (STRs) with national financial intelligence units for further analysis, and possible investigation. Such CDD efforts have become mainstream in efforts to curb money laundering and illegal financing of terrorism, drug trafficking and political corruption (Mugarura 2014).

This Infobrief reflects on the Indonesian experience with CDD, drawing on CIFOR's early research on the role of banks in combating illegal logging,<sup>1</sup> a review of evolving Indonesian regulations on anti-money laundering and key informant interviews.<sup>2</sup> It considers related legal and practical opportunities and challenges associated with engaging CDD to strengthen forest governance as part of broader "green banking" and sustainable financing efforts.

**Intellectual actors of environmental crime**

Strengthened forest enforcement is often associated with the criminalization of small-scale local actors, who are often most visible and easily targeted through on-the-ground monitoring. This has sparked concern over the social and ethical dilemmas of increasing enforcement-based approaches to forest management, particularly where they affect poor communities that rely on forest resources (e.g. Downs 2013; Roe et al. 2014).

Many environmental violations and crimes involve other types of actors responsible for the financing, organization and corruption that enable many illegal activities (GW 2012; EIA 2014). These "intellectual actors" include outside investors and intermediaries that support illegal activities by hiring local actors to engage in illegal activities on their behalf (e.g. Christy 2010; Indonesian Supreme Court Verdict No. 1081K/Pid.Sus/2014). They also include politically exposed persons (PEPs), such as current and former politicians, forestry officials and influential people that exercise their political power to illegally access resources (FAO 2005; GW 2012; e.g. Indonesian Supreme Court Verdict No. 380K/Pid.Sus/2007).

1 2009 CIFOR Focus Group Discussion with the Foreign Bank Association in Indonesia (FBAI) and the Indonesian Forum of Bank Compliance Officers (FKDKP) to discuss money laundering related to illegal logging. This resulted in recommendations that banks use of GIS to cross-check forest sector clients, and request sector specific documents, which is now reflected in BI Regulation 14/27/2012.

2 Interviews with Indonesia's Financial Services Authority (OJK) Banking Research and Regulation Department and the OJK Department of Supervision and Crisis Management; the International Finance Corporation, and Indonesia's Financial Intelligence Unit (PPATK)

These types of actors often leverage considerable power, resources and networks and are geographically removed from sites of illegal activity, linked to them only through financial and market ties. These actors are thus often insulated from enforcement and prosecution (Goncalves et al. 2012; Cerutti et al. 2013; Downs 2013) although are the ones who arguably gain the most from illegal activities.

There is growing interest in targeting "intellectual actors" of environmental crime (e.g. Setiono 2005b; Goncalves et al. 2012; USA 2014). This represents a major motivation for considering financial flows within enforcement efforts, including anti-money laundering (AML) efforts associated with CDD. Evidence from other sectors highlights the potential for financial investigations – specifically of money laundering – to target perpetrators that could not have been reached through traditional investigations (e.g. organized crime, Browns 2013).

**FSP roles in money laundering**

The illegal acquisition of large sums of money – whether directly from illegal activities or from associated corruption and extortion – requires beneficiaries to manage their new assets. Funds are often deposited in financial institutions such as banks. These provide a range of financial services, including deposits, transfers, reinvestments and access to additional financing, which are instrumental in laundering the proceeds of criminal activity.

Banks and other FSPs allow beneficiaries to disguise illicit proceeds in a number of ways. Following deposits into the financial system, profits are usually layered – moved or converted through various transactions to distance the profits from their illegal origins. Profits are then integrated into the legitimate economy, allowing greater access. These transactions often involve third parties to conceal the identities of actual beneficiaries through shell companies and third-party ownership. Identifying these beneficial owners is particularly relevant to forest sector crimes perpetrated by PEPs seeking to disguise their identities.

