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Conflict Timber: Dimensions of the Problem in Asia and Africa

Volume III

African Cases

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ACRONYMS AND ABBREVIATIONS

General

CIA	Central Intelligence Agency
CIFOR	Center for International Forestry Research
CITES	Convention on International Trade in Endangered Species
FAO	Food and Agriculture Organization of the United Nations
FOB	Free on Board
GDP	Gross Domestic Product
GEF	Global Environment Facility
GFW	Global Forest Watch
ha	hectares
HIV/AIDS	Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome
IBC	International Business Company
IMF	International Monetary Fund
IRIN	UN Integrated Regional Information Networks
IRM	Integrated Resource Management
ITTO	International Tropical Timber Organization
km^2	square kilometers
m^3	cubic meters
MT	metric tons
NGO	Nongovernmental Organization
OECD	Organization for Economic Cooperation and Development
OTI	Office of Transition Initiatives
PVO	Private Voluntary Organization
RIL	Reduced Impact Logging
RSA	Republic of South Africa
SADC	Southern African Development Community
TI	Transparency International
UAE	United Arab Emirates
UN	United Nations
UNCED	United Nations Conference on Environment and Development
UNEP	United Nations Environment Program
UNICEF	United Nations International Children's Emergency Fund
USAID	United States Agency for International Development

Democratic Republic of the Congo

ADF	Allied Democratic Forces (Ugandan insurgents)
ADFL	Alliance of Democratic Forces for the Liberalization of the Congo
ANR	*Agence National de Renseignements*
APNAC	African Parliamentarians Network against Corruption
BCD	*Banque de Commerce et de Développement*
CARPE	Central African Regional Program for the Environment
CENADEP	*Centre National d'Appui au Développement et à la Participation Populaire*
COSLEG	joint venture between Operation for Sovereign Legitimacy (Osleg) from Zimbabwe and Comiex-Congo from the Congo
DRC	Democratic Republic of the Congo
FATF	Financial Action Task Force on Money Laundering
FAZ	*Forces Armées Zaïroises* (Armed Forces of Zaire)

FDD	*Forces de Defense pour la Democratie* (armed rebel group in Burundi)
FNL	*Forces Nationales de Liberation* (armed rebel group in Burundi)
GOC	Government of the Congo
IPF	Intergovernmental Panel on Forests
IPIS	International Peace Information Service
IRC	International Rescue Committee
K/ML	*Kisangani/Mouvement de Libération* (RCD Liberation Movement)
LRA	Lord's Resistance Army (armed rebel group in Uganda)
MLC	Movement for the Liberation of the Congo
MONUC	United Nations Observer Mission in the Democratic Republic of the Congo
NFMP	National Forestry Master Plan
OCC	*Office Congolais de Contrôle*
OFIDA	*Office des Douanes et Accises* (Customs Department)
OGEFREM	*Office de Gestion du Fret Maritime* (National Office for Freight Shipments)
ONATRA	*Office National de Transport*
RCD	*Rassemblement Congolais pour la Démocratie* (Congolese Rally for Democracy)
RPF	Rwandan Patriotic Front
SABENA	*Societe Anonym Belge d'Exploitation de la Navigation Aerienne* (Belgian airline)
SOCEBO	*Société congolaise d'exploitation du bois* (subsidiary of COSLEG)
SPIAF	*Service Permanent d'Inventaire et d'Amenagement Forestier* (key institution in the DRC for remote sensing and GIS techniques)
UPDF	Uganda People's Defense Forces
ZDF	Zimbabwean Defense Forces

Gabon

BDG	*Bloc Démocratique Gabonais*
CEB	*Compagnie Equatoriale des Bois*
GoG	Government of Gabon
PDG	*Parti Démocratique Gabonais*
RNB/RPG	*Rassemblement National des Boucherons/Rassemble pour le Gabon*
SBL	*Société des Bois de Lastourville*
SHM	*Société de la Haute Mondah*
SNBG	*Société Nationale des Bois du Gabon*
UDSG	*Union Démocratique et Social Gabonaise*

Guinea

BIAG	*Banque International pour l'Afrique en Guinee*
BICIGUI	*Banque Internationale pour le Commerce et l'Industrie en Guinee*
BIG	*Banque Islamique de Guinee*
BPMG	*Banque Populaire Maroc-Guineenne*
DNEF	*Département National des Eaux et Forêts*
Rusal	Russian Aluminum
PDG	*Parti Democratique Guinéen* (PDG)
RUF	Revolutionary United Front
SGBG	*Societe Generale des Banques en Guinee*
UIBG	*Union Internationale de Banques en Guinee*

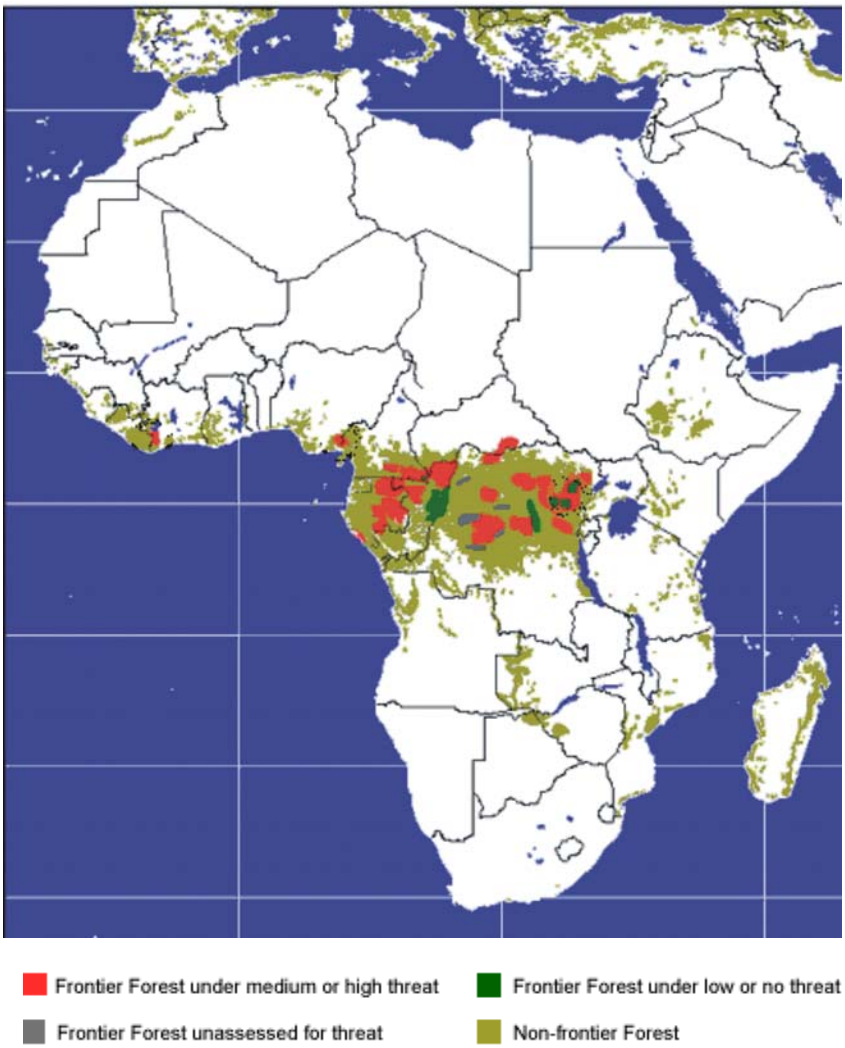
Liberia

ACS	American Colonization Company
OTC	Oriental Timber Company
RUF	Revolutionary United Front
SAMFU	Save My Future Foundations

Sierra Leone

MANRF	Ministry of Agriculture, Natural Resources and Forestry
RUF	Revolutionary United Front

Figure 1. Forest Resources in Africa



Source: World Resources Institute: Forest Frontiers Initiative

OVERVIEW OF CONFLICT TIMBER IN AFRICA

Conflict timber as defined in this study occurs in several settings in contemporary Africa. The Conflict Timber Study Team targeted two types of conflict timber incidents:

- Conflicts fueled by forest resources, and
- Conflicts emerging because of competition over forest resources.

This volume contains an in-depth study of conflict timber in the Democratic Republic of Congo (DRC) as well as shorter, comparative desk studies of conflict timber in several other countries—among them Liberia. The latter country is clearly the "poster child" of African conflict timber. The country's president, Charles Taylor, has authorized logging concessionaires to harvest timber which he has then exchanged with external partners to obtain the means of war—light arms, helicopter parts, etc. These transactions have involved both timber sales, typically of raw logs, as well as logs bartered directly in exchange for arms. The People's Republic of China (PRC) has been a prominent Liberian barter partner in the recent

past. Taylor has used the timber-based military resources he has acquired to maintain his power at home and to pursue wars against Liberia's immediate neighbors (Sierra Leone, Guinea and, most recently, the Ivory Coast).

Although the DRC has by far the largest remaining forest reserves in Africa, logging there might almost be characterized as *practically non-existent* when compared to deforestation rates in neighboring countries in the West and Central African forestry belt. A comparison of Figure 1 on the previous page and the bar graph that appears in the Appendix 2 of the DRC's Country Study (Figure A-2.2, "African Timber Exports by Country Since 1988") highlights the disparity. The recent civil war in the DRC goes a long way to explaining this curious state of affairs, where the country with the greatest forest reserves does the least logging.

Eleven main trends affecting conflict timber incidents can be identified in Africa:

(1) Major Type I incidents ("trees for conflict") currently occur only in Liberia and the DRC, a mere two countries out of Africa's total of 52 (or, in absolute numerical terms, in less than four percent of African polities). A brief glance at Figure 1 reveals why: fewer and fewer countries in contemporary Africa retain enough trees to motivate Type I incidents. Former major West African timber producers, e.g., Nigeria, Ghana and the Ivory Coast, have severely reduced their stocks over the course of the 20th century, clearing forests both to earn foreign exchange and to accommodate the spread of agriculture and tree crops (cocoa and coffee). Central African states such as Gabon, Cameroon and Congo/Brazzaville have likewise, in recent years, felled much of their standing timber (see DRC Country Study, Figure A-2.2, "African Timber Exports by Country Since 1988," in Appendix 2). Though much timber remains in Central Africa, those countries continue to authorize accelerated logging pressure on their natural forests. Existing and new forest plantations may, to some extent, pick up the slack but to *what* extent plantations can replace volumes of wood being harvested remains uncertain.

(2) No African country currently has the level of *installed domestic wood processing capacity* found in, for example, Indonesia (10,000,000 m³ per year at a minimum). That said, international demand for West and Central African tropical hardwoods nearly equals the Indonesian domestic demand. In 2001, the eight major timber-producing countries in the Central and West Africa forest belt exported in excess of nine million m³ in roundwood equivalent, up from 5.6 million m³ roundwood equivalent exported in 1988 (see DRC Country Study, Appendix 2, Figure A-2.2). All those countries lie in the coastal moist tropical forest belt that formerly stretched 4,000 miles from southern Senegal to Gabon and then across to eastern DRC. Along the Atlantic coast, the forest belt ran inland an average 200 miles for some 2,800 miles). Much of this forest has now been cleared, although substantial reserves remain, particularly in the DRC.

(3) Interestingly, *warfare conditions exerted demonstrably different effects in the two countries in the region currently most affected by warfare*, namely Liberia and the DRC. In the former, governance arrangements and the exigencies of warfare positively accelerated logging; in the latter, those same exigencies, played out with a different configuration of military forces across different (but still heavily forested) terrain *practically shut down logging* during the civil war in the last great reserve of tropical hardwood forests in Africa. This comparison implies that easy generalizations about conflict timber might be dangerously misleading. It also emphasizes the critical importance of case-by-case analyses in interpreting conflict timber incidents.

(4) In *neither Liberia nor the DRC did timber figure as the prime conflict commodity.* Indeed, timber was only one among several "lootable" conflict commodities that belligerents used to finance their military activities. President Charles Taylor of Liberia, in supporting the destabilizing civil wars in

neighboring states (Sierra Leone, Guinea and, most recently, the Ivory Coast), and in prosecuting several civil wars at home against Liberian insurgents, has relied at least as heavily on other conflict commodities, e.g., diamonds and gold, as on the timber resources available in Liberia and neighboring countries.

(5) In countries where conflict fueled by timber currently occurs or might occur, governance can be fairly qualified as "of poor quality." Liberia and the DRC have respectively either recently suffered or are currently undergoing civil wars. These kinds of situations typically reveal weak, if not outright failed states (for fuller discussion see Section 1.1.3, Box 1, "The DRC: A Failed State?"). Such situations are also typically chaotic, and offer selected actors in the military and government (to say nothing of well-connected private sector firms) numerous opportunities to plunder timber, among other resources, as a means to finance their conflicts. The "commodity" characteristics of timber—great bulk, difficulties in transporting and concealing and, compared to gold, coltan and diamonds, relatively low weight-to-value ratio—discourage the use of trees as conflict commodities *in situations where more attractive alternatives exist.*

(6) Of significance concerning the use of conflict commodities (conflict timber included) in financing warfare in Africa, is the existence of a "parallel world" of *unregulated financial institutions*. These institutions enable individuals who engage in looting conflict commodities to spirit the assets they acquire out of the country without leaving any paper trail. Those same financial arrangements enable looters to squirrel away ill-gotten gains in unidentifiable bank accounts and other safe havens abroad. They can also use those same arrangements to launder money from illicit or conflict commodity sources.

(7) Many African countries, because of their very lack of forest resources, appear far more vulnerable in the future to conflicts emerging from competition over forest resources. These tend to be relatively localized events, however, and are not much reported. Furthermore, to date such incidents have not accumulated to the point where they pose insurmountable problems for either populations or states. When timber becomes scarce enough, people take measures to supply themselves with the fuel wood and construction poles necessary to sustain their existence, either through planting tree seeds or seedlings, or by protecting natural regeneration.

(8) African hardwoods, taken together, are a commodity for which strong demand exists. An overview of international markets and trends in the demand for wood fiber is presented below in Appendix 2 (Section A.-2.1, "Global Demand for Wood Fiber") of the DRC country study. The international markets have been rising over the past decade, and indications are that the trend will continue over the foreseeable future, driven as it is both by population growth and increasing wealth.

(9) A caveat, based on the example of *Arabica coffee,* should perhaps be noted here: if development specialists successfully recommend Arabica coffee production schemes in too many places, it is relatively easy to glut that market niche, leaving producers with little to show for their efforts. It will take careful planning and coordination to improve significantly the payoff for investment in regenerating tropical hardwood supplies in a number of countries in Africa and elsewhere in the world. Given the projected global demand, such investments should prove generally worthwhile, but overproduction, particularly from remaining natural forests, could cause the market, or some market segments, to weaken. That said, growing trees offer the advantage that they do not necessarily have to be harvested at a set date to protect the investment. Trees can usually be left standing "for several more years," although past a certain point economic returns will decline because growth slows as trees age.

(10) The DRC's recently revised forest code takes the appropriate approach to the broad issues of forest resources, particularly timber. That code views timber resources as potentially "an expanding pie," that can generate impressive crosscutting environmental, political, social, economic benefits and multiplier effects.

(11) The key to controlling conflict timber incidents in Africa, particularly Type I incidents is, quite simply, better governance. Without better governance practices, and the ability to control and regulate demand for timber and so bring harvesting rates into line with production capacity, the outcome over the medium terms seems pretty clear, and pretty negative. Overcutting of forests seems likely in countries without strong, equitable governance. Such forests become *open-access goods,* subject to free-for-all harvesting regimes that will, predictably, kill the goose that now lays the golden egg. This is particularly unfortunate because properly governed, well-managed forests could go on producing valuable timber for years and even centuries.

Executive Summary

Investigations underlying this report were guided by three key concepts: *commodity characteristics of timber*, *characteristics of markets for timbe*r and *characteristics of governance systems* in countries where conflict timber incidents occur. Timber, particularly high-end tropical hardwood species such as mahogany and *wenge* (*Miletia larentii*, an extremely dense hardwood with beautiful grain), command very high prices in today's markets. A cubic meter of many African hardwood species will fetch Free on Board (FOB) prices ranging between US $200 and US $400 or even more, and processed wood—cants (logs squared up by four longitudinal cuts), planks, veneer, parquet strips and furniture—command correspondingly more (up to $1,000 per m³ for *wenge*; see DRC country study, Table 3.1, "A Comparison of Value-added Processing for Selected Species in the DRC" [table currency figures in Euros; increase by roughly 10% for US dollar equivalents at June 2003 rates). Demand for tropical timber has firmed and will probably continue to increase as the last major forests, e.g., Indonesia and Amazonian Brazil in addition to the DRC, come, or remain, under intensive logging pressure.

Commodity Characteristics

A relevant commodity characteristic of African timber (in addition to weight-to-value ratios, accessibility, transportability and concealability) is the biological context in which it grows. Most African forests are of mixed composition, combining high-value species with others of much lower value. Such forests cannot be economically *clear cut* (felling all stems in one operation). Instead, they have to be cut selectively, or *high graded* (i.e., valuable species identified, individually felled, extracted from the forest and moved to market). The implication of this biological characteristic is lesser environmental damage from logging operations than generally occurs where clear felling is an *economically* feasible logging strategy because all tree species are of sufficient value that their sale prices will cover costs of felling and transporting to market.