**Anti-money laundering and CDD guidelines**

There are a number of initiatives and guidelines to help banks avoid, identify and report money laundering. The 1989 intergovernmental Financial Action Task Force (FATF) was created to guide and promote international and domestic policies to combat money laundering and prevent the financing of terrorism. The FATF defined PEPs to include policy makers and government officials that hold prominent public positions and authority, including permit-issuing and monitoring responsibilities, requiring banks to monitor their financial transactions (FATF 2012). The Basel Committee on Banking Supervision (2013) further developed best practice guidelines on how banks should manage the risks of money laundering and terrorism financing, and the Wolfsberg Group of Commercial Banks (2013) has further translated international recommendations into practical, voluntary standards for commercial banks.

Countries have also developed a number of domestic policies in order to align with international commitments and the FATF regularly reviews member countries for compliance, flagging high risk and non-cooperative jurisdictions (FATF 2014). The Asia Pacific Group on Money Laundering (APG-ML) uses a peer-review system to assess compliance with international standards, and future

**Table 1. Indonesian legislation linking anti-money laundering and CDD efforts to forests.**

Law/Regulation	Description
Law No. 8/2010 on Money Laundering	Law that criminalizes the act of money laundering describes the act of money laundering and punishment for the crime and provides a basis for the establishment of Indonesian FIU, Indonesian Financial Transaction Reports and Analysis Center (INTRAC/PPATK).
Law No. 21/2011 on Financial Services Authority	Law that provides establishment of financial services authority and describes its mandates, authorities and obligations.
Presidential Regulation No. 6/2012 on National Coordination Committee on Preventing and Eradicating Money Laundering	Implementing regulation for Law 8/2010 that mandates the establishment of a coordination team to prevent and combat money laundering. It details the institutions involved and their roles in the coordination team.
Bank of Indonesia Regulation No. 14/27/2012 on Anti-Money Laundering and Countering Terrorism Financing Program	Implementing regulation that specifies banks' obligations in preventing money laundering and terrorism financing through commercial banks. Obligations include: conducting customer due diligence, enhanced due diligence, risk-based assessment and cross-border correspondent banking, and politically exposed persons.
Bank of Indonesia Circular No. 15/21/2013 on Guidelines on Anti-Money Laundering and Countering Terrorism Financing Program	This circular explains the details on what, who, and how to conduct obligations specify in BI regulation No. 14/27/2012.

reviews will consider not only technical compliance, but also the effectiveness of AML/CFT in member countries (APG-ML 2014).

Indonesian efforts to tackle money laundering date back to 2001, with the issuance of a regulation on implementing Know Your Customer (KYC) principles.<sup>3</sup> This regulation obliges banks to create and monitor their customer profiles and issue suspicious transaction reports (STR) to banking regulators. In 2002, Indonesia enacted its first law on money laundering, and established the Indonesia Financial Transaction Reports and Analysis Center (*Pusat Pelaporan dan Analisis Transaksi Keuangan* – PPATK) to serve as the Indonesian Financial Intelligence Unit (FIU). The center is mandated to compile, store and analyze information on STRs reported by banks and to report instances of money laundering to law enforcement agencies. This law created exemptions from bank secrecy obligations when fulfilling duties in reporting STRs.

Efforts were strengthened in 2009 (and updated in 2012) through a regulation<sup>4</sup> that extended KYC principles to require banks to:

- compile lists of PEPs who are at high risk of carrying out money laundering
- identify beneficial owners that may be conducting transactions via third parties
- subject PEPs and beneficial owners to enhanced due diligence (EDD) procedures that go above and beyond standard KYC protocols
- collect additional details (e.g. recipient's identity and address, source of funds) on all banking transactions, including cross-border correspondent banking.

These strategies form part of a risk-based approach that requires increased monitoring for high-risk clients and transactions.<sup>5</sup> As

of 2014, all banking sector regulation and monitoring –including checking of bank compliance with CDD and EDD protocols – is the responsibility of the independent Financial Services Authority (*Otoritas Jasa Keuangan*, OJK).<sup>6</sup> Indonesia has also made efforts to strengthen cross-agency collaboration to tackle money laundering. The 2012 establishment of the National Coordination Committee on Prevention and Eradication of Money Laundering<sup>7</sup> brings 12 ministries and agencies together to coordinate policies and law enforcement on money laundering. The committee is a way of untangling complexities within bureaucracy in handling money-laundering cases.