Market Characteristics

Market characteristics, as the term is used in this study, involve the number of uses to which a product can be put. Most tropical woods can serve a variety of uses. Demand for African timber might be described as "bifurcated" into domestic and international demand. Domestic demand consists of traditional uses, e.g., fuel for cooking (and for heating in some settings), and poles and wood for construction. In countries such as the DRC, where a domestic wood-processing industry has been established, in-country demand for wood stocks that can be transformed into furniture, veneers, etc., constitutes another important element of domestic demand. Export or international demand is both intense

and far more lucrative than is domestic demand in most African countries, as consumers in North America, Europe and more developed countries in Asia seek products that incorporate tropical hardwoods. By and large, in the African countries examined in this volume, only export demand is lucrative enough to motivate conflict timber incidents. That demand is powerful enough, however, to motivate extremely extensive felling of timber in most of the forests remaining in West and Central Africa. The current exception, for reasons set out below, are the huge tropical forests still found in the DRC.

Governance Characteristics

Governance characteristics exert a striking influence over conflict timber incidents in Africa, as they do in Asia. Among these are the degree of rule of law and the existence and efficacy of other mechanisms for citizen recourse that encourage or build on transparency concerning official actions, accountability of officials to those they represent or are meant to serve, and the degree to which security forces—police, military and rebel groups—are subject to government controls.

All countries surveyed exhibited very lax controls over financial transactions. This applies to funds derived from timber sales as well as from *conflict diamonds, conflict gold and conflict coltan* (coltan is the rare mineral found in surface deposits in the eastern DRC and is an essential component of cell phone technology). As the DRC country study and the four desk studies demonstrate, a variety of actors use a variety of mechanisms to move money out of all countries surveyed. These means include money transfer shops, public and private banks, bulk cash smuggling and the like. None of these institutions make any concerted effort to:

- Identify their customers;
- Identify the beneficial owners of accounts;
- Determine the source of money—often cash—involved in large transactions; or
- Keep records of transactions that move money either domestically or out of the country to other destinations.

From the point of view of those potentially involved in conflict timber incidents, the facility with which money from any source, licit or illicit, can be moved beyond the country's borders and securely invested or banked constitutes a standing temptation to obtain money from any source. This is, to say the least, disturbing in the sense that most powerful individuals in the country (private sector, government and security forces) know that they can build up private holdings without fear of being detected or having to surrender any ill-gotten gains. In addition, money can be easily laundered where controls are as lax as in most African (and Asian) countries.

A word is in order about "failed states," i.e., states that lack the power to exert control over their own territories. President Charles Taylor of Liberia, a sometime West African warlord, has used timber as a means to finance conflict. Timber is not the only commodity that has played a prominent role in this equation; gold and diamonds plundered both in Liberia and in neighboring Sierra Leone and Guinea have also contributed heavily to the mayhem in those states, both of which have suffered years of political troubles and internal rebellions or civil wars.

The DRC has been involved, since 1996, in a civil war that has caused, directly and indirectly, the deaths of a minimum of three million and a maximum of five million people. Here again, conflict timber was *not* the main motivation that precipitated the conflict. On the other hand, it was one important commodity in a basket of plunderables that included gold, alluvial diamonds, coltan, cash, livestock and cars. Security concerns of the governments of Rwanda and Uganda were another important causal factor underlying this

conflict. Rebels from both countries sheltered in the forests of eastern DRC and launched periodic guerrilla attacks against their home countries. The inability of President Mobutu, who headed Zaire, the DRC predecessor state, to control these rebel movements encouraged the attacks that eventually toppled his regime.

Finally, a word about conflict in regard to forest resources; the DRC still has some of the richest forests remaining on the face of the earth. Despite strong interests on the part of the DRC government and invading armies in converting standing timber into the means to finance warfare, it did not happen. Why? In large part, the fortunes of war explain this outcome. Most of the heavily forested parts of the DRC fell under control of rebel forces, while the government retained control of the major functioning export markets. In consequence, it became impossible for government-licensed logging concessionaires to operate in government territory. Both rebel groups and invading armies lacked the means to engage in extensive logging *and* move the product to market. They could not move much felled wood to market because of the DRC's dilapidated domestic transportation infrastructure. This example strongly suggests the importance of control of terrain and of the geographic links between forests and timber markets in determining whether conflict will or will not promote logging. Taylor's Liberia illustrates the converse situation: during much of his presidency he was able to control forests in Liberia and, to some extent, in neighboring Sierra Leone. He promptly seized the opportunity to exchange trees for weapons, i.e., he repeatedly financed conflict with forest resources.

A final factor of importance moderates logging in many West African countries, but particularly in the DRC. No governments have authorized creation of major pulp and paper mills or large-scale plywood plants. These kinds of operations can prove disastrous for domestic forests because of their voracious appetite for wood supplies. By contrast with the island of Sumatra in Indonesia, where three pulp and paper mills require an annual ten million m^3 of wood to operate economically, with resulting devastation on the island's natural forests, African countries face that kind of demand only in the export market. The bar chart of West and Central African timber exports in Appendix 2 of the DRC Country Study (Figure A-2.2) gives a sense of the level of that demand.

Conflict Timber: Dimensions of the Problem in Asia and Africa

DR Congo

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1.0 EXECUTIVE SUMMARY

1.1 Summary of Analysis

The Democratic Republic of Congo (DRC) has the largest intact forests in all of Africa. Those forests have been very little logged over the past decade, and this despite a timber concession the size of Great Britain allocated to a joint Zimbabwean/Congolese logging company. By contrast, forests elsewhere in Central and West Africa have been felled at the rate of millions of cubic meters (m^3) of wood yearly since at least 1988.

Why have the DRC forests been spared? The answer lies in conflict, specifically, in the civil war that has convulsed the DRC since 1996 and continues today (though in much diminished form). The human and economic costs of the DRC's eight-year-long civil war qualify as *depressing.* Reasonable estimates of the war-related death toll in eastern DRC range as high as 5,000,000. Even conservative estimates suggest a toll in excess of 3,000,000.

Relatively few of these deaths can be tied directly to conflict timber incidents as most were occasioned by disease and starvation. Yet timber has played some role, along with other, more easily plunderable conflict commodities such as gold, diamonds and coltan, in encouraging forces involved in the civil war to join the battle. Security concerns of a number of states (particularly Rwanda and Uganda) have also motivated participation in the DRC civil war. As far as economic costs are concerned, the situation can be succinctly summarized: *the DRC's economy is moribund*.

Viewed in the specific perspective of the DRC's forests, war imposed a very effective logging ban. Insecurity prevailed in those parts of the country with the richest forest resources, putting a virtual end to commercial logging from 1996 to early 2003. DRC government, rebel and invading forces have all felled and marketed some trees in efforts to defray the costs of their military efforts. But the overall impact of logging on the environment and on the country's forests has been moderate. This situation reflects as well the dilapidated state of the DRC's road network, and the fact that rebel forces were able to interdict transportation on the country's major river, the Congo. This made it difficult (though not impossible for some parties) to move felled timber to markets.

Viewed from this perspective, peace, though much desired by most Central African residents for all the usual reasons, may signal the beginning of a sustained assault on the continent's last great timber reserves. If the ongoing peace process ends successfully with reconciliation of the warring parties, it will restore security throughout the DRC. In anticipation of renewed timber flows, wood buyers have reappeared in Kinshasa, the DRC's capital on the Congo River. Kinshasa is both the locus of much of the domestic wood-processing industry as well as the terminus for wood shipments rafted or barged down the country's river network, recently reopened to transport as peace talks advanced.

Secure conditions will enable DRC domestic logging firms to restart their operations *if* they can recapitalize. Many lost equipment during the war, and a large number had to close altogether because they could not operate in their concessions, located in the forest-rich war zone. Yet interest rates are now so high that most companies will be unable to afford loans to finance recapitalization. Only those with assured sources of financing will be in position to start working again.

Under these conditions, one of the more worrisome aspects of peace in the DRC is the prospect that international logging firms—one of which operated in eastern DRC under questionable conditions until it was forced by the war to terminate its logging activities—will return to the country. These firms are well capitalized, as witnessed by the half million dollar bribe reportedly offered by a Malaysian lumber company to the DRC's timber allocation unit to obtain logging concessions. The DRC's unenviable reputation as one of the world's most corrupt countries in fact discourages honest logging companies from operating in the country because they recognize that they will be competing against a set of companies accustomed to operating in highly corrupt environments. Forestry sector firms seeking to do business honestly will likely find it very difficult to compete with companies seeking to achieve profits by any means possible.

Many of these less savory logging companies have participated in logging in Indonesia and in Brazil, where they have not earned themselves reputations as careful stewards of the environment. But, in the DRC, allowing such firms to operate could be seen as a reasonable way to restart the country's moribund economy. Logging creates jobs, as does wood processing and transport. Wood exports will also bring in needed foreign exchange.

The danger now hovering over the DRC's forests is weak governance, that is, the likelihood that the state will be unable to regulate access to forest resources effectively and, once concessions are allocated, control harvesting within them to ensure that concession boundaries are respected, etc. If the state proves unable or unwilling to control domestic and expatriate logging concessionaires, this may signal the start of a logging boom that could rapidly decimate the country's wood resources. This could, in turn, unleash a wave of negative environmental consequences.

In addition, weak governance facilitates corruption in the DRC. As detailed in Section 7.0 and Appendix 4, "Economic Governance," below, financial transactions in the country are subject to no meaningful controls. Those who can acquire funds can move them out of the country to safe havens abroad with little risk of detection. Such financial arrangements act as a standing incentive for people to seek illicit gains, including in the forestry sector.

This report analyzes conflict timber in the DRC. As defined here, conflict timber occurs in two situations:

- Combatants harvest and sell or barter trees (and other forest resources) to obtain weapons and other means of war (conflict fueled by forest resources); and
- Timber harvesting proceeds in ways that lead to competition among forest user groups over remaining forest resources, which ends in conflict (conflict over forest resources).

In cases where conflict is fueled by timber, timber can be viewed as a *conflict commodity*, comparable to gold, diamonds and other commodities that can be plundered and sold for cash to finance acquisition of the means of war (or bartered towards the same end).

The DRC retains very sizeable tropical timber resources. Recent global trends involve rapid, unsustainable exploitation of tropical timber in Indonesia and Brazil, the world's two other main source countries, as well as in many other African states with important forest timber stocks (See Appendix 2, Figure A-2.2, "African Timber Exports by Country Since 1988"). Yet the DRC has barely participated in this vibrant, worldwide timber trade.

Given the strong and growing worldwide demand for valuable tropical woods (free on board [FOB] prices for high-end tropical hardwoods run from \$200-\$1,200 per m^3), the situation in the DRC appears at first

blush counterintuitive. Moreover, many informed observers of "Africa's First World War"—the conflict that has wracked the DRC for much of the past eight years—view that war as resulting from a scramble to loot valuable resources. Yet, as noted, warring parties have largely spared standing stocks of timber throughout most of the DRC. Why?

The answer lies in the fact that tropical timber was never the most important conflict commodity in fighting in the DRC. This follows from:

- Its characteristics as a commodity;
- The restricted market for wood in the country, strongly constrained by a dilapidated transportation infrastructure; and
- Serious governance challenges in both political and financial sectors.

Together, these factors make tropical timber less attractive as a conflict commodity than, say, gold, diamonds and coltan,[1] which are all abundant in eastern DRC, easier to extract through small-scale artisan operations, easier to transport and market, and have higher weight-to-value ratios on international markets. One might add that cars, cash, cattle and coffee beans all proved more attractive to the belligerents in eastern DRC than did timber, and for precisely the same reasons. It was far easier to plunder and move those commodities to market than to do the same with timber.

On the other hand, timber has clearly produced financial resources for some of the warring parties, including the Government of the Congo (GOC). Forests have also provided some belligerents with secure military bases. Furthermore, civilian populations in conflict areas have often used adjacent forests as refuges to escape from local battles.

The analytic framework for this study of conflict timber sheds light on this state of affairs. To analyze the phenomenon of conflict timber, that framework builds on three major concepts: *commodities*, *markets* and *governance*. The *commodity* concept directs attention to salient characteristics of the good under analysis—accessibility and ease or difficulty of exploitation, its importance to people's livelihoods, its lootability (the ease with which it can be plundered), weight-to-value ratio, concealability, and fungibility (range, types and value of end uses). The *market* concept highlights accessibility to markets and demand levels, as well as the intensity of capital equipment required for production. These are all critical elements in determining how much a given commodity will produce in cash, either to finance conflict or for other ends. Finally, the *governance* concept directs attention to the types of rules that establish the institutional arrangements in the political, legal, economic and fiscal sectors, and shape the practices that prevail in the exploitation of a given commodity.

1.1.1 Commodity Characteristics

Many tropical timber species produce highly valuable wood. Yet in the contemporary DRC, timber figures merely as one conflict commodity among several. And it compares *unfavorably* with other lootable commodities such as diamonds, gold and coltan in terms of the ease with which it can be used to raise money. Rather than targeting timber, forces invading the DRC and local military groups have instead focused their attention on alluvial diamonds, gold and coltan for ***four compelling reasons***. These commodities:

[1] Coltan is a naturally occurring compound of columbine and tantalite and is a steel-gray, metallic mineral. High-tech manufacturers favor coltan because it is heat resistant and a highly efficient conductor of electricity. It is used in a variety of electronic appliances such as mobile phones, computers, DVDs and stereos. (See http://www.mbs.ac.uk/corporate/bis/assets/applets/Coltan.pdf for more information on coltan.)

- Can be exploited by artisan methods requiring little investment,
- Have very high weight-to-value ratios,
- Can be easily concealed and transported (smuggled if necessary), and
- Have a strong global demand.

Because of the ease, in the DRC, with which those commodities could be both plundered and marketed, warring parties (and others) quite rationally devoted more attention to them. By contrast, and despite strong global demand for high-quality tropical timber, as a commodity it:

- Requires more skills and more expensive equipment to harvest; and
- Has a much lower weight-to-value ratio, and is often both difficult to transport (especially if transportation infrastructure is dilapidated, as in the DRC) and to conceal.

Smuggling is thus not an attractive option; instead, collusive arrangements have to be organized with government officials (customs officers, border guards, etc.) to avoid formal controls. Collusive arrangements often depend on bribes, and these drive up transaction costs associated with the operation.

1.1.2 Market Characteristics

General market characteristics include the overall demand for the commodity (its 'global' market), and the proportion of GDP derived from the commodity. Moreover, if part of the demand for a commodity lies in the services it produces, e.g., forests generate a range of environmental services that stabilize water flows and support production systems, then perceptions among local producers that demand may overwhelm and destroy the commodity can spark conflicts. Specific to each commodity are two other characteristics:

(1) The number of buyers and sellers of the commodity, and therefore the degree of anonymity with which either can enter the market; and

(2) The capital intensity of production. The lower the capital intensity of production, the easier it becomes for conflict entrepreneurs (and others) to exploit a commodity, and therefore the more likely it is to be used to finance conflict.

In the DRC, global (domestic plus export) demand for timber is currently weak, though reviving. Wartime conditions over the past five years have bankrupted many domestic logging and wood processing firms, forcing them to close. Insecurity in forested areas over much of the past five years made it difficult or impossible to harvest wood in a number of DRC provinces. Without regular opportunities to work, and unable to repay loans and realize a return on capital invested, logging and wood processing firms have failed. Declining domestic processing capacity has depressed demand. The DRC does not have the gargantuan pulp and paper mills of the sort that operate in Indonesia and create insatiable demand for wood (see Volume II of this report). Domestic demand has also weakened because of the severe difficulty of moving timber to market, in particular because the DRC's road infrastructure has degraded to the point where much of it is no longer practicable. Simultaneously, warring groups interdicted the other major transport option, waterborne shipping, particularly on the Congo River, the country's greatest and, from a transportation viewpoint, the most useful of its many internal waterways.

In the DRC, logging has not yet seriously threatened many local production systems. Popular perceptions that logging may endanger rural people's way of life have not yet jelled—as there is as yet no locally observable, factual basis for such a conclusion—and logging operations have therefore not led directly to conflict over forest resources, as they have in Indonesia. The number of buyers and sellers of logs and processed wood is not large in the DRC, and therefore anonymity is restricted. But lack of anonymity has

not dampened demand for timber: those who engaged most fully in wartime logging are the invading forces of Rwanda and Uganda and their in-country proxies; and they were not particularly concerned to conceal their identities.

The capital intensity of production in the DRC's wood industry sector is quite high, mainly because of technical characteristics of DRC forests (and African forests in general). The country's forests are multi-species in nature. High value trees grow interspersed among those of lesser quality. As noted, the country currently has no paper mills, major scale plywood mills or other high volume consumers of wood of indifferent quality. These factors currently moderate demand for timber in the DRC.

In practice, the only logging strategy that makes sense in light of the multi-species, variable value composition of forests in the DRC is "high grading," i.e., identifying and then selectively removing the high value specimens while leaving the remainder of the forest (relatively) undisturbed. High grading requires that logging firms scout, identify and map high value trees in their concessions as an indispensable first step towards economic exploitation. Company employees then construct rudimentary roads to the vicinity of these trees, using expensive heavy equipment (bulldozers, graders, log skidders, etc.). Once trees are felled and sectioned, logs have to be dragged out of the woods and then trucked, either by road directly to marketing points, or to navigable waterways where they can be loaded onto barges for shipment or—if the wood is light enough to float—rafted to processing or marketing points. Logging trucks capable of carrying heavy logs are as expensive as earth moving equipment and add to the capital intensity of logging as an economic activity. Whether it makes economic sense to acquire such expensive equipment depends on governance characteristics in the jurisdiction.

1.1.3 Governance Characteristics

Governance characteristics reflect institutional arrangements. Five of these are critically important in determining how secure particular economic initiatives will be. The first two—accountability and the rule of law—have to do with the degree, both to which actors in the system can be held accountable for their actions, and to which enforceable rules can be used to structure and coordinate behavior. Unaccountable governments tend to place the interests of the state and its officials above those of society, thus creating grievances against the state and its allies (crony businessmen and corrupt officials). Rule of law regimes can make and enforce agreements, heightening both predictability and security of actions. This applies in the financial sector as well, and is of critical concern to investors.

Box 1. The DRC: A Failed State?

Warfare Arising from State Degeneration or State Collapse

The Liberian, Sierra Leone and Congolese conflicts each developed in countries in which state institutions had been weakened by decades of corrupt predatory government and élite factionalism. In the case of Zaire, progressive state incapacity was signified by the deterioration of the country's communications system. By 1980, for example, the extent of the all-season road network had shrunk to 20% of its 1960 total. Stalled democratization and inflationary currency reform helped to further reduce the moral and coercive authority of the Kinshasa government during the 1990s, as did a series of army mutinies.

By the middle of this decade, effective administration was in the hands of a number of regional fiefdoms that had been largely built around the control of smuggling routes by military chiefs. The decisive factor in the ending of Mobutu's dictatorship was the cross-border conflict between Hutu refugee communities and the Rwandan Patriotic Front (RPF). Zairian army complicity in Hutu raids prompted Rwandan support for the rebellion led by Laurent Kabila's Alliance of Democratic Forces for the Liberation of Congo (ADFL) and ensured the effective rout of Zairian Army (FAZ) resistance in the path of its victorious march to Kinshasa. President Kabila's dependence upon external allies has been underlined by the resurgence of rebellion after his repudiation of the Rwandans in mid-1998 and the subsequent internationalization of the Zairian conflict. Zimbabwe, Angola and Namibia soon sent soldiers to defend the Kinshasa government against a second Ugandan/Rwandan sponsored invasion. [1]

If financial transactions are not subject to meaningful oversight and regulations that discourage, e.g., money laundering, anonymous control over bank accounts and untraceable transfers of funds, the class of entrepreneurs who require such conditions to prosper will arrive to take advantage of them. Land tenure regulations also illustrate the problem of reliable rules. Land tenure poses a further issue of governance since the enforcement and adjudication of competing claims depends on the capacity of the state to operate a judicial system whose rulings litigants consider legitimate and will accept as binding.

Governments unable to make and enforce regulations and peacefully resolve disputes that arise in relation to state regulations and contracts render uncertain and ambiguous property rights concerning, e.g., timber concessions. In such situations, a temptation exists to "establish" property rights by force, triggering conflict.

Three additional governance characteristics—social welfare levels, social heterogeneity and civil society—can directly affect the potential for conflict. Low and declining social welfare levels often indicate state failure and increase the likelihood of conflict, as people become more desperate about their survival prospects. They may not attack the national army, but they may well attack each other. [2] Social heterogeneity, for example, diversity based on ethnicity, does not cause violence but can facilitate conflict by lowering the costs of organizing for collective action and so increasing the likelihood that aggrieved parties will mobilize along ethnic lines, e.g., for communal conflict or anti-company violence. When civil society activist groups are weak or absent, governments and their officials are more likely to behave in their own interests and neglect those of society at large, again potentially giving rise to grievances that can trigger conflict.

Governance in the DRC does not meet high standards in either the political or financial realms. The DRC qualifies as a failed state (see Box 1). It has been unable to control a great deal of its national territory over the last half-decade, much less enforce rules in a predictable way throughout the national territory.

The civil war and an unregulated, dysfunctional financial sector, coupled with rampant rent-seeking throughout the economy, have made it extremely risky for honest wood industry companies to operate in the country.

Taken together, wood commodity, market, and general governance characteristics in the DRC have, in an era of civil war, severely constrained the feasibility of both logging and wood processing as economic activities. Honest wood sector entrepreneurs not already established in the DRC see little point in involving themselves in such an economically and politically unpromising milieu. Dishonest, aggressive companies—"operators"—may, however, find such an environment attractive because they see opportunities for quick profits in a context where rules are poorly enforced, bribery is commonplace, and unscrupulous entrepreneurs have broad leeway to operate as they will.

Forest industry firms aside, most other potentially interested actors, e.g., armed military units, lack the capital, or the skills, or market contacts to make a profit in the wood sector. By comparison with conflict timber, other conflict commodities require smaller investments to exploit and offer higher profit margins. Extraction of diamonds, gold and coltan allowed rebel forces and the armies from Rwanda and Uganda to establish full-fledged commercial operations in the DRC, and provided a means to prolong conflict in the region. These armed forces of Rwanda and Uganda set up commercial operations in the DRC to facilitate extraction and distribution of conflict commodities, not infrequently in collaboration with criminal organizations. Since none of the groups are licensed to trade in products, the trade violates UN Resolution 1803, which accords "people and nations…. permanent sovereignty over their natural wealth and resources." [3]

Each of these groups has exploited significant deficiencies in the DRC's anti-money laundering regime to purchase armaments and funnel profits from the conflict commodities trade through regional and global financial centers. Whether or not the peace agreement recently signed among the warring parties is consolidated, deficiencies in the financial sector in the DRC will continue to provide enormous opportunity for groups exploiting conflict commodities to launder profits and funnel illicit monies through domestic and regional financial institutions (See Appendix 4 for details, and Appendix 5 for internationally recommended anti-money laundering arrangements).

1.2 Current Situation

The DRC seems poised presently at the beginning of a period of peace. *If peace is consolidated, logging rates can be expected to pick up dramatically.* Given governance weaknesses, sustained peace could unleash a period of intense logging in many parts of the Congo, wreaking havoc on the environment, reducing or destroy biodiversity and materially damaging life chances of human groups most dependent on forests for their survival, e.g., the Congo pygmies (totaling some 4,000,000 people).

In light of events of the last four and a half years**,** however, and others dating back to the 19th century, *sustainable peace in the DRC remains problematic.* As late as March 2003, and again in May of that year, particularly vicious fighting erupted between two long-opposed ethnic groups—the Hema and the Lendu—in the Ituri District of Northeastern Congo. Frictions between the former allies, Uganda and Rwanda, threatened at that point to flare into another Rwandan attack launched against strategic points in Eastern DRC. At just the same period, Uganda officials apparently feared that the Rwandans might attack their own country directly. Peace is not assured.[2]

Cross-border fighting in the Great Lakes area, pitting rebel guerrilla groups based in eastern DRC against the current governments of Rwanda, Burundi and Uganda, provided a major justification for the attacks that Rwanda and Uganda supported or launched against the DRC (see Box 1). Cross-border skirmishes may have abated but have by no means disappeared. In mid-April, 2003, rebel groups launched attacks in Burundi that landed mortar rounds in a main residential district within two kilometers of the capital city's center. This attack appears to have occurred in connection with the ongoing peace process in Burundi. It increases the likelihood that African military detachments will have to be stationed there in the near future to stabilize the transition to peace.[3]

Much of the insecurity in the general region and particularly in eastern DRC can be traced back to conflicts opposing Hutu and Tutsi in Rwanda and Burundi. These have clear underpinnings in colonial arrangements for the governance of those two countries that relied on a divide and conquer strategy, and exacerbated relationships between the two groups. Searing memories persist of the 1994 genocide in Rwanda, and the long-standing tensions that precipitated it. Zaire (the previous name for the DRC) proved unable under Mobutu, in the aftermath of the Rwandan genocide, to arrest and control or remove Rwandan Hutu perpetrators of the genocide, thus providing a ready-made excuse for a Rwandan attack against Zaire. Members of the Hutu Interahamwe group sought refuge in eastern DRC when the Tutsis regained control in Rwanda and, from their DRC refuge, launched attacks against Rwanda. Other rebel

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2 The European Union has announced plans to dispatch a sizeable contingent of troops to the Congo to lead the UN's recently authorized 1,400-member multinational peace keeping force there (*Burlington Free Press*: 11A). A stable, durable effort of this sort would go a ways towards consolidating conditions for peace in the DRC. It remains to be seen, however, whether such a force will either dissuade protagonists in domestic ethnic conflicts from future clashes, or discourage Rwandan and Ugandan military reprisals against Ugandan and Rwandan rebel groups sheltering in eastern DRC that regularly launch strikes against their home countries.

3 The UN Integrated Regional Information Networks (IRIN), on April 10, indicated that 3,500 peacekeeping troops will reinforce the existing South African detachment currently stationed in Burundi as of May 1, 2003.

groups likewise used eastern DRC to launch attacks against their home countries, Uganda and Burundi. Like the Rwandans, the Ugandans highlighted these attacks as a justification for entering the DRC. Taken together, attacks and reprisals created highly insecure circumstances in eastern DRC.

This description of the situation provides indispensable background in a study of the role of conflict timber (as one among several "attractive" conflict resources) in encouraging armed struggle in the Congo, and particularly in the eastern part of the country. The causes underlying persistent conflict in the Great Lakes Region of Africa are real. They go well beyond struggles for control of conflict resources, although they certainly include such interactions. The range of underlying causes, and the intensity with which people embrace them gives a measure of the challenge confronting those who seek to constrain conflict entrepreneurs and transform conflicts in the region into a more productive set of relationships among ethnic groups, armed units and countries.

Of major concern in the context of this specific analysis of conflict timber is the *threat that sustained peace may pose to tropical timber resources in the Congo.* While the DRC wood sector is currently only beginning to revive from its moribund state of year ago, it may well spring again into robust life if security increases in the country. Just the current *promise of peace* has enabled domestic logging firms to restart their operations. If it appears that peace will be consolidated, foreign logging firms, e.g., Malaysian companies (implicated elsewhere in some of the most predatory and socially irresponsible logging operations in the contemporary world), will do their best to obtain and exploit concessions in the DRC. New logging concessions may also offer the DRC government a convenient currency to reward those who cooperate with them, potentially posing further threats to the remaining DRC forests.

Renewed exploitation of DRC forests can be expected to have serious and long-lasting negative effects on livelihoods and the environment, unless the DRC government implements significant reforms in the financial and forestry sectors (a solid basis for some of the latter have already been passed into legislation in the new Forest Code [see below]),

The DRC's uncertain economic and political environment will deter reliable and honest firms, while simultaneously encouraging entry of "operators," i.e., unscrupulous firms willing to engage in illegal, predatory forestry to extract as much profit as rapidly as possible. Uncertainty about the duration of peace and secure conditions will motivate all firms in the forest industry sector, whether legitimate or unscrupulous, to emphasize extraction over investment. If domestic and foreign logging firms have lingering concerns about conflict erupting anew in the DRC—which seems realistic—they will have an incentive to employ the most aggressive strategies to log timber in their concessions as rapidly as possible. This will enable them to recover sunk costs, quickly realize profits and, for those engaged before the outbreak of the civil war, to make good some of their losses. But it will pose multiple threats to the environment and to those dependent on forests, directly or indirectly, for their livelihoods.

1.2.1 Towards a New Governance Paradigm in the DRC

Despite these sobering prospects, it must be noted that forestry/environmental issues do offer a means to point the way in the DRC towards a new governance paradigm that is more transparent, decentralized and accountable. New forestry legislation specifies that logging firms must make social investments in their concessions to compensate resident populations for loss of forest. These investments are to be negotiated with local communities. This report does not judge the advisability of the details of these arrangements. Representatives of some DRC wood industry firms assert that historically, they have followed this approach and are concerned that new rules could impose unacceptable costs that might cause for profit firms to fail. Nonetheless, the new forestry code does seek to promote greater involvement of local people in forestry concession operations. It does so by creating greater stakes for resident communities in the outcomes of those operations. If, as typically happens in active logging concessions, local people find

work with the logging firms, they have an incentive to promote regeneration of logged parcels, particularly if guided regeneration populates those parcels with the more valuable species of tropical hardwoods.

Members of local communities who regularly use an area are likely to have the most up-to-date information about conditions in that area. They can serve concessionaires as on-the-spot monitors to keep the former abreast of conditions in their concessions. Tropical hardwoods take some years to mature to a size where they can be harvested. If firms and local communities negotiate arrangements, however, whereby both sides contribute to the maintenance of social infrastructure created during the initial logging operations, a mutually beneficial relationship for both parties might be structured. Such a relationship would support effective implementation of devolution of decision-making, and encourage both on-the-job learning and greater local participation in environmental and infrastructure maintenance operations. It would also help to ensure sustainable use of DRC forests. This would constitute a major contribution to establishing new approaches to governance in the country.

1.3 Impact of Travel Limitations on Findings

The DRC conflict timber team worked in the Congo in March 2003, as the Inter-Congolese dialogue and efforts of regional peacemakers appeared to be bearing fruit. The situation remained, however, quite unsettled, with some parties threatening to return to conflict to achieve their goals. Resulting security concerns prevented the team from traveling to eastern and northern DRC to interview informants about conflict timber problems in both areas. Team members familiar with the central African region, however, contacted associates in Rwanda, Uganda and Burundi, and gathered information about timber flows from the DRC through states on the DRC's eastern border.

Several other team members traveled to Bas Congo province. They gathered information on wood exports from the Congo to non-African countries as well as on GOC reforestation initiatives dating back to the late colonial era in an area that has been much logged for the better part of a century. The team also learned in Bas Congo about use of timber to finance conflict in the Congo, specifically, state-authorized cutting in reserved forests, part of the proceeds of which were reportedly allocated to "the war effort."

Given situational limitations on travel, the team drew on three non-field sources in preparing this report: published documents, a range of experts contacted in other Central African states and, most particularly, on expert informants contacted in Kinshasa. Informants interviewed in the capital included:

- Government of Congo officials (particularly those working in resource-related ministries and agencies);
- Field staff of Congolese nongovernmental organizations (NGOs), many of them attending a workshop in the capital;
- Representatives of the forest industry sector;
- USAID partners;
- Banking specialists; and
- An entrepreneur from the eastern DRC highly knowledgeable about wartime economic and financial conditions in that area.

Information concerning organization of economic and financial relationships in the DRC collected from persons active in the DRC banking sector and from the entrepreneur is not easily available elsewhere. It appears particularly significant as it explicates mechanisms by which key actors exploit Congolese "lootable resources" in order to achieve a variety of objectives, including armed conflict.

2.0 ANALYTIC FRAMEWORK FOR CONFLICT TIMBER: DEFINITIONS

This DRC country study adopts definitions used in the overall comparative study of conflict timber problems. The concept of *conflict timber*, denotes either:

(1) Conflicts fueled by timber, or

(2) Conflict emerging from competition over timber (and associated forest resources).

It should be noted that "the state" (i.e., state officials in elected and appointed government, military and police positions at multiple levels in a society), often plays a key role in both types of conflict timber interactions. Officials of governance units—both national and local government units—may authorize wood sector entrepreneurs to harvest timber. In so doing, GOC officials may seek to obtain funds for several purposes, e.g., to:

- Prosecute conflicts against external or domestic opponents,
- Win or retain appointive and elective offices in political systems by consolidating support through "policy" or "pecuniary" payoffs, and
- Enrich themselves personally.

They may also seek to deny opponents military assets in the form of safe havens—dense forests—where rebel groups can take refuge and develop secure military bases. In such situations, clear-cutting forests becomes a strategy to flush out opponents and leave them more subject to superior military force. Finally, logging activities may be seen as a means to advantage one group—typically the group with which the official in question is most closely associated by kin and cultural ties—at the expense of another group, seen as threatening the first.

After reviewing the forestry situation in the contemporary DRC the report addresses three topics with strong governance overtones:

- Political governance/Institutional capacity reforms,
- Economic governance, and
- Conflict mitigation.

Additional, more detailed information on many of these topics appears in Appendices 3-6.

3.0 CURRENT FORESTRY SITUATION IN DRC

3.1 Forest Distribution in the DRC

The DRC is still very heavily forested. Its forests account for **nearly half of Africa's remaining tropical moist forests** (see Figure 3.1).