## Tailoring CDD to forests

A handful of initiatives have specifically considered anti-money laundering and CDD efforts within the context of forest and environmental crimes. For example, the APG-ML (2008) links money laundering and illegal logging in their regional typologies report, and provides indicators related to the forest sector, to help member countries design more effective strategies.

Formally recognizing the links between environment and money laundering is an important step. If anti-money laundering laws and CDD protocols are pursued overseas in other jurisdictions, only the crimes that are identified as predicate crimes to money laundering (i.e. the crimes that produced the illegal funds) can be pursued through law enforcement. For example, Walters (2010) highlights that while some intellectual actors of forest-related crimes in Indonesia may be based in Hong Kong or Singapore, forest-related crimes are not predicate offences in those countries (see Sinaga et al. 2014).

However, there is a gradual integration of forest and environment-related crimes as predicate crimes to money laundering, including as formally recognized “transnational crimes”. The European Union has encouraged member states to list illegal logging as a crime

3 Bank of Indonesia Regulation Number 3/10/PBI/2001

4 Bank of Indonesia Regulation No. 11/28/2009 which was replaced by Bank of Indonesia Regulation No. 14/27/2012

5 The 2014 FATF evaluation report highlights Indonesia as a high-risk and non-cooperative jurisdiction because of the lack of comprehensive anti-terrorism legislation, although these findings do not reflect on bank CDD processes (FATF 2014).

6 Law No. 21/2011 on Financial Services Authority

7 Presidential Regulation No. 6/2012 on National Coordination Committee on Preventing and Eradicating Money Laundering

**Table 2. Official documents related to forests that can inform CDD protocols.**

<b>Economic activity</b>	<b>Permit documents</b>	<b>Responsible government authority*</b>
Forest timber concessions (HPHs)	Permit for natural forest timber (IUPHHK-HA) Permit for forest timber (IPHHK) Business work plans for forest timber use (RKUPHHK) Annual work plans (RKT) Copies of timber legality documents from a customer's timber suppliers (e.g. Letter of legalized forest products (SKSKB), Processed timber transportation invoices (FAKO, FAKB))	Minister of Forestry, Director General of Production Forests Management, Governor or District Head.
Industrial plantation forests (HTIs)	Use permit for plantation timber (IUPHHK-HTI) Use permit for forest timber (IPHHK) Business work plans for forest timber use (RKUPHHK) Annual work plans (RKT) Documents on pulp production capacity and wood supply contracts with timber companies or their affiliates	Minister of Forestry, Director General of Production Forests Management, Governor or District Head.
Ecosystem restoration	Use permit for plantation timber (IUPHHK-RE) Use permit for forest timber (IPHHK) Business work plans for forest timber use (RKUPHHK) Annual work plans (RKT) Documents on pulp production capacity and wood supply contracts with timber companies or their affiliates	Minister of Forestry, Director General of Production Forests Management, Director General of Natural Resources Conservation Agency (PKSDA), Governor or District Head.
Estate crops	Location permit (Izin Lokasi) Plantation business permit (IUP) Area release permit and business license (HGU) Timber-use permit (IPK) Documents on customers' plans to develop oil palm estates and the source of the land they plan to use	Director of National Land Agency (BPN), Governor, Mayor or District Head
Mining	Feasibility studies Environmental permit ( <i>formerly</i> impact assessment analyses, AMDAL) Mining business permit (IUP) Lease-for-use permit Timber use permit (IPK) Documents on customers' business development plans	Minister of Environment, Environmental Impact Management Agency Head, Minister of Forestry, District Head

\* The 2015 merger of the Ministries of Environment and Forests are likely to result in new delegation of responsibilities.

under their money laundering legislation (Marijnissen 2003). In 2003, Indonesia's anti-money laundering law<sup>8</sup> was revised to broadly include forest and environmental crimes, creating opportunities for law enforcement to pursue intellectual actors, as well as to seize the profits of illegal activities. In 2012, Indonesia's REDD+ Task Force drew on these provisions to catalyze strengthened collaboration among the Financial Investigation Unit (PPATK), Ministry of Forestry (now the Ministry of Environment and Forestry), Indonesian National Police and Attorney General Office.<sup>9</sup> As part of a "multi-door approach" to protect Indonesian forests, this collaboration has sought to pursue and process forest-related crimes using legal tools beyond those articulated in the Forest Code, including anti-corruption and anti-money laundering (Saturi 2012), and draws on cooperation from FSPs. It is not clear though how this approach monitors FSPs with CDD implementation or compliance in reporting STRs to PPATK.