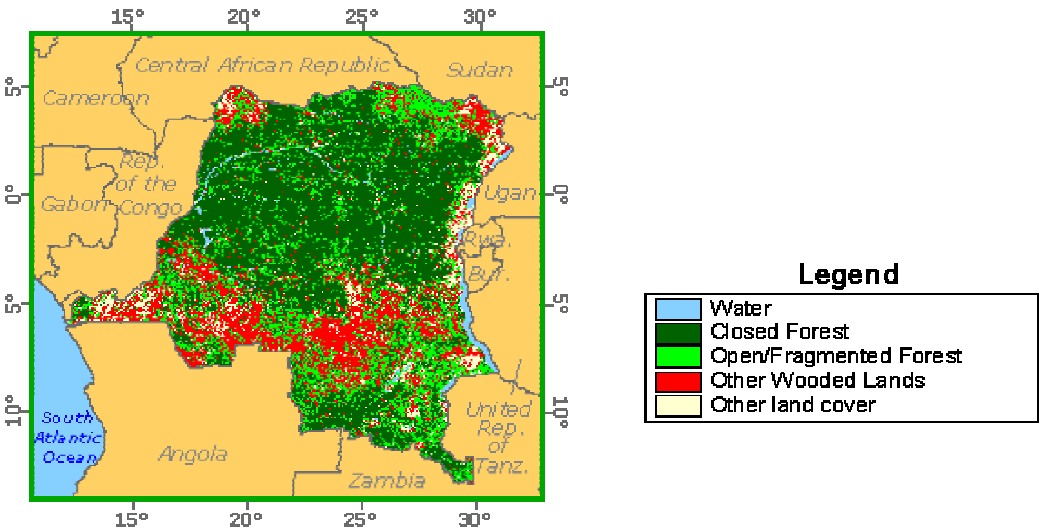
Figure 3.1. Forested Areas in Africa

Figure 3.2 reveals that fully half of the DRC remains under forest cover, while another 23% is classified as *woodlands*, i.e., areas of forest having crown cover of less than 50%. Major forest types are four in number: moist evergreen (40 million ha) and semi-deciduous forests cover the central and western regions, outside the immediate vicinity of the Congo River and its affluents, where swamp forests predominate. In the eastern highlands, up from the Rift Valley, important montane forests are found.

All of the high tropical forests (evergreen, swamp and montane) produce valuable timber, but even woodlands (less than 50% crown cover) in the drier northern and southern sections of the country produce

valuable wood species. By some accounts, the DRC is currently harvesting only 1/35 of its annual production potential of 14 million m³ of wood (see Appendix 2., "Markets and Marketing Analysis.")

Figure 3.2. DRC Forested Areas



3.2 Contemporary Logging Pressure

In early 2003 as the peace process began to take hold and increased security in many parts of the country, active logging operations were concentrated in four DRC government-controlled provinces, all rich in forest resources (see Figure 3.3 for provincial locations), with limited logging occurring in five others:

- Bas Congo, along the lower Congo River, an area much logged since the 1930s but spared serious battles during the civil war. Despite a DRC government program authorizing additional logging in the region to support the war effort, logging firms active in Bas Congo have declined by 80%, from a pre-war total of 20 to a surviving group of four.
- Bandundu, Équateur, and Orientale Provinces, stretching west to east across the northern third of the country. All fell under rebel control during the civil war; logging in these richly forested provinces almost ceased. In the Ituri Region in north-eastern Orientale, however, Uganda forces and their proxies are cutting and shipping wood to Uganda.
- Limited logging occurs presently in rebel-controlled northern Équateur and Bandundu Provinces, along the borders with the Central African Republic and Congo Brazzaville. Most of this logging is concentrated in riverine forests because the artisan logging teams involved in these operations lack capital equipment to transport logs and so must fell them close to a water course and raft them to market.
- In southern Équateur and Bandundu, under government control, commercial logging conducted by domestic forest industry firms has begun to revive with restoration of shipping traffic on the Congo River (interdicted during much of the civil war by rebel forces). These areas now supply the bulk of the timber arriving via the Congo River in Kinshasa.
- In eastern DRC, in rebel-controlled North and South Kivu provinces, limited logging occurs. Production is shipped east, principally to Rwanda and Burundi.

- Finally, in the drier woodlands of Katanga, southern Bandundu and East and West Kasai Provinces, most of the current, limited logging activity produces wood only to meet local demand.

For more detailed information on forest locations and logging activity, consult Appendix 1, subheading "Timber Locations."

Figure 3.3. DRC Provinces

3.3 Valuable Timber Species

Some 80 commercially valuable tree species grow in DRC forests. Details concerning the characteristics and uses of 13 of the most valuable species appear in Appendix 1, subheading "Commercially Valuable Species." Table 3.1, below, "A Comparison of Value-Added Processing for Timber Selected Species in the DRC," reproduced from Appendix 2, provides current prices for some of these species in different raw and finished states. For example, *Miletia laurentii* [Wenge] processed into finished veneer would, at May 2003 exchange rates [1 Euro = US $1.20], fetch $1140/m³). Table 3.1 illustrates both wood species value

for specific end uses and the value in foreign exchange earnings that the DRC can derive from their export.

Table 3.1. A Comparison of Value-added Processing for Selected Timber Species in the DRC (SPIAF 2001)

Scientific and Commercial Name	Euro/m³ Logs (round)	Euro/m³ Cants (squared logs)	Euro/m³ Boards	Euro/m³ Plywood	Euro/m³ Finished Veneer
Pericopsis elata (Afromosia)	240.56	304.54	435.04	549.59	845.23
Entandophragma utile (Sipo)	196.66	299.88	428.40	556.91	685.42
E. cylindricum (Sapelli)	162.69	214.25	306.06	397.87	490.00
E. angolensis (Tiama)	88.21	185.06	264.37	354.52	453.02
Miletia laurentii (Wenge)	209.81	304.54	435.04	549.39	950.91
Khaya anthotheca (Khaya)	118.83	192.13	274.49	368.08	489.70
Terminalia superba (Limba)	83.63	102.90	146.96	185.60	285.55
Gossweilerodendron blsam (Tola)	97.49	164.42	234.88	299.53	436.36

3.4 Concessions and Concession Process

Serious commercial logging for export began in the Congo around 1970. The revised DRC Forestry Code specifies the stages in the concession process. Interested parties identify an area from among those the GOC offers, and receive a 25-year, renewable concession. Concessionaires then have a year to develop a logging plan, backed by a detailed map, and three additional years to put in place required infrastructure and logging roads. Some of the infrastructure—social in nature—is now mandated by the Forestry Code. To prevent land speculators from acquiring concessions and then doing nothing to develop them—as happened frequently during the civil war—the GOC has imposed a US $2/ha tax for each 1,000 ha it authorizes a firm to log. This tax is supplemented by a smaller annual per/ha tax, likewise designed to encourage concessionaires to develop their parcels and to deter those not really serious or capable of developing logging operations from requesting concessions.

At present some ***10 million ha of logging concessions*** have been granted to firms in the DRC, principally in Équateur, Bandundu and western Orientale Provinces. Although the total extent of concessions constitutes a huge land area, the DRC has also set aside some ***6,1 million ha of protected areas for biodiversity preservation***, etc. (see Appendix 1, subheading "Protected Areas"). Roughly half of the concession total has gone to five large firms, as indicated in Appendix 1, Table A-1.1, "Forest Area Covered by Select Concessions." A single firm can legally acquire multiple concessions. Individual concessions range in size from 50,000-700,000+ ha and average 200,000 ha. Of the *ten* million ha allocated as concessions, only *one* million are currently under exploitation, because of lingering security issues in many parts of the country. The weakened economic circumstances of many forest industry firms also play a role here, as the cost of loan funds that many require to recapitalize are currently extremely high.

Transportation: moving timber, a bulky commodity, from forest harvesting sites to domestic or export markets poses major challenges in a country like the DRC with seriously degraded transportation infrastructure. Roads have deteriorated markedly over the 40 years since independence. The exceptions are Bas Congo Province and some eastern parts of the country (the Kivus, eastern Orientale), where road networks are still functional. In the east, roads permit delivery of timber, both to domestic markets and to various subregional markets (Uganda, Rwanda and Burundi) as well as onwards into the world market via Kenyan and Tanzanian ports. Elsewhere in the DRC, most wood moves from concession sites to market

along the DRC's extensive river network, and onward via rail from Kinshasa, the capital, to the ocean ports of Matadi and Boma in Bas Congo Province. Some wood leaves the Congo via Brazzaville, traveling by rail to Congo Brazzaville's ocean port at Pointe Noire. Another rail line in eastern DRC moves some timber from the Kasais through Katanga Province via Lubumbashi, on into Zambia and then to various points in East Africa.

Processing: by comparison with its forest resource base the DRC has very limited wood processing capacity. Sawmills sited throughout the country serve primarily the domestic market. Fifteen mills, clustered in Kinshasa, Mbandaka and Kisangani, can process large volumes of wood. The country currently has a single plywood-processing mill, of comparatively modest size, located in Kinshasa. Lack of processing (value adding) capacity limits both the economic multiplier effect of the wood industry sector in the DRC, and foreign exchange the sector can earn for the country. (See Table 3.1.)

Forest Law: the DRC's original Forest Code dates from 1941. The last revision, in 2002 ("Loi 011/2002 29 Aout"), authorized five institutional and four forest management changes. Among other things, the current code seeks to promote greater popular involvement in forestry activities.

The code stipulates development of a National Forest Policy, to be based on a National Forestry Master Plan (NFMP, under development with Canadian assistance). The NFMP will, by design, focus closely on economic development of the forestry sector. It is to be a flexible document, with the Minister responsible for forests having authority to classify and declassify forests under guidelines established by the President of the Republic.

The current Forest Code specifies three classes of forests:

(1) Classified Forests (multiple-use forests),

(2) Protected Areas (parks and reserves), and

(3) Production Forests (primarily for wood production).

It also calls for creation of a central database covering existing forest laws, contracts, management plans and boundaries of relevant units (concessions and classified and production forests as well as protected areas). If properly implemented this database will constitute a powerful tool for forest planners and managers to track and compare field performance with the provisions of formal rules (concession contracts, etc.). Finally, on the institutional side, the new forest code stipulates establishment of a national forest advisory committee, to focus on national level forest planning. This central committee is to be supplemented by provincial forest advisory committees, the latter more oriented to management issues such as classification and declassification of forests. By law, communities are to play a meaningful role within the provincial forest advisory committees; if this is respected in practice, communities will have, for the first time, some decision making power and veto authority over location of logging concessions.

Forest management, by formal terms of the new forest code, is to become more participatory. In principle, before a forest can be transferred either to a firm or a village for exploitation, an investigation must be carried out to ascertain pre-existing claims and rights to forested lands. To achieve sustainable use, a preliminary forest inventory will be conducted, on the basis of which a management plan is to be drawn up. Future concessions are to be devoted exclusively to timber extraction, in accord with a contract defining the terms and conditions of the concession (precise boundaries, rights and responsibilities of the parties, etc.). To support reforestation, the Government has been empowered to modify rules and procedures relating to the Forest Fund prescribed in the original code, so that Fund operations will more adequately reflect socioeconomic conditions prevailing in the country.

An interesting new initiative in the Forest Code provides for creation of ***non-production concessions*** to protect biodiversity, watersheds, carbon sinks and promote tourism. The new code also calls for international conservation NGOs to support these conservation concessions as well as the network of protected areas. Some have already moved to take advantage of this opportunity, e.g., the Diane Fosse Gorilla Foundation.

3.4.1 Analytic Categories

To develop effective policy responses to conflict timber, it is necessary to identify conditions under which timber is likely to become a conflict commodity. Toward that end, this section seeks to identify those conditions and categorize them in an analytically helpful way.

The causes of conflict timber can be divided into three general spheres: commodity-specific, markets-specific, and governance characteristics. Each of these categories overlaps; none is mutually exclusive. Some combinations of these characteristics increase the probability of conflict, while others may lower it.

These analytic categories, used in this case study, have proven useful in organizing information collected. Detailed information appears in a series of appendices appended to this main report. The richness of information presented in the appendices justifies at least selective skimming by the general reader, and more careful study by others with specific interests. Information on timber as a commodity in the Congo context—the range of valuable species, their general locations or "home ranges," the uses to which individual species can be put, amounts harvested and exported appears in Appendix 1; data on the DRC's timber markets and wood industry trading partners, in Appendix 2; and information on governance in the DRC in Appendices 3 ("Conflict and Governance Analysis"), and 4 ("Economic Governance"). Appendix 4 contains information on the working rules of corruption and economic manipulation in the DRC, as well as material reflecting the current international consensus on best techniques to counter money-laundering, an area of prime concern where *conflict commodities* are in play.

Commodities

In the DRC, the range of conflict commodities includes *at least* the gold, coltan, diamonds and other minerals found there in appreciable amounts, in addition to one the world's last remaining major sources of tropical timber, including high value hardwoods. Each has specific characteristics that determine whether they will serve as conflict commodities. Specific commodities have attributes that make them more or less likely to become conflict commodities. Weight-to-value ratio, the ease with which each can be looted, how easy it is to transport and to conceal, the number of uses to which each can be put all affect the value of a commodity and its attractiveness as a conflict commodity.

Markets

These are essential to conflict timber because they enable conflict actors to convert a commodity into cash that can be exchanged for weapons, ammunition, uniforms, salaries, food and other supplies needed to engage in conflict. Forest products that will generate profits also encourage encroachment and exploitation, often by local user groups seeking to secure control of future sources of inputs vital to their production systems. Competition for such forest products, including timber, can and often does touch off violent conflicts, especially where tree tenure relations are ambiguous.

Governance

In the case of timber-rich areas, the land tenure aspect of governance takes on special importance, as does devolution (decentralization). In many former colonies, conflicting tenure frameworks exist for determining who has rights to forests and forest products; broadly speaking, indigenous systems that

assign rights to a local community often clash with imported systems that grant the state control over forests, ostensibly in the interest of the entire nation.

Devolution: In addition to conflicts grounded in differing land tenure legal frameworks incorporated in indigenous and colonial land-holding systems, a more contemporary policy has given rise to significant conflict timber incidents. Devolution, i.e., "decentralization" of power from the national level of highly centralized states, e.g., Indonesia under Suharto, to constituent administrative or local government units within those states can create opportunities for disastrous tenure conflicts concerning access to and control of renewable natural resources such as trees. Devolution as a policy does not generate these conflicts. But proper implementation of the policy is critical, including both careful explanation of essential elements to all relevant parties, and crafting of implementing rules and regulations that clearly allocate authority over natural resources. If the local of authority over resources is unclear, resulting ambiguities can lead to conflicts.

When more than one jurisdiction asserts authority to issue logging concessions in the same geographic area, and no viable legal mechanism or process exists to determine precedence among those claims, conflict is highly likely. Those holding licenses or other forms of authorization have strong incentives in such situations to engage in preemptive strikes, cutting and marketing as much timber as they can as fast as they can, for fear that other potential claimants will "beat them to it." The dynamics of such situations neither leave much time for negotiating with communities that inhabit logging concessions to compensate them for losses suffered in the wake of timber harvesting, nor offer much scope for reduced impact logging practices, or for other practices that tend to ensure sustainable use of a renewable resource.

4.0 CONFLICT TIMBER: INCIDENTS AND ISSUES

The following section summarizes conflict timber incidents in the DRC over the last five years. While these have not been, in the aggregate, particularly severe, the following cases reveal how conflict timber incidents manifest themselves in the DRC, both in terms of plunder of valuable resources to finance military actions, and in terms of foreshadowing how deforestation can induce a series of small setbacks for the environment which, cumulatively, can lay the foundation for future conflicts as competition heats up among users for remaining forest resources. The Bas Congo Provincial case highlights the complex dynamics involved in these processes, particularly the ramifications at the field level of inadequate revenue mobilization by and straitened finances at the central level.

4.1 Eastern DRC/Rwanda and Uganda: Evolving Confrontation

During the last war in the DRC, Rwanda and Ugandan military units advanced far into the interior of the country, and engaged in two battles for control of Kisangani, capital of Oriental Province. During that period, Rwandan forces reportedly commandeered a local sawmill and exported its entire stock of valuable processed tropical hardwood to Rwanda by airplane.[4]

During the same period, a sawmill in Butembo was similarly looted of stocked lumber for export to either Uganda or Rwanda.

While road connections linking eastern DRC to Uganda, Rwanda and Burundi have deteriorated, they still support considerable traffic. The UN report on invading forces' plunder of resources in eastern DRC note that timber was one of those conflict commodities (United Nations, Security Council: 2001a). Information gathered from colleagues in Eastern Tier countries (Uganda, Rwanda and Burundi) indicate that transport of timber ebbed and flowed during the war years, but was a persistent phenomenon. Existence of this traffic indicates that invading forces, whether collectively or in the person of individual officers, did derive benefits from the timber trade. Some of that money presumably defrayed the costs of military incursions into eastern DRC. For further information, consult Subsection A-2.2 in Appendix 2, "Wood Exports via Eastern DRC."

4.2 Western DRC: Harvesting State Forest Reserves in Bas Congo to Finance the 1998 War Effort

During the last Rwandan-Ugandan invasion of the DRC, the Kabila government requested that logging companies cut timber for export in reserve forests in Bas Congo Province, which stretches inland from the Atlantic Coast on the lower Congo River and is far removed from the war zone. Those companies harvested standing timber in forest reserves as authorized and, by agreement, split the proceeds 50/50 with the DRC Government. The Government's share reportedly went to help finance the war effort.

A reliable source (Mr. Alphonse N'Sakala) reported that since 1999—in the middle of the civil war—the Congolese Government has issued special logging concessions to logging companies operating in the Boma area, on the Atlantic Coast in Bas Congo Province. The concessions were located in three forest reserve areas (Ezini, Lukfwe and another), where logging normally was not permitted. These special concessions comprised an estimated 17,000 ha. Two logging companies carried out these operations:

[4] These reports were verified by a USAID/Kinshasa staffer, then employed as a GOC civil servant, who repeatedly witnessed the loading of lumber into Rwandan planes that had brought shipments into Kisangani from Rwanda and would otherwise have returned empty to their home base. Arrival of those shipments in Kigale could not be confirmed there by either foresters or individuals knowledgeable about operation of wood industry firms in the Rwandan capital. Nonetheless it appears the transfers did occur.