This awareness has extended to the Indonesian financial sector. Current Indonesian CDD and EDD guidelines urge banks to use GIS analysis to verify clients' reported land concession areas, and require them to collect all related licensing documents, across land-based sectors (plantations, mining, timber concessions). The guidelines provide examples of forest sector businesses, naming some of the permits that should be collected. Table 2 presents a more comprehensive list of the supporting documents that banks should compile as part of CDD.

In order to comply with these types of regulations, FSPs require both legal clarity and access to information on permits, concession boundaries, work plans, quotas, etc. Some of the key government agencies in Indonesia, however, are not fully equipped to provide the private sector with prompt, clear and current information about environmental conditions and specific permits. Even so, FSPs can draw on evaluations of their clients sustainability based not only on government documents, but from third parties such as Indonesian Eco-labeling Institute, Forest Stewardship Council, and ground-up reporting from civil society and community groups. Reports from these actors can highlight infractions or high-risk individuals, investment and transactions. As such, additional regulations tailoring CDD process to forests need to be realistic to ensure they can be operationalized.

8 Law No. 25/2003 on Money Laundering Crime

9 The MOU was signed on 20 December 2014 by Minister of Forestry, Minister of Finance, Minister of Environment, Head of Attorney General Office, Chief of Indonesian National Police, and Head of Indonesian Financial Transaction Reports and Analysis Center.

Processes tailored to forest and the environment also require expended effort and expertise by the private sector, and regulations should also consider the perspectives, capacity and priorities of the implementing parties, to ensure their engagement and implementation (Gill and Taylor 2004; Rahman 2013). For example, banks must be able to process and analyze sector-specific documents, verify customer claims and report to financial monitors. Such investigation and reporting requires specialized knowledge of associated permitting systems, modalities of laundering, and appropriate monitoring tools, including technologies such as GIS to track illegal deforestation. Traditionally trained auditors may be unable to accommodate many of these requests. Moreover, there is a need to avoid a simple checklist approach to compliance and to ensure more detailed analysis of compliance (see Luttrell et al. 2011). Capacity building is needed to enable auditors to meaningfully engage with the standards they are expected to operationalize. Indonesia's OJK has already started to provide initial training about green banking standards to leading banks in the country.

## Evidence of CDD implementation in Indonesia

There is limited evidence of how banks in Indonesia are operationalizing CDD policies. While Indonesia's PPAATK has received 186,797 STRs from banks related to areas such as political corruption and fraud, between January 2003 and October 2014, it received only 19 STRs related to the forest sector (Table 3). Notably, a number of these were in 2014, when 10 forest-related STRs were reported along with seven STRs related to other sectors of the environment.

Moreover, different banks use different approaches and standards to CDD in their respective policies. It is possible to inspect for minimum standards, such as the existence of a compliance department and CDD internal regulation. However, it is much more difficult to monitor the robustness of CDD implementation. This is particularly true because of the considerable internal decision-making required to determine the thresholds of what constitutes a suspicious transaction.

The Indonesian banking sector has, however, informed several forest-related money laundering legal cases. For example, in 2006, the Papua province prosecutor charged Marthen Renuw, then a police commissioner in Maluku district, of taking bribes from companies involved in illegal logging. The prosecutor also charged Renuw with associated money laundering, and the banking sector was enlisted to provide evidence of suspicious transactions, which were detected, although Renuw was ultimately acquitted. In 2014, Labora Sitorus, a police officer based in Papua province, was indicted of gasoline smuggling, illegal logging and associated money laundering. The case was brought following a PPAATK analysis of a suspicious financial transaction involving USD 123,000. While the local court acquitted Sitorus of illegal logging and money laundering, the Supreme Court later convicted him of all charges.

These isolated cases indicate the potential for CDD to inform prosecutions and strengthen forest governance. In particular, these highlight links between PEPs, illegal activities on the ground and money laundering via FSPs. Moreover, the cases indicate the potential for using expanded legal recourses, beyond forest sector law for pursuing environmental crime.

**Table 3. Number of suspicious transaction reports (STRs) related to forests reported.\***

Year	Total STRs	Related to forest sector <sup>^</sup>
2003	410	–
2004	846	–
2005	1,217	–
2006	3,482	4
2007	5,831	5
2008	10,432	–
2009	23,520	6
2010	3,110	–
2011	20,222	3
2012	25,064	1
2013	38,406	0
<b>Total</b>	<b>132,540</b>	<b>19</b>

\* Aggregated from Indonesia's Financial Intelligence Unit (PPATK) annual reports of STR received from Financial Service Providers.

<sup>^</sup> Some forest sector reports, such as those related to crossover crimes, may be reported under other PPAATK categories, such as STRs related to "corruption" or "crimes with a minimum 4-year imprisonment punishment".

## Motivating FSP engagement and compliance

Widely operationalizing CDD around forests requires significant private sector buy-in, particularly because it represents additional burdens and is largely self-regulated (Gill and Taylor 2004). Banks rely on internal controls and discretion to determine what to report to regulators (Siminova 2011; Rahman 2013). Yet, there are clear conflicts of interests associated with FSP self-monitoring (Harvey and Lau 2008; Rahman 2013), which mirror broader debates about their abilities to self-regulate (e.g. related to risk-taking, financial reserves) (Verhage 2009). These concerns may be particularly acute in tropical developing countries where there remains great uncertainty over how banks will respond to increasing regulatory burdens and where the liabilities of noncompliance remain weak or uncertain (Rahman 2013).

Buy-in related to CDD processes relies on strong communication and coordination with the private sector (Verhage 2009). The UK experience, for example, has identified weaknesses related to poor communication between financial institutions, regulators and law enforcement agencies. Therefore, a continuous collaborative relationship between FIU, other legal enforcement agencies and the banking industry is vital (Rahman 2013). This includes communicating expectations and best practices, as well as risks and opportunities associated with CDD. For example, in some contexts, there are clear legal and financial risks associated with FSP noncompliance with CDD protocols (Siminova 2011).

However, there is no monitoring of CDD compliance among banks operating in Indonesia, and little evidence of related enforcement for failure to comply with CDD. Moreover, administrative fines in Indonesia for noncompliance are low, involving fines of USD 82 per day of an unreported STR or an updated customer profile, and a potential downgrading in the Central Bank's list of healthy banks. As such, the risks and impacts of noncompliance are easily overlooked. There is clear scope to engage banking regulators in strengthened monitoring and enforcement, both of general CDD protocols and specifically related to forests, "green banking" and sustainable

financing initiatives. Critically, this relies on strong interagency communication to provide intelligence and best practices across regulatory, monitoring and enforcement institutions (Siminova 2011). Such cooperation is important to generating the collective will to support and the transparency to shift sector standards and to implement measures that potentially target powerful political actors (Dermawan et al. 2011).

Reputational risks may also be strong motivators for increased private sector engagement with environmental sustainability and with CDD for forest-based clients (Siminova 2011; e.g. EIA 2013). Particularly large FSPs with significant international exposure are increasingly driven to consider the environment, as has occurred with large actors involved with key agricultural commodities (e.g. oil palm, beef, soy, pulpwood). Pressure may also grow with increasing

international competition in the financial sector and mounting scrutiny of high-risk sectors such as oil palm, coal mining and timber. However, while reputational risk may be important to some FSPs, it remains of low concern among most Indonesian national banks (PWC 2013).

International standards may prove to be a powerful driver, both within the private sector and among banking regulators (IFC 2014). FSPs are often motivated to comply with inconvenient regulatory demands in order to secure continued access to international markets. As with CDD in other sectors (e.g. terrorism finance, drugs), international standards may drive FSPs to adopt and implement CDD for the forest sector. The recent integration of an evaluative component into the APG-ML peer reviews may prove helpful in driving member countries to more actively operationalize their CDD commitments.