MALBA and SOFORMA. SOFORMA is a well-established timber company owned and operated by a Portuguese family and headquartered in Boma, one of the Atlantic ports on the lower Congo River. Our source believed that after the 50/50 split all other taxes and levies that normally apply to concessions and timber cut in them were suspended for wood harvested in this operation. We were not able to confirm the terms of the agreement. Sources knowledgeable about the forest reserves and logging operations estimated that the reserves would produce 10-15 m^3 of good quality timber per hectare. Assuming the value of the cut logs to be between $100 and $140 per cubic meter FOB Matadi/Boma, wartime logging in those three concessions should have produced a gross value of between $1000 and $2100 per hectare, or a total value of $17-36 million.

4.3 Environmental Damage Caused by Conflict

The war in the Congo has generated results detrimental to the natural resources base and the environment. Logging and woodcutting operations are clearly deforesting much of the Lower Congo. Several aspects of the conflict drove Bas Congo deforestation rates higher. First, the civil war in the Congo prevented the lumber industry from exploiting the major concessions that domestic logging and wood processing firms hold in Bandundu and Equatorial provinces as these provinces were controlled by rebels. As a result, surviving forest industry companies have large amounts of unused capacity. To help pay off their investments and stay afloat, most of these companies will lease equipment to or do custom work for companies still exploiting concessions in the Lower Congo. This concentrated much of the industry's total harvesting and processing capacity on the relatively few forests in Bas Congo. Furthermore, many timber firms have simply gone out of business or are dormant and in either case, have discharged most or all of their employees. Many former employees of timber companies now apparently pursue small-scale timber cutting operations in the Lower Congo region. Local merchants advance them the money to purchase chain saws; small coast-wise freighters from Cabinda and Namibia purchase most of that wood for resale in their home areas.

Second, the wages for most Government employees, if and when they actually receive them, fall well below the cost of living. The civil war caused both a sharp decline in normal state revenues and increased military expenditures. In consequence, many employees are months, or even years, in arrears on their salaries. The GOC used land and wood in forest reserves to "pay" employees and allow them to survive. Workers receive forest reserve land to log and farm.

Third, after years of economic mismanagement, followed by five or more years of conflict, the formal economy has imploded. Unemployment is staggering. To survive, nearly everyone has returned to subsistence agriculture. As a result, people are clearing the few remaining forested areas, including protected areas in the Lower Congo. Moreover, much of the area being cleared and planted to food crops is steeply sloped and subject to high degrees of erosion. The environmental damage occasioned by people's struggle for sheer survival will have a lasting effect.

The past eight years of conflict in the DRC have thus damaged the ecology of the western part of the Congo, far removed from scenes of actual fighting. These trends may well continue; if so, conflict timber related factors will explain the coming environmental disaster. A number of people with whom we spoke clearly perceive the environmental changes associated with deforestation, but few see solutions that can be taken to rectify the situation.

4.4 Northwestern DRC: A Non-Issue?

The team repeatedly heard of timber being cut in northwestern Congo and evacuated westward out of the country. Some informants believed the timber was being taken out through Cameroon and possibly the Central African Republic. Some believed the logs were being floated down the Congo River and making their way to international markets through Congo Brazzaville and Pointe Noire.

The team questions whether substantial timber is being harvested and evacuated via Cameroon. First, as noted, Congo's quality timber grows in mixed stands that must be selectively cut rather than clear-cut. Selective timber cutting requires more time and capital equipment to clear forest roads, cut the selected timber and pull logs to a location where they can be transported. Logs are then either transported by truck over improved roads or floated down rivers.

Few roads in the DRC have received any maintenance over the past decade and by all accounts many major roads are impassable, many bridges are out and most ferry-crossings no longer operational. Intuitively, transportation costs would be sufficiently high to render unprofitable hauling logs by road out of northwestern Congo. River transport is less costly and thus the preferred method of moving uncut logs to locations where they can be processed or sent directly to export markets in log form. The dominant river systems (Congo and Ubangi Rivers) that drain northwestern Congo flow southward. Moving logs westward by river into Cameroon or Gabon from northwestern Congo is not feasible. Informants in the DRC forest industries sector corroborate this account. They point to the wave of bankruptcies that has afflicted firms in the sector with logging concessions in timber-rich Équateur Province as evidence of how few have been able even to operate since the civil war began, much less turn a profit. Many lost their logging equipment to rebel forces, who stripped bulldozers, graders, log skidders, etc., of engines and other parts for which they found use in their own operations. Thus any logging that occurred in northwestern DRC during the period in question must have conducted with very little capital equipment.

Barge traffic on the Congo River from ports in northwest Congo has been halted since the mid-1990s. But some timber is floated down the river and retrieved at either Brazzaville or Kinshasa. Some informants believed that costs of transporting logs through Congo Brazzaville via Brazzaville to Pointe Noire after beaching them from Congo River rafts at Brazzaville were cheaper than through Kinshasa and Matadi after beaching them at Kinshasa, just opposite Brazzaville on the Congo River.[5] Other informants questioned this conclusion, noting that wood beaching facilities were more developed on the Kinshasa than on the Brazzaville side of the river and that the rail system between Brazzaville and Pointe Noire was no better or more efficient than the Kinshasa route. Team members concluded that most probably both routes were being used but for a relatively small volume of timber. Furthermore, logs being floated down the Ubangi and Congo Rivers that originated in northwestern Congo were cut by small-scale operations with no heavy equipment and so must have been cut on or near the riverbanks where they could be manually rolled into the river. Such small-scale, weakly capitalized operations risk greater river bank erosion but will not likely have a major impact on forest stocks.

If a durable peace is established wood industry firms will again move heavy equipment into the area upriver from Kinshasa on the Congo. They will be able once again to harvest and transport logs from non-riverine forests to the areas' rivers for rafting or transport by barge down to Kinshasa. If that happens, the major forests of Northwestern DRC will be exposed to heavy logging. Unfortunately, as the peace process moves forward this possibility becomes ever more threatening. Ending four and a half years of fighting in the Congo is no small challenge, but neither is achieving efficient, honest policing of the terms and

[5] Major rapids and dams on the Congo River below Kinshasa preclude rafting logs all the way to Matadi or Boma, the DRC's two ocean ports accessible from the Atlantic. Timber and lumber are shipped between Kinshasa and Matadi either by road or rail.

conditions of DRC timber concessions. Yet effective enforcement is clearly necessary to prevent destruction of what may turn out to be one of the DRC's most valuable assets. Forests could also prove to be one of the DRC's most durable assets, because in principle renewable, particularly if logging activities continue to decimate timber stocks in Indonesia and Brazil, the two other remaining major concentrations of tropical hardwoods.

4.5 Zimbabwean Concessions: A Losing Proposition

President Mugabe's decision in August 1996 to intervene on the side of Laurent Kabila was driven by several motives in addition to preserving the national integrity of a Southern African Development Community (SADC) member state. It presented Mugabe with an opportunity to assert his leadership as an African statesman in defending his fellow-socialist, Kabila. It seemed also that intervention in the DRC would support the pecuniary interests of the Zimbabwean economic elite. Moreover, it appeared that the military operation could be made self-financing with no drain on Zimbabwe's already depleted coffers. Indeed the agreement between Kabila [4] and Mugabe signed in September 1998 spoke of a "self-financing" intervention. The deal vested in Zimbabwean companies management control of the bankrupt copper and cobalt mining company, Gecamines,[6] in Katanga, diamond mining concessions in the Kasai Provinces, increased electricity from the Inga Dam on the Lower Congo and logging concessions reportedly covering 33 million hectares[7] in three or four Congolese provinces.

In pursuit of these ends Zimbabwe's military and political elite and senior officials of the Kabila Government established an interlocking set of companies to manage their mining and logging interests. At the center of these business interests is COSLEG, a Zimbabwean-Congolese joint venture. Most of the directors of this company are senior Zimbabwean military officers or Zimbabwean businessmen with strong ties to the military establishment. A Kinshasa-based firm, Comiex-Congo, the principal shareholder of which was ex-President Laurent Kabila, manages Congolese interests within the joint venture. To exploit the timber concessions, COSLEG formed a subsidiary, SOCEBO (*Société congolaise d'exploitation du bois*).[8] Supposedly, three, possibly four, concessions were attributed to SOCEBO, outside of the normal concession granting process. These concessions were reportedly located in several different areas, including the provinces of Katanga, one of the Kasais, Bandundu and the Lower Congo.

The Zimbabwean Defense Forces (ZDF) suffered embarrassing defeats at the hands of the Rwandan-backed militias. Zimbabwe's business interests fared no better in their economic interventions in the Congo. Zimbabweans involved in these schemes grossly underestimated the investments required to rehabilitate and render productive Congolese mining and logging operations. Moreover, they overestimated the benefits, particularly the short-term benefits that could be derived from COSLEG's and SOCEBO's exploitation of Congo's natural resources. SOCEBO's logging operations never really took off, apparently because the Zimbabwean partners could not raise capital sufficient to acquire the necessary logging equipment. At present, and by all accounts (including knowledgeable forest industry entrepreneurs), SOCEBO appears to be defunct. With the passage of the new Forestry Code, the wartime list of logging concessions has been reviewed, and many revoked. The goal was to eliminate lapsed or inactive concessions, those where holders have made no visible effort to invest in exploitation of their concessions.[9] The current list of valid concessions makes no reference to any held by SOCEBO. Nor do

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6 *Generale des Carrieres et des Mines*.

7 The magnitude of these concessions is evident when compared to the national estimate of forested area in the Congo (110 million ha) or the current area covered by valid or active concessions (9.5 million ha).

8 See Global Witness (2002) "Branching Out" for a more comprehensive discussion of the interlocking set of business interests described here.

9 During the war years, many Congolese officials obtained forestry concessions in the interior of the country, evidently as speculative ventures. They seemed to have hoped to retain control of their concession lands until

official statistics of timber production and export make any reference to SOCEBO. Forest industry sources claim no knowledge of any SOCEBO operations, although one source noted that his firm was approached in mid-2002, by SOCEBO representatives seeking to buy sawn timber.

It is clear that SOCEBO's business plan was wildly optimistic in both underestimating the capital investment required for logging operations in the Congo's forests as well as in its estimates of revenue streams. These unrealistic plans doomed the effort from the beginning. Equally important, however, was the strong international condemnation of that effort. The UN report on illegal resource exploitation in the DRC (United Nations, Security Council, 2001a and 2000b), and those prepared by other international groups, e.g., Global Witness, helped mobilize international opposition and condemnation of the proposed endeavor. Perhaps most important in terms of raising public and international opposition to the logging plans were a small group of dedicated nongovernmental organizations who had the courage and investigative skills to explore what was happening and make that information widely available through their local and international civil society networks.[10]

others, with real money to invest, would seek control. At that point the original holders would presumably sell out, earning (they hoped) substantial profits on what were essentially no cost investments. Hanno Ruhl, World Bank DRC Resident Representative, interview, Kinshasa, March 7, 2003.

[10] The ARD Conflict Timber team was privileged to have been invited and was able to attend a workshop conducted by the *Centre National d'Appui au Développement et à la Participation Populaire* (CENADEP) on links between exploitation of natural resources and the conflict within the Congo. This workshop is an excellent example of the types of civil society networks that are beginning to exert an impact on the conflict at the national level. Such meetings help Congolese NGOs consolidate their networks in ways that gradually enable them to mobilize public pressure.

5.0 CONFLICT CONSEQUENCES

5.1 Human Toll

The conflict in the Congo has had devastating socioeconomic impacts. The World Bank estimates [5] that 3 million people have lost their lives as a result of this war, while the International Rescue Committee (IRC) [6] estimates the number of deaths at 3.3 million. Other estimates place the number of lives lost in excess of 5 million. Far more than battlefield deaths, these mortality estimates reflect persons dead of starvation or lack of treatment for preventable diseases such as malaria. War-related physical damage has been extensive, institutions are destroyed, the economy has collapsed and the nation's social fabric is in tatters. People fleeing for their lives before marauding armed bands cannot tend crops. When farmers return to their villages, they often find crops prematurely harvested or destroyed. Critical infrastructure facilities, such as health clinics in rural areas, have had to be abandoned. Loss of these facilities has interrupted, throughout broad stretches of the country (particularly in the north and east), popular access to well known medicines that easily combat diseases which, left untreated, rapidly become lethal.

The World Bank further estimates that per capita income has eroded steadily from $380 in 1985 to $250 in 1990 and $85 in 2000. Hardest hit have been the areas under rebel control in the northern, northeastern and eastern areas of the Congo.

The human toll has made this conflict one of the world's most murderous in recent decades. Pre-war estimates indicate that approximately 20 to 25 million people lived in the conflict zone. If one accepts the low-end estimate of some three million persons, roughly 12-15% of the total population died of war-related causes. More than 2.4 million persons are presently internally displaced and live in extreme poverty. Human rights abuses are widespread; sexual abuse of rural women by marauding military units is common; and human degradation and suffering, by all accounts, is horrific. In the conflict zone, the few government services that existed before the conflict have simply disappeared. Administrations imposed by the various rebel groups provided few if any social services and enjoyed little popular support outside of their immediate ethnic groups. Traditional authority has been weakened by the fragmentation and dislocation of communities and by massive population shifts to the relative security of urban areas. Civil authority of any type has been replaced by rogue militias intent on personal gain.

The challenge for peace is not to simply restore order but more fundamentally to replace the predatory, abusive governance and control systems that developed during the conflict with others which will be able to ensure respect for human rights and can eventually accommodate democratic, equitable and just institutions.

5.2 Economic Impact

The economic impact has been equally severe. The national economy no longer exists. It has fragmented into isolated parts controlled by various armed groups. Generally speaking, the pre-war economy has been transformed for most people into a subsistence affair where survival is problematic. A few elites operate a

predatory economy. Domestic capital accumulation is generally at best quasi-legal and, given the risks of confiscation or destruction, resulting capital is frequently invested outside the country (see Appendix 4). International investors have largely taken their losses and left. The few remaining international businesses are struggling to survive and focus primarily on recuperating their losses.

Despite the DRC's phenomenal natural resources wealth, most legitimate businesses will be extremely wary of investing in the present economy. Its salient characteristics are poor governance; pervasive predatory practices on the part of officials accustomed to having to raise their own "salaries" by exploiting the powers of their offices to compensate for civil service salaries long unpaid; and thoroughly dilapidated infrastructure, particularly in the transport sector. As with governance arrangements, the challenge is not simply to re-capitalize and restart an idle economic engine in order to restore economic growth. It is, instead, to rebuild and replace the warped, inequitable systems that have emerged over the past decade and create others that provide attractive, legitimate, reliable incentives for honest investors and entrepreneurs alike. This involves discouraging, or weeding out, predatory and conflict entrepreneurs who have flourished in the context of broken governance and economic institutions characteristic of the contemporary DRC. Unless that can be achieved, honest domestic and foreign investors can have little incentive to risk their capital in the DRC; foreign investors, in particular, will simply direct their money to more attractive opportunities elsewhere.

5.2 Environmental Impact

The conflict has induced long-lasting environmental impacts in some areas. The worse case scenarios concerning conflict timber do not yet appear in the DRC as severe as some anticipate. But the breakdown of civil authority and failure of the national economy engender environmental degradation that will take decades to restore.

The "brighter" side of this situation—one uses the adjective "brighter" here with hesitation—lies in the fact that war-induced insecurity in many forested areas of the country slowed or in fact halted logging—and deforestation—for the duration. The high failure rate among forest industry and wood products firms attests to how little logging has occurred in the Congo since mid-1998. Figure A-2.2 in Appendix 2 presents a more graphic perspective on this issue: during the period 1988-2001, timber exports from Gabon, Cameroon and the Ivory Coast positively *dwarfed* amounts of wood leaving the DRC. During the same period four Central and West African countries—Ghana, Liberia, Congo Brazzaville and Equatorial Guinea—***each*** exported at least *double* the wood volumes leaving DRC, though each of these countries is but a small fraction of the Congo's size and has but a fraction of the DRC's forest resources.

The "darker" side of the coin seems equally clear: the very richness of the DRC's tropical forest reserves, compared to shrinking reserves almost everywhere else throughout the tropics, will rivet global forest industry attention on DRC forest resources with ever greater force. Stewardship records of some international forest industry firms leave a very great deal to be desired. Some of those firms—the most unscrupulous in the bunch, accustomed to dealing harshly with any resistance to their operations, and committed to "rip and run" business plans that make a mockery of the renewable character of forest resources—may establish a foothold in the DRC. If they do, adverse environmental impacts in the DRC to date will likely pale by comparison with the negative spillovers of such future logging efforts.

Deforestation in the lower Congo basin seems destined to continue in the foreseeable future at an alarming rate and offers a mild example of adverse environmental impacts. In that region, ongoing, small-scale and artisan logging targets primarily forests adjacent to rivers and roads. While these operations, financed by local merchants and destined to produce logs and planks primarily for export to Cabinda and Angola, do not currently threaten the DRC's most important forestry resources, they are clearing areas prone to severe erosion.