## Box 2. Glossary

**Beneficial owner:** The individual(s) on whose behalf a transaction is ultimately being conducted. This includes those persons who exercise ultimate effective control over a legal person or an arrangement.

**Cross-border correspondent banking:** The provision of banking services by one bank (the "correspondent bank") to another bank (the "respondent bank") overseas.

**Customer due diligence (CDD):** A protocol for verifying a customer's identity on the basis of documents, data or information obtained from reliable and independent source.

**Enhanced due diligence (EDD):** Additional steps of examination that builds on customer due diligence protocols.

**Financial Intelligence Unit (FIU):** A central, national agency responsible for receiving, (and as permitted, requesting), analyzing and disseminating disclosures of financial information to the competent authorities.

**Know your customer (KYC):** Broad industry standards related to customer due diligence among financial institutions.

**Otoritas Jasa Keuangan (OJK):** Indonesia's Financial Services Authority, established as an independent agency established in 2011 to monitor and oversee financial institutions' compliance and solvency, and which is authorized to make related regulations.

**Predicate crimes:** Crimes whose proceeds may become the subject of any of the money-laundering offences established under anti-money laundering laws

**Politically exposed persons (PEP):** Individuals who are or have been entrusted with prominent public functions, for example heads of state or of government, senior politicians, senior government, judicial or military officials, senior executives of state owned corporations, important political party officials. The definition is not intended to cover middle ranking or more junior individuals in the foregoing categories.

**Pusat Pelaporan dan Analisis Transaksi Keuangan (PPATK):** Indonesia's Financial Intelligence Unit responsible for compiling, storing and analyzing information on STRs reported by banks, and to report indications of money laundering to law enforcement.

**Suspicious transaction reports (STR):** Financial transactions with reasonable grounds to be suspected to have relations to money laundering offence.

**Transnational crimes:** Crimes that have effects across national borders, or that are intra-state but offend fundamental values of the international community

## Conclusion

The emergence of sustainable financing and "green banking" among FSPs represents important developments for the forest sector. Many of these reflect voluntary, private sector commitments in parallel with broader pledges to environmentally sustainable business models (e.g. "zero deforestation" sourcing of oil palm, pulpwood, soybean, beef).

Strengthened compliance with environmental legislation and cooperation with AML and anti-corruption efforts is an important pillar of FSPs' sustainability efforts and valuable parallel governance mechanisms to complement voluntary commitments and market-based mechanisms. Perpetrators of forest-related crimes often rely on FSP to manage their assets and disguise their roles in illegal activities, and the onus is increasingly on FSPs to monitor their clients via CDD protocols.

However, these additional sustainability commitments require

- clear regulations
- accessible data
- an informed and engaged private sector
- unambiguous monitoring and enforcement from banking regulators.

Indonesia's Financial Services Authority is adopting a phased approach involving graduated implementation of green banking principles as part of a broader road map. An approach that builds capacity, buy-in and the meaningful application of basic requirements may be more effective than adoption of a long list of additional rules.

Indeed, while countries such as Indonesia have increasingly strong legal regulatory frameworks for dealing with CDD (including specific regulations related environment and forests), there remains a lack of evidence of their full implementation. There is a need to further engage FSPs, including international, national and regional actors, sector regulators and related enforcement bodies to understand how they perceive and operationalize CDD protocols as part of broader sustainability initiatives. This will also be important to evaluating the effectiveness and costs of new interventions (Looney 2012).

These insights, many specific to Indonesia, are likely to be representative of the types of issues faced by FSPs in many

other contexts. Early evidence suggests that “green banking”, sustainable financing and environmental standards are gaining traction in a number of Southeast Asian countries and at prominent international forums (IFC 2014). There is a need to ensure these initiatives include not only voluntary commitments to sustainability, but regulatory elements – such as CDD – to ensure compliance through monitoring and enforcement. Effectively leveraged, these strategies can build sustainability into the financial services sector by helping to target forest-related crimes and the intellectual actors that often avoid responsibility for them.

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