Based on anecdotal information (and for comparative purposes), it appears that some of the worse contemporary environmental damage is caused by unregulated mining operations, e.g., artisan mining for coltan, gold and diamonds in the Kivus and Kasais. Regaining control of and regulating these lucrative enterprises will be a formidable task. Lastly, most of the rural Congolese population has returned to slash and burn subsistence agriculture as a sheer survival strategy. This can be expected to cause environmental problems far into the future.

6.0 POOR FINANCIAL GOVERNANCE: A CONFLICT "ENABLER"

6.1 Bureaucratic and Regulatory Inefficiencies: The Impact on Forest Industry Firms

6.1.1 Overlapping Government Ministries

Firms doing business in the DRC are generally hampered by an ever-increasing number of government agencies vested with power to oversee the extraction, import and export of commodities in the country. In many instances, each government agency demands a small bribe to facilitate processing of required documents and licenses. This pattern of overlapping ministerial functions is especially evident with firms extracting or processing timber products in the DRC. For instance, each shipment of timber is inspected by three separate agencies, including the *Office Congolais de Contrôle*, Customs, and local authorities. Timber firms exporting finished products must deal with even more agencies, as more than half a dozen different ministries oversee the extraction and exporting of processed timber products in the DRC. Most of the agencies "have to be visited twice, as some documents have to be validated by several services."[11] Most of the documents must be countersigned by the different agencies, which requires "second and third rounds at the same place."[12] Six separate DRC national agencies provide oversight of the timber and wood export trade (see Box 2, "DRC Oversight of Wood Exports," above).

Box 2. DRC Oversight of Wood Exports

- The Office Congolais de Contrôle (OCC) inspects the parcel to be exported and issues a report which is needed to obtain the export license with the bank and the authorization for export by the Ministry of Foreign Trade;
- The Ministry of Environment approves the export contract, which is required to obtain the export license and the authorization for export which is issued by the Ministry of Foreign Trade;
- The Ministry of Environment provides a phytosanitary certificate and CITES certificates for species falling under CITES control;
- The Ministry of Foreign Trade provides certificate of origin;
- The Customs Department (OFIDA) oversees payment of export duties and control of the export parcel prior to loading. If the parcels are exported in containers, a Customs agent must be present during the loading of the container;
- An *Agence National de Renseignements* (ANR) representative is hired by each timber firm on a permanent basis and assists with all exports of timber products; the ANR representative submits regular reports to the ANR department;
- The National Office for Freight Shipments (OGEFREM) oversees vessels entering and leaving the port of Matadi.[1]

6.1.2 The Oppressive Tax Regime

The black economy has been created in part by the DRC's complex tax system. It has led to an environment in which many businesses view full compliance with all assessed taxes and penalties as incompatible with remaining competitive.[13] In an effort to maintain market shares in the DRC, companies have developed an array of schemes to lower actual costs and hide funds from tax authorities. In many instances, businesses offer tax officials small bribes in return for a reduced formal tax bill. Legitimate companies that abide by international anti-bribery conventions must pay a wide array of taxes. In an effort to raise tax revenues, the GOC taxes firms for each transfer of cargo at the port of Matadi. For example, the government mandates that grain companies pay transit costs in Matadi for emptying grain from cargo

[11] Documentation provided by Francoise Van de Ven, Directeur General, *Société Africaine de Bois SPRL* (SAFBOIS), 17 March 2003.

[12] Ibid.

[13] Interview with member of DRC anti-corruption nongovernmental group, 18 March 2003.

Box 3. DRC Wood Sector Tax Regime

- Ministry of Environment:
  a) 1.5% of Free On Board (FOB) value for processed wood;
  b) 4.0% of FOB value for logs;
- The *Office Congolais de Contrôle* (OCC):
  a) 0.6% of FOB value for processed wood;
  b) 1.20% of FOB value for logs;
- The Customs Department (OFIDA):
  a) 6% of FOB value for logs;
  b) No taxes on processed wood;
- The National Office for Freight Shipments (OGEFREM):
  a) 0.5% of FOB value;
- CITES Certification : US $120.00 per certificate; and,
- Certificate of Origin and Phytosanitary certificate: US $50 per certificate.[1]

ships through suction tubes, and depositing the grain in storage facilities. The tax rates in the DRC are higher than any other state in the region. Taxes for piloting boats into harbor at Matadi are nearly seven times those applied in Pointe Noire, the major ocean port of neighboring Congo-Brazzaville, and far more expensive than any other port in western Africa.[14] (See Appendix 6, "Comparative Port Costs." N.B.: comparative totals for other West and Central African ports, presented in Appendix 6 table, last line, "Less Expensive Than Matadi," should all be increased by the figure of ONATRA's charges—US $32,866—for unloading 8,000 MT of corn or wheat.) Thus the same grain unloading activity conducted in Point Noire would cost $63,581 less (or $8 less/ton of grain unloaded) than in Matadi; for Douala, the corresponding figure would be $56,034 ($7 less/ton of grain unloaded). To what degree it is possible to extrapolate from "relative comparative costs" for *grain unloading* activities to *timber and lumber loading* activities in the same ports is uncertain. These figures would tend to suggest, however, that it is more expensive to conduct a wood and log export operation through Matadi than through either Point Noire or Douala.

Timber firms contend that the existing tax regime is oppressive and reduces the possibility for legitimate firms to operate honestly (in accord with fiscal regulations) and still remain competitive enough to maintain market share in the DRC. The tax regime for the extraction and export of raw logs and processed wood includes charges noted above see Box 3, "DRC Wood Sector Tax Regime," above).

To ensure that the services are provided, firms must pay extra fees to government officials, or risk delays in export formalities that can add two or three weeks or even more to the time required to issue indispensable documents. Furthermore, any company operating in rebel-held areas must routinely pay to the locally controlling force import and export duties, and taxes on fuel, spare parts, and foodstuffs.[15]

6.2 Emerging Threats to Remaining Unexploited Natural Resources

6.2.1 Potential Growth of the Timber Sector

Timber resources in the DRC are immense and easily accessible. With the signing of the peace accord, the timber industry, with modest investment in the sector, could experience significant growth in the short-term. The war devastated that industry, but many wood sector professionals remain in the DRC who worked in the more than 150 timber firms that operated before the war. The infrastructure in the DRC can support the transfer of large logs shipped by barge or floated down the Congo River. The infrastructure in neighboring states, especially Congo-Brazzaville, cannot easily support the transfer of large logs shipped

[14] Document provided by Philippe Bisoux, Directeur General, Midema, 12 March 2003.
[15] Interview with member of DRC anti-corruption nongovernmental group, 18 March 2003.

down the Ubangi and/or Congo Rivers to the Kinshasa/Brazzaville area. This also provides enormous opportunity for the pillage of timber resources by corrupt political officials and criminal gangs.

Throughout the war, numerous countries expressed interest in timber products in the DRC. Companies from Belgium, China, Denmark, Japan and the United States purchased wood from the now-defunct Thai logging firm DARA Forest, which operated a sawmill in Mangina. [7] Additionally, ENRA produced wood products in Beni throughout the war. In coming months, a series of factors that depressed the wood market will ease. With the signing of the peace accord, the river systems will gradually open, forest areas will no longer harbor rebels groups, such as the Mayi Mayi and Interahamwe, and foreign firms will increasingly send representatives to the DRC to place orders for expensive tropical hardwoods.

Firms from a number of countries, including Thailand, China, Malaysia, France, Belgium, Libya, India and South Africa, have recently inquired about future timber concession arrangements in the DRC. The high rate of corruption and dilapidated infrastructure, however, currently limits foreign investment in the timber industry. Firms are also aware of the inability of a Malaysian group (after an alleged bribe of US $500,000) and of the Zimbabweans to run profitable timber operations in the DRC. These examples serve a clear warning to potential investors. [7] In an effort to curtail the loss of significant investments, buyers are placing individual orders for timber or visiting the DRC and purchasing logs on sight. A large number of buyers from Jordan, Turkey, Japan, the United States, and Belgian routinely visit Kinshasa to purchase timber products.[16]

6.3 Legislative, Regulatory and Enforcement Deficiencies

6.3.1 Insufficient Legislative Regime

It is not accidental that no efforts have been made to construct the fundamentals of a regime to combat corruption and illicit finance schemes in the DRC. The DRC's history is one of rulers aspiring to hold and retain a monopoly of power. Salaries of DRC officials have, in practice, been regularly and heavily supplemented by revenues from bribery. Currently, corrupt government institutions include the presidential administration, the Council of Ministers, provincial governors, and the regional and local administration. Allegations frequently circulate alleging that members of the Cabinet of Ministers accept bribes, especially from local businessmen and individuals connected with the conflict commodities trade.[17] Thus, even with the substantial international pressure on the DRC to pass anti-corruption legislation and a comprehensive money laundering law, enactment is likely to be a struggle.

A review of the current counter money-laundering regime in the DRC uncovers the core deficiencies, including:

- No comprehensive counter-money laundering laws or regulations that meet international standards;
- No penal law criminalizing money laundering of limited practical effect and application;
- A failure to implement "know your customer" laws for many transactions;
- No mandatory suspicious transaction reporting requirements;
- No provision for safe harbors for financial personnel; and
- Inability—as a practical matter—to cooperate to assist in foreign money laundering investigations. The passage of anti-money laundering legislation that meets international standards for combating illicit finance schemes would remove most of the deficiencies. Immediate efforts must be made to implement the FATF Forty Recommendations, the basic legislative arrangements for anti-money

[16] Information gathered at log transit beach on Congo River close to Kinshasa, 20 March 2003.
[17] Interview with member of DRC anti-corruption nongovernmental group, 18 March 2003.

laundering efforts that establishes a framework to permit regulatory, enforcement and judicial agencies to meet international norms for combating money laundering.[18] (See Appendix 5.)

6.3.2 Lack of Regulatory Oversight

The DRC's areas of vulnerability and deficiency extend to every aspect of its financial services sector. ***There may be no other nation in which the lack of transparency regarding fund transfers plays a greater role in debilitating its economy.*** There remains no system for financial services record-keeping that is demonstrably enforced by bank regulators and no obligations to report the true beneficial owner of bank accounts. As a result, elaborate mechanisms have been established by financial elites in collusion with domestic financial institutions to transfer significant amounts of illicit profits offshore, where they cannot be traced. The Customs Department, which in theory should be monitoring false invoicing and illicit transfers of currency; and the Ministry of Justice, which is supposed to undertake internal coordination of money laundering efforts in the DRC, should oversee efforts to combat illicit finance schemes. In practice, only the Ministry of Finance and the tax police have directed a modicum of enforcement activity against money laundering in the DRC, with minor assistance from the Central Bank. To date, no financial institution in the DRC has ever been sanctioned for laundering money.[19]

6.3.3 Deficiencies in the Financial Sector

Enforcement and implementation of DRC's basic anti-money laundering legal and administrative framework remain by all accounts exceedingly limited. Lack of compliance with internationally accepted anti-money laundering standards by DRC banking and non-banking institutions has remained the norm. Legal coverage of other categories of DRC financial institutions by anti-money laundering laws remains uncertain, and no compliance efforts within such institutions are visible. In light of the presence of criminal networks overseen by parties from the DRC, Rwanda and Uganda, the DRC fails to meet the most rudimentary international anti-money laundering norms, especially as:

- Financial institutions do not take reasonable measures to obtain information about the true identity of the persons on whose behalf an account is opened or a transaction conducted if there are any doubts as to whether these clients or customers are acting on their own behalf.
- Financial institutions do not pay special attention to all complex, unusually large transactions, and all unusual patterns of transactions, which have no apparent economic or visible lawful purpose.
- Financial institutions have not developed programs against money laundering that would establish internal policies, procedures and controls, and adequate screening procedures to ensure high standards when hiring employees;
- Financial institutions do not give special attention to business relations and transactions with persons, including companies and financial institutions, from countries, which do not or insufficiently apply international anti-money laundering norms, especially Burundi, Rwanda and Uganda.
- Financial institutions permit anonymous accounts or accounts in obviously fictitious names.
- The DRC fails to provide a safe harbor to banking officials who report illicit finance violations to financial regulators or law enforcement agents.
- DRC does not make efforts to assure a spontaneous or "upon request" international information exchange relating to suspicious transactions, persons and corporations involved in those transactions between competent authorities. There is no central authority to take expeditious action in response to

[18] See http://www.fatf-gafi.org/40Recs_en.htm.
[19] Interview with Stanbic Bank representative, 18 March 2003.

requests by foreign countries to identify, freeze, seize and confiscate proceeds or other property of value corresponding to such proceeds, based on money laundering or the crimes underlying the laundering activity.

6.3.4 Inadequate Knowledge Base, Training, Government Capacity

The police, customs service, and formal judicial system in the DRC remain under-staffed. Their personnel are poorly trained, poorly paid, and operate with antiquated communications and data information systems.[20] Law enforcement agencies have very limited experience in investigating and prosecuting significant financial crime cases, confront problems of integrity, training, capacity, and resources, and have to contend with uncertain laws, duplicitous sources of potential evidence, and major gaps in the overall regime for combating money laundering, such as the failure to require currency reporting or mandatory suspicious activity reporting. While the local administration is re-structuring, civil servants are not paid, and in many part of the country the economy is almost at a standstill. Most laws and regulations used to prevent and resolve conflicts are either simply ignored or not applied. Local rebel administrations are more interested in natural resource exploitation and appropriation than in initiating any development schemes. For instance, in the Kivus where the state ceased to provide social services, the population took things in their own hands to provide the minimum of social; services, with support from a number of nongovernmental organizations and churches.

[20] Interview with member of DRC anti-corruption nongovernmental group, 18 March 2003.

7.0 CONCLUSIONS & RECOMMENDATIONS

7.1 Introduction

A recent editorial in the Economist noted the frequently felt sense of pessimism that surrounds the DRC.

> *[This] war is too complicated. At various points, six other African countries have sent substantial forces to attack or defend the Congolese government. In the chaos, countless rebel groups and tribal militias are slaughtering peasants and stealing their goats. The country is vast, thickly forested, barely governed and practically roadless. All parties to the war are looting Congo's natural resources, which gives them good reason to stay embroiled. Some [neighboring countries] have legitimate security concerns. The task of restoring peace and putting the Congo back together again seems quite impossible. [8]*

We would note further that the challenges the Congo faces are not simply a question of restoring governance systems and restarting a dormant economy, but rather the much more difficult challenge of totally reforming existing, ill-adapted governance and economic systems. This will involve doing away with criminal and corrupt systems and replacing them with transparent, equitable and democratic systems and institutions.

Progress has been made over the past year on some of these fronts, however, and we expect that progress to continue. We offer the following recommendations for supporting the peace process and, as a necessary part of that process, reducing temptation to convert the Congo's natural resources into conflict commodities.

7.2 Reflections on Reforms: Requirements and Opportunities in the DRC

The problem is systemic and hence the solution must address the system. "Restoring peace and putting the Congo back together" will require, firstly, a multi-sectoral approach with mutually supporting interventions at various levels in society, and horizontal and vertical integration of these interventions. Secondly, it will take time, and it will take dogged persistence. A number of points must be addressed

- *Deal with trauma.* The society has suffered an estimated 3.3 million deaths and 2.5 million people dislocated. Having a sustainable peace will require dealing with the trauma this suffering has produced at the national level, the provincial level and the community level.
- *Make government more accountable.* Actions necessary to combat fiscal and economic corruption can be addressed through enacting legislation and reforms in enforcement. Civil society organizations can play an important role in keeping pressure on the government to make the needed changes and to apply those reforms to positive effect.
- *Increase community participation in governance and the reform of local government.* The management of natural resources represents an important opportunity to put into effect reforms related to decentralization and de-concentration. But local initiatives need to be supported with *enabling* reforms at the national and provincial levels.
- *Regional framework.* Dealing with security concerns and anti-corruption will require a regional approach, with the commitment and active participation of neighboring states. Regional organizations such as SADC can bring pressure to bear on Congolese decision makers. Continued pressure by the international community offers important incentives and sanctions to keep the parties engaged and dealing with the fundamental issues that underlie this conflict. Such regional efforts were important in

getting foreign combatants off Congolese soil in the past year. The continuation of such efforts is critical for a sustainable peace.

- *Donor coordination is important.* We have seen the importance of maintaining a united front within the donor community that stopped or slowed funneling of profits on wartime pillage and plunder into quasi-legitimate business operations. The transitional government will present new opportunities for the international community to maintain vigilance and speak with one voice on the most important issues. Moreover, challenges of restoring peace and putting Congo back together far exceed the capacity of any single international financing or donor agency to address. Current significant efforts at donor coordination among these entities indicate that organizational leaders fully recognize the need for maintaining a united front in dealing with these challenges and pooling their resources.

7.3 Melding Forestry, Social Services and Incentives: Proposal for A Pilot Activity

Multiple challenges confront rural residents and wood sector entrepreneurs. First among these is the time it takes for most species of tropical hardwoods to mature. The minimum rotation probably requires 35-50 years. The fundamental problem is to create a situation in which those actors with the greatest interest in nurturing the careful, ***sustained*** recovery of the Congo forest industry sector would have a strong incentive to do so.

If concessionaires could have a high level of confidence that careful, reduced impact logging (RIL) practices designed to protect and promote natural regeneration of the most valuable tree species found in Congolese forests would redound to their benefit, they would have stronger incentives to encourage or insist on such measures in their concessions.

This would involve training and supervising logging crews during a logging operation in a concession to leave the highest quality trees standing as seed trees. Crews would also have to focus on avoiding destruction of natural regeneration, particularly of high quality species, during logging operations. This would apply equally during timber felling, extraction and transportation phases.

Carbon sequestration credits could be obtained.

Similarly, if villagers resident in those concessions could have a high level of confidence that social services, once initiated, would reliably continue, it would make sense for them to invest in such activities. It may be possible to structure logging concession institutional arrangements to encourage residents and entrepreneurs to work together with an eye on ensuring a future flow of benefits.

7.4 Background Context within Which Reforms Must Be Secured

7.4.1 Nature and Scale of Reform Challenges in the DRC

The Congo's natural resource riches, its hungry neighbors, a large class of corrupt entrepreneurs, etc., fundamentally transform reform challenges. It is not simply question of restoring governance systems and restarting a dormant economy, but rather the much more difficult challenge of totally reforming existing, ill-adapted governance and economic systems. This will involve controlling criminal and corrupt systems and gradually replacing them with transparent, equitable and democratic systems and institutions.

A viable state must be considered an important element of any meaningful reform response. Until and unless a system can be created that affords security to the DRC and its citizens against armed interventions by neighbors, reforms will likely remain problematic, even if they can be instituted. This is

a two-part problem, amply demonstrated and analyzed during the long-running efforts to reestablish peace in the DRC. The Congolese State must achieve two major objectives:

(1) Develop an army capable of defending the polity against the military forces of neighboring states, some of which have demonstrated a real capacity for warfare in the Great Lakes region.

(2) Put in place mechanisms capable of controlling opposition political and military forces from neighboring states presently sheltering on Congolese territory and prevent them from carrying out guerrilla attacks against their homelands.

Unless these objectives can be achieved, "conflict entrepreneurship" may persist as a viable possibility both for Congolese and for residents of neighboring states. If it does, then the very powerful incentives associated with that concept (acquiring other peoples' wealth through plunder rather than earning one's own through onerous work) may continue to drive behavior. In consequence, the DRC system of governance will remain inherently unstable.

This implies that a DRC state must be able to police its own employees and ensure that they implement rules honestly and efficiently, without constant effort to collect rents in the process. # That in turn assumes that state employees are paid a living wage in a regular, predictable manner, and that DRC state agencies can raise the revenues necessary to cover employment costs as well as operating budgets and a good share of investment costs as well. Underlying these observations are significant problems of corruption in both public and private sectors.

7.4.2 Combating Fiscal Corruption through Legislation and Enforcement[21]

Efforts to control and gradually abate corrupt practices in the DRC natural resource sector must focus on three interlinked problems:

- Regaining control of natural resources from the criminal enterprises established by intervening military forces, particularly the armies of Rwanda and Uganda;
- Controlling non-formal money transactions—which allegedly constitute 85% of all currency transactions in the DRC economy, and
- Regulating and restricting opportunities for conflict entrepreneurs to move illicit profits from the DRC to personal accounts established in regional financial centers, including banks in Uganda, Rwanda, Burundi, Tanzania, Zimbabwe and, further afield, the United Arab Emirates (UAE) and Belgium.

Meaningful regulation of financial institutions in the DRC, from money transfer shops to large commercial banks, *does not exist.* A few examples will illustrate the problem. First, in violation of widely accepted international anti-money laundering practices, banks in the DRC are not required to determine the true identity of owners of accounts opened in their institutions. This means in effect that conflict entrepreneurs and criminal organizations can open accounts in domestic banks under fictitious names and then use those accounts to transfer money to accounts in foreign banking institutions, in the process commingling illicit with legitimate funds and thus "laundering" the former by successfully concealing their source.

[21] This section draws on information contained in Appendix 4 on Economic Governance. For further details, please consult that Appendix.

DRC banks are not required to investigate the background of their employees, which in effect opens their doors to infiltration by criminal elements. They are not required to investigate the source of funds involved in large, unusual transactions. While they do keep some records of transactions, these are not typically as complete and detailed as anti-money laundering practices would require.

Potential clients mistrust DRC banks for good reason. Criminal groups have managed to place associates in DRC banking institutions, including apparently the Central Bank, who can acquire sensitive information about a company's finances and, for a price, make it available to competitors. Most businesses, therefore, prefer to open and use accounts in external jurisdictions.

Unregistered money transfer shops (in distinction to "private" money transfer shops, which are apparently subject to somewhat more regulation by the DRC Central Bank) are not required to maintain any records of their transactions, much less for a number of years after the fact. Anyone can set up a money transfer shop without complying with any licensing formalities or other regulations. These institutions, which typically charge a fee of 10% of the value of small transactions, can rapidly move tens of thousands of dollars throughout the DRC and the southern African region as well as elsewhere in the world.

Bulk smuggling of conflict commodities, particularly blood diamonds, occurs regularly in the DRC. Entrepreneurs, conflict entrepreneurs and criminal organizations collude in these transactions. Diamonds acquired in the DRC are often flown out of the country to the UAE, where they are exchanged for commodities ranging from automobiles to hand soap. Those commodities are flown back into the DRC and then sold in the course of normal commercial transactions. Money from those transactions, having been laundered through this process, becomes "licit funds." Criminal organizations and other actors then reinvest those funds in legitimate businesses.

Manipulation of customs regulations occurs frequently, for a price, and enables corrupt entrepreneurs to undercut legitimate competitors. In consequence of these practices, the DRC government foregoes revenue to which it is legally entitled, any remaining legitimate entrepreneurs find they must close down their businesses if they intend to preserve any of their capital, and illegitimate entrepreneurs tighten their hold on the DRC's economic system.

To combat this series of abuses assumes that DRC government officials have powerful incentives to do so. But established governance practices in the DRC create strong incentives for government officials to exploit their posts for as long as they can hold on to them. In a well established pattern, each new minister—and the composition of cabinets is often quite unstable—extracts as much public funds from accounts under his control as rapidly as he can. In order to profit from such operations over the longer term, the minister must have a way of moving funds rapidly out of the DRC and into foreign accounts without leaving a paper trail. For DRC officials, including the most senior decision-makers, to try to institutionalize meaningful regulation of financial transactions implies that they will have the "political will" to oppose their personal, strong self interest in preserving an unregulated financial system. Under the circumstances, in a culture of corruption where few are criticized for pursuing "Article 15" strategies, however formally illegal those may be, it seems unlikely that political elites will take action on this front unless they face unremitting and effective pressure.

It would appear that effectively combating fiscal corruption through legislation and enforcement will depend on the success of efforts to change public perceptions of the true costs to the DRC and to most of its residents of the country's reputation as one of the most corrupt jurisdictions in the contemporary world. The impact of that reputation in discouraging investment and economic activity confronts all those not tied into opportunities for illicit entrepreneurship with significantly reduced economic prospects.

While sustainably articulating demand for less corruption will be difficult, indications do exist that many Congolese do value honest institutions (see discussion below of "merry-go-rounds"—rotating mutual savings pools—under the heading "*Interventions at Multiple Levels.*" In addition, at least one civil society organization has been organized in the DRC to combat corruption. Success in such an endeavor will require identifying other potential allies, figuring out ways to support their efforts, and unrelenting persistence.

7.5 Anti-Corruption Strategy: Civil Society and Transparency International

One promising way of countering corruption in the DRC would be for donor and financing organizations to unite behind creation of a DRC chapter of Transparency International (TI). This NGO has accumulated appreciable experience on techniques for combating corrupt practices in various African countries. That experience could be brought to bear on the situation in the DRC, but would presumably require a long-term effort and levels of support adequate to permit a TI chapter to finance public awareness campaigns and other activities their experience demonstrates to be useful in mobilizing public opinion against corruption in the public and private sector.

The national TI chapter could also initiate a needs assessment for local level initiatives to provide reliable data for determining:

- Who is to be trained to combat corruption?
- In what areas are they to be trained?
- Who will provide the training?
- How are potential candidates to be trained?
- How are the results of training to be evaluated?

Finally a cost-benefits analysis could provide the basis for assessing whether money invested in training at the local level is well spent.

Combating corruption and mismanagement through increased community participation in resource management and governance reforms related to decentralization and de-concentration

One possible class of organizations that might be mobilized to articulate demands for more self-governance and less corruption in the exploitation of renewable resources, particularly forests, are community-based renewable resource user groups. Another might be local government units, e.g., villages and rural communities. Indigenous chiefs reportedly enjoy considerable respect in some areas (although in others they may well have lost their claim to legitimacy). Many Congolese believe that these individuals have at their disposal certain powers enabling them to enforce rules by imposing sanctions through supernatural means without the need to organize time-consuming patrols, i.e., monitoring arrangements, to ensure that both local and non-local users respect regulations governing access to and harvesting of renewable resources. In many parts of the DRC, church organizations have helped many communities survive under extremely difficult conditions, and might be able to provide both a moral sanction and other forms of support to resource governance and management activities.

National NGOs and international private voluntary organizations (PVOs) active in the areas of biodiversity preservation and renewable resources governance and management, e.g., the Diane Fosse Gorilla Foundation, Integrated Resources Management (IRM), and many others associated with the Central African Regional Program for the Environment (CARPE), would presumably have a long term interest in supporting such efforts.

The advantage of such initiatives promoting greater community participation in governance and management of renewable resources lies in the fact that, when valued natural resources become scarce in a local setting, local users have reason for concern. The more heavily they depend on forests, for instance, for fuel, construction materials, medicinal plants, bush meat, etc., the easier it may be to convince them, *in principle*, of the utility of trying to conserve remaining supplies and exploit them with a consistent eye to sustained yield use.

7.6 Enabling Framework of Sustainable Use of Renewable Natural Resources

One of the practical impediments to local resource users' engagement in efforts to use renewable resources sustainably may well lie in the absence of an appropriate enabling framework. Certain elements of the recently revised DRC forestry code begin to address that problem, but the new code does not address all of these issues successfully. State agencies still control allocation of logging concessions and issue licenses authorizing those actions. The new code calls upon wood industry firms exploiting concessions to make greater investments in social infrastructure facilities for the benefit of communities within whose territory they operate. But the general level of public awareness of these new rules, and of recourses available to local people to challenge a firm's activities on the grounds that they do not meet code requirements, may be quite limited. Public awareness campaigns, advocacy support projects, training in negotiation skills and similar initiatives might all be useful approaches to strengthening local efforts to govern and manage renewable resources sustainably. It is also important to recognize, in this regard, that *private sector, for profit firms do not have unlimited capital.* To stay in business, they must turn a profit on their operations. This means that community demands for infrastructure must be kept within reasonable limits.

7.7 Social Infrastructure, Community "Ownership," Facilities Maintenance and Governance

A possibly useful innovation in this regard might well be for community members to mobilize counterpart funds, materials and labor to assist with construction *and with maintenance* of social infrastructure. If such facilities come into existence in part because of community involvement and investments, the perceived level of "ownership" of those facilities is likely to be much higher than if they are seen as something a wood industry firm operating a forestry concession on community lands "owes" the community. That conception of such facilities easily shifts responsibility for maintenance of the facilities to the private sector firm and, in the process, undercuts opportunities to develop local capacity for self-governance. These opportunities lie in "on-the-job learning," i.e., solving problems of mobilizing funds, materials and labor necessary both to help build the facilities, and to maintain them. If communities know that they bear responsibility for maintaining facilities, they have an incentive to make sure that they can acquire the materials and master the techniques necessary to maintain new facilities. This in turns provides an incentive for community members to participate more fully in the design of such facilities.

Along these lines, training could be provided to both communities and wood industry firms that would help the two parties negotiate a shared agenda for action, come to a broadly accepted agreement on respective responsibilities of the two parties for construction and maintenance activities, etc. Difficulties along these lines can be anticipated, so any support activity should provide for support in assessing institutional problems associated with these endeavors and gradually redesigning institutions to adapt them more fully to local conditions.

7.8 Devolving Control over Renewable Natural Resources: Likely Difficulties

Devolution of power and authority over renewable natural resources from the national government to regional or local government units, or indeed to communities, poses a number of complex problems. Among these are winning support from national officials who may be loath to forego the financial resources that they can mobilize from resource exploitation under existing regulations. Another problem, particularly in a polity where the formal judicial system lacks credibility because of public perceptions that many judge-rendered decisions are the product of corrupt transactions, lies in sorting out competing claims to control over renewable resources.

The kind of destructive competition found in Indonesia among officials of different jurisdictional levels in the wake of rapid implementation of a policy that in principle devolved authority from the central state to local government units over many renewable resources, but particularly forests, is instructive. Officials at all levels have strong incentives to allocate logging concessions. When claims overlap, the judicial system has shown little ability to resolve resulting disputes. Innumerable conflicts have arisen as concession holders seek to exploit forest resources that they consider to fall within their authority. Most such disputes, and the actions that underlie them, leave affected communities worse rather than better off.

Evidence exists in some DRC Provinces that provincial governors and their staffs may be as or more corrupt and rapacious than central government officials (see Appendix 4). Community-based user groups need to be prepared to deal with such individuals and their strategies, which assumes that the former have meaningful and feasible recourses and understand how to invoke them.

7.8.1 Donor Coordination

Maintaining a united front in promoting reforms is indispensable. An excellent example of this approach has been the concerted outcry that slowed institutionalization of wartime pillage and plunder into quasi-legitimate business operations. The transitional government will present new opportunities for the international community to maintain vigilance and speak with one voice on the most important issues. It will be increasingly important to maintain this unity and a common agenda among international agencies operating in the DRC. Critical in this regard are efforts to develop and maintain a common front on policy issues, particularly as the current government seems disposed to listen to and act on reasonable policy advice.

The challenges posed by the contemporary DRC, as staff of international agencies fully recognize, are large. They far exceed the capacity of any single international financing or donor agency to address. Seeking to achieve and then jointly pursue implementation of a common agenda will prove indispensable in overcoming the strategies of political, economic and military elites thoroughly schooled in the mores of a corrupt, predatory system. Unless donors and financing agencies can help the DRC government put in place incentives that will lead members of the country's elite to adopt new patterns of behavior, the rational concerning post-war reconstruction efforts appears to be more business as usual. Establishing and institutionalizing incentives for new pattern of behavior is a huge, demanding task, especially given the history and current context in the DRC.

7.8.2 Interventions at Multiple Levels

In addressing these problems, it appears critical to organize interventions simultaneously at different levels (national, provincial and community levels). The vertical and horizontal integration necessary for the success of such efforts will again require close donor coordination and collaboration.

As USAID has long recognized, donors encounter extreme difficulty and little success in trying to use foreign assistance (grants and loans) to impose new behavioral norms in political systems based on the "rule of men" rather than the "rule of law." The near absolute necessity for citizens to play strong roles in any meaningful reform process lies in their fuller information—as a group—about what is actually happening in a system, and their ability to understand and sometimes counter strategies designed to delay or emasculate reforms. That said, it does not automatically follow that citizens have incentives to oppose the patterns incorporated in the concept "business as usual." If *Article 15* is the culturally accepted fallback position, then relatively few people, civil society actors among them, will see much point in "falling on their swords" to advance a laudable reform.

In this regard, information contained in Appendix 4 (Economic Governance) on the rotating mutual savings pools ("merry-go-rounds") that many salaried Congolese organize at their places of work describes a significant phenomenon. It exists in an economy thoroughly subject to corruption, both as a bald economic fact and as a strategy of governance since President Mobutu's accession to power four decades ago. Furthermore, the banking system functions literally with no meaningful controls. Despite—or because of—these conditions, merry-go-round members voluntarily pool their savings, manage the money and make payouts as promised. Given the character and failings of economic governance in so many other contemporary DRC institutions, this is a significant achievement. It suggests that many hundreds, if not thousands, of Congolese understand very well how to organize certain types of joint enterprises, and to render them largely exempt from corrupt practices. That they will repeatedly risk a percentage of their salaries on a weekly or monthly basis in such enterprises offers graphic proof that they think the risks are acceptable—or at least preferable to other means of mobilizing and preserving savings.

Anti-corruption and anti-money laundering reform efforts should begin from the assumption that successful efforts in this regard will incorporate an array of elements that make it feasible—politically, legally, economically—for people to support them. This assumption places a premium on the kinds of policy reforms discussed above, intended to reduce the scope for manipulative, illegal financial transactions and gradually improve the enabling framework and climate for investment. It also highlights the importance of trying to identify institutional arrangements that Congolese have developed, operations of which they understand, because such institutions constitute a form of social capital that might be mobilized in a reform effort. It may prove impossible to extend merry-go-round norms to other areas of economic activity, but the effort would appear worthwhile.

If similar efforts can be identified or organized in other areas, e.g., the governance and management of renewable natural resources as sustainable sources of value, including forests, it may prove possible over the longer term, through a series of incremental steps, to implement and institutionalize reforms in political and economic governance that attract support of the broad range of Congolese. This will, however, require persistent attention to the details of what goes right, what wrong, and *why*, so that such efforts can be gradually adjusted and more fully adapted to the realistic capacities of Congolese to support them.

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5 World Bank, *DRC- Emergency Economic and Social Reunification Support Project (EESRSP)*, December 18, 2002, Kinshasa/Washington DC.

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APPENDICES

APPENDIX 1 - COMMODITY ANALYSIS

A-1.1 Summary Findings and Recommendations

A-1.1.1 Timber Locations

The DRC is one of the three most important tropical timber countries in the world. The other two are Brazil and Indonesia. Relative to Indonesia, DRC timber resources have been far less affected by extensive logging and land conversion. About half the DRC is still covered by forest, and an additional 23% is classified as woodlands (crown cover < 50%). The country has the largest forest area in Africa and contains almost half of Africa's tropical moist forests.[22]

Several forest types dominate the landscape. These include the moist evergreen and semi-deciduous forests which occupy much of the central and western regions, swamp forests associated with the Congo River and its tributaries, and montane forests of the eastern highlands. Evergreen forests, which cover about 40 million hectares, are located in the central part of the country and represent the eastern most extension of the "Guinean" equatorial rainforest, a massive forest type that at one time stretched continuously from eastern DRC west to Liberia.[23]

Valuable timber is found virtually throughout the country. The most abundant stocks are located in the lowland evergreen forests, the swamp forests and the eastern montane forests. The northern-most parts of the DRC and the southern quarter of the country are covered by woodlands and savannas. These are the drier regions of the DRC, and even these less densely wooded areas contain a number of valuable timber species.

The province currently experiencing the most logging pressure is Bas Congo. Timber harvesting here began in the 1930s and continues today. Most of the forests are easy to access and located in between the port city of Matadi and the capital Kinshasa. Production levels have fallen off in recent years and the number of active wood industry firms operating in Bas Congo have dropped from 20 in the early 1990s to only four survivors today**.** During the first few years of the civil war, proceeds from logging in the Bas Congo area were used for government weapons procurement.[24]

Other active timber producing provinces include Orientale, Equatéur and Bandundu. Most of Orientale province is under the control of the rebel groups. This includes the city of Kisangani, the main transfer point for logs harvested in the region. Prior to the civil war, logs were transported to Kisangani and then floated down the Congo River to Kinshasa. Since the war began, logging activity in this region has virtually come to a halt. The exception is the Ituri forest in eastern Orientale, from where timber can be transported to Uganda by road. The montane and lowland forests of the Kivu provinces still contain valuable trees. Rebels control these areas and current cutting intensities are low due to access and security issues. Only limited logging occurs presently in northern Equatéur and Orientale provinces near the borders of the Central African Republic and the Republic of the Congo (Brazzaville). Rebel groups also control these areas.

Active logging is taking place in southern Equatéur and Bandundu province, both government controlled areas. Most of the timber arriving in Kinshasa (and the timber that is listed in the official records of the GOC) comes from these two areas. Forests in Kasai Occidental, also under government control, are being exploited at low levels.

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22 http://www.fao.org/forestry/fo/country/.
23 Ibid.
24 SPIAF, Kinshasa.

There is limited timber cutting in the drier woodlands of Katanga province and the southern sections of the Kasais and Bandundu. Most timber harvested is used locally.

A-1.1.2 Commercially Valuable Species

The DRC produces over 80 commercial tree species. The following is a list of the more valuable ones, their principle characteristics and uses[25],[26]. Scientific and local and/or commercial name(s) are presented for each species. The teak-like *Chlorophora excelsa* (Iroko), much sought after for a range of commercial applications and formerly widely distributed throughout the African continent, has been so overexploited in much of its range that it has been given protected status in eight African countries. The DRC still retains appreciable quantities.

- *Afzelia bipendesis* (Red Doussie) - Doussie is found in lowland evergreen forests throughout West and Central Africa. The wood is used in all parts of its range primarily for furniture, parquet flooring, exterior woodwork, construction, and fermentation barrels for wine production.
- *Chlorophora excelsa* (Iroko, Mvule)—Iroko is among the most sought after of African timbers and globally one of the most economically important. It frequently grows in transition areas between evergreen forests and savannas. It is transcontinental, found in forests of West, East, Central and Southern Africa. It has been exploited so heavily in parts of its range that it now has protected status in Ivory Coast, Nigeria, Mozambique, Tanzania, Uganda, Burundi, Rwanda, and Ghana. Iroko has a wide range of uses including flooring, construction, plywood, furniture and shipbuilding. It also has numerous local medicinal uses. It is often used as a substitute for teak
- *Entandophragma spp*. (Sipo, Sapelli, Kossip, Tiama, Umyove)—There are four species of *Entandophragma* commercially exploited on a large scale throughout the lowland forests of the DRC. A fifth is native to the eastern montane forests and a sixth to the southern woodlands; both are found in relatively small numbers and are mostly used for domestic consumption. This genus, along with *Khaya spp*., comprises the African mahoganies. They are heavily exploited throughout their range (all species are threatened in some areas). *Entandophrama spp*. is found in West, Central and parts of East Africa. The wood is used for flooring, furniture and both interior and exterior construction.
- *Gossweilerodendron balsamiferum* (Tola, Agba)—This tree is found throughout western and Central Africa in undisturbed, evergreen forests at elevations less than 500 meters. It is used for plywood, furniture, flooring and light construction.
- *Guarea cedrata* (Bosse)—This tree grows in dense evergreen forests of West, Central and East Africa. The wood is used for paneling, furniture, boat construction, flooring and decorative plaques.
- *Khaya spp*. (Khaya, white mahogany)—Three species of Khaya are found in the DRC, but only two are abundant enough for commercial exploitation (*K. anthotheca* and *K. ivoriensis*). Both *Khayas* grow in moist evergreen forests, usually in flat areas. A slow growing tree, it is heavily exploited throughout its range (from West to Southern Africa). It is used primarily to produce high quality furniture and flooring.
- *Lovoa trichilioides* (Dibetou, African walnut)—Dibetou is found in moist evergreen forests, usually growing in very acidic soils. It is distributed throughout West and Central Africa. Its range also includes a few isolated areas in East Africa. It is a slow growing tree that is used for furniture and interior trim woodwork. Lovoa has been heavily exploited in much of its range and it is now protected in Ivory Coast, Ghana and Liberia.

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[25] World Conservation Monitoring Center (WCMC) and UNEP. 1999. Contribution to an evaluation of tree species using the new CITES Listing Criteria. Australia.

[26] Chudnoff, M. 1984. Tropical Timbers of the World. Agriculture Handbook #607. Madison, WI. U.S. Dept. of Agriculture, Forest Service, Forest Products Laboratory. 464p.

- *Millettia laurentii* (Wenge)— Wenge is found in mixed evergreen/deciduous forests throughout western Central Africa. It is a tree commonly associated with poorly drained soils and swamp forests, but it is also found in open forest further south. Its main uses are for furniture and woodcarvings. It is also used for sporting good handles because of its good elasticity properties. It has been heavily exploited in most of its range; the DRC is the main source of Wenge for the European markets.
- *Mytragina ciliata* (Bahia, Abura)—Bahia is found in swamp forests of West and Central Africa. It is used primarily for structural timbers and plywood.
- *Pericopsis elata* (Afromosia, African teak)—Afromosia is found in drier deciduous forests of West and Central Africa usually growing in groups or clusters. It is a fast growing, dominant tree that can reach 150 feet in height. In the DRC it is usually found on drier sites in the central basin. It is threatened by overexploitation because it does not naturally regenerate. The wood is a substitute for teak and it is used for furniture, interior and exterior wood work and boat building. The United Kingdom is one of the largest importers of Afromosia.
- *Pterocarpus soyauxii* (Padauk)—Padauk is common in the moist forests of West and Central Africa. The tree usually grows in groups or clusters. Its dark brown-purple colored wood is used for construction, woodcarvings, flooring, and decorative veneer.
- *Terminalia superba* (Limba)—Limba is among the most important African commercial timber species. Its native range is West and western Central Africa. It grows in both deciduous and evergreen forest areas. It has also been widely planted outside of its range (East, Southern Africa and elsewhere) where it grows rapidly and is harvested on a 30-40 year rotation. It is heavily exploited in most parts of its range, particularly in the southern regions, but it aggressively re-colonizes areas that are cleared or disturbed. Once cut the wood needs to be transported and processed quickly or it will suffer from insect and fungal attack. The wood is used for plywood, furniture, interior construction and decorative veneer. Belgium, Switzerland and Germany are the largest European importers of this tree.
- *Triplochiton scleroxylon* (Samba, wawa)—This is a large tree (up to 180 feet tall) that is usually found in transition forests (between deciduous and evergreen forests), along waterways or in abandoned fields. It prefers alkaline soils. It is found in West and western Central Africa. It is a fast growing tree that needs full sunlight. It is one of the most important tropical timbers for local and international construction (especially for European and North American markets).

While there are others, these species represent most of the commercially valuable trees actively marketed today. Current international market values for these trees are listed in Appendix 2.

A-1.1.3 Concessions

Commercial timber exploitation has been taking place in the DRC for most of the past century. It is only during the past 30+ years, however, that timber harvesting has become a commercial venture conducted on more than a merely local scale. Difficult access to most of the DRC's timber resources has been and continues to be the single greatest constraint on developing the industry. The lack of security in the DRC since the start of the civil war has intensified access problems. For these reasons, concession agreements have mostly not been managed or completed in a satisfactory manner.

The concession process has several stages. First, companies are given a year to develop a viable logging plan. Once this is approved, the company is required to spend about three years' building roads and setting up infrastructure before timber harvesting can begin. This process is similar to the way concessions are granted in other countries. Most concessions are granted for 25 years and they can be renewed.[27] Some logging companies claim that they have to give a small percentage of their profits to middlemen to make sure the transaction is completed. This is a common complaint heard throughout

[27] AID Environment 2000. Country study, Democratic Republic of the Congo.

Kinshasa in relation to operating a business. Concessionaires pay US $2 per hectare for each 1,000-hectare block for which they have been granted authorization to cut.[28]

Concessions in Bas-Congo were among the first to be awarded because forest there was readily accessible and transport facilities existed. With the exception of eastern Congo, most other concessions depend on river transport to transport timber to Kinshasa. In all, about 10 million hectares of DRC forests have been set aside in concessions, but less than one million hectares are currently under active exploitation. Concessions range in size from about 50,000 to over 700,000 hectares. Most cover around 200,000 hectares and are located in Equatéur.[29] Western Orientale has a high concentration as well, although relatively few of concessions there are currently active because of lingering effects of the civil war. The majority of the rest are in Bandundu. Table A-1.1 summarizes the amount of forest area covered by concession granted to some of the larger companies.

Table A-1.1. Forest Area Covered by Select Concessions (SPIAF 2002)

Company	Area (Ha)
SIFORCO	3,017,735
SOFORMA	131,264
SCIBOIS	204,850
SICOBOIS	624,073
AGRIPRO	359,600
BBC	879,288

Timber harvested in parts of Equatéur is still floated down the Congo River to Kinshasa and transported to points beyond (for international export). There are also some active concessions in Bas-Congo. There is one isolated inactive concession in eastern Orientale. This was awarded to DARA Forest Industries in the late 1990s. Shortly thereafter, Mayi Mayi rebels (local militia) took hostage for a time a number of DARA mill workers (Thai nationals), and DARA soon thereafter abandoned the concession. Lingering security issues throughout the country prevent consistent exploitation of the vast majority of concessions.

A-1.1.4 Protected Areas

The DRC contains seven national parks, four of which are located in forest areas. Three are found in the eastern part of the country, while the largest and most remote (Salonga National Park) is situated in the evergreen forests of the central basin. Salonga is the largest tropical forest national park in the world. It covers an area of 3,600,000 hectares. Salonga is comprised of swamp, riverine, and dry-land forest types. Concessions border the southern, western and northern parts of the park. No systematic faunal survey has been conducted, but Salonga is home to an important primate species, pygmy chimpanzees or bonobos as they are commonly known (*Pan paniscus)*. Bonobos are endemic to the DRC. There is little baseline information about this park because of its relative isolation.[30]

The three other forested national parks are located in the Kivus and Orientale. Maiki National Park covers an area of 1,083,000 hectares and is situated between the Congo River and the Albertine Rift highlands (which form the border with Uganda, Rwanda and Burundi). It is a lowland evergreen forest located in an

[28] Ibid.
[29] SPIAF, Kinshasa.
[30] http://www.unep-wcmc.org/protected_areas/data/sample/0239p.htm.

area of low population density. As with the Salongo, there is little baseline biodiversity information available for Maiki.

Virunga National Park is one of the world's oldest protected areas and the first national park on the African continent (established in 1925). It was designated a World Heritage site in 1979. The park is broken into several non-contiguous sectors, which cover an area of about 790,000 ha. The southern-most section is part of a larger transboundary park system that includes Mgahinga Gorilla National Park in Uganda (3,000 ha) and Volcano National Park in Rwanda (23,000 ha). During the past decade this transboundary forest has been affected by illegal logging. More importantly, forest resources have been used to supply refugee camps within and adjacent to the park. The camps developed as a result of civil war in Rwanda and the DRC and several recent volcanic eruptions in the area. Further north, Virunga is part of another transboundary park system with Uganda, the Rwenzori Mountains of the Moon.

Kahuzi-Biega National Park is located in South Kivu, just west of Bukavu and Lake Kivu. Kahuzi-Biega (named after two extinct volcanoes) was established in 1970 and classified as a World Heritage site in 1980. The park was created to protect the resident gorilla population (about 250 animals), and was the first park to develop gorilla tourism (in the 1970s). The 600,000-hectare park contains a block of middle-high altitude forest. Large tracts of the park are difficult to monitor, and illegal logging has been a management problem throughout most of the park's existence.

A-1.1.5 Forest Industries

The extent and intensity of the timber industry in the DRC pales in comparison with some of its smaller neighbors. By the mid 1990s there were over 100 forest companies (of all sizes) operating at moderate levels in the country. Since that time the number of active forest companies has dropped by about 75%.[31] Many of the inactive companies still maintain a presence in the DRC, and others have capital investments that are no longer operational because of the civil war and insecurity. Numerous sawmills located in the interior of the DRC have shut down or are operating at low capacity. Most are waiting for stability to return so that their facilities can once again become operational.

A partial list of the seven most important forest industry firms currently operating in the DRC follows (this group includes, it should be noted, the major exporters). Company descriptions provide a snapshot of forestry industry firms, the geographic location of their concessions, and their DRC-based processing (value-adding) capacities.

- SODEFOR - During the past several years SODEFOR has been the leading company in timber exports. In 2002 SODEFOR's timber exports more than quadrupled those of the next leading exporter, SOFORMA.[32] SODEFOR is listed as a family operation with Portuguese ties. They have concessions in Bandundu, Equatéur and Bas Congo.
- SOFORMA—This is the second most active forest company in timber exports for the year 2002. SOFORMA also operates a sawmill and plywood mill in Kinshasa. SOFORMA's activities are more diversified than timber; they have also recently participated in the rehabilitation of Boma's infrastructure by grading and improving the roads in that port city. SOFORMA is Swiss owned and most of its concessions are located in Bas Congo and Bandundu. It also has concessions in Equatéur and Orientale.
- PARCAFRIQUE—One of the largest exporters for 2002, PARCAFRIQUE was created in Kinshasa in 1971. It opened a sawmill in the mid-eighties and has been producing finished parquet flooring since 1990. The company deals on both the domestic and export markets for flooring. Other products

[31] SPIAF, Kinshasa.
[32] Ibid.

include: skirting, interior architecture woodwork and furniture. PARCAFRIQUE is a company now owned by PRIMEX, a trading and technical support company based in Turin, Italy. PRIMEX was set up n 1987 to promote trade with the DRC and has been acting as the distributor for PARCAFRIQUE products since that time. PRIMEX works worldwide, and in the DRC Italian experts manage processing and conduct administration. PARCAFRIQUE has concessions in two parts of the country (areas A and B). Area A is in Equatéur where PARCAFRIQE formerly used Afromosia almost exclusively. Eventually other forest exploitation sites for Afromosia were opened around Basankusu, Lisala and Bumba. These forests are also harvested for species including Iroko, Doussie, mahogany and Paduk. Cutting sites in Area B include Lake Mai-Ndombe, Lukulela, Bolobo, Bikoro. The species cut here are wenge, bosse and mahogany.[33]

- ITB - Family owned business with Lebanese ties. ITB's concessions are mostly in Bandundu. ITB supplies mostly domestic demand in the plywood and veneer industry. The company also exports a modest amount of timber in the round.
- SAFBOIS—Family owned business with American links for three generations. SAFBOIS has concessions along the Congo River from Mbandaka to Kisangani. It has both a sawmill and a drying kiln near Kinshasa. The company is planning to start up operations once again at its site in Mbandaka. About 25% of the wood it processed last year was for the export market. A SAFBOIS barge was reportedly among the first to move well up the Congo River since the outbreak of the civil war in 1998. It carried supplies for loggers in Bumba and was scheduled to return with over 7,000 tons of hardwoods.
- SIFORCO—This company has the largest concession holdings in the DRC (roughly 3 million hectares), or roughly 25% of all concessions. SIFORCO is owned by Danzer, German company. The German government also supports SIFORCO through an investment institution known as DEG (about $7 million US invested). Although SIFORCO controls an exceptionally large percentage of the timber concessions, most of them are in rebel held territory and have not been operational since the outbreak of the civil war. SIFORCO's production figures have dropped dramatically during this time, and it has been forced to close down some of its mills and lay off workers. It also has the largest and best kilns for drying timber. Currently, SIFORCO uses only about 10% of its kiln capacity.
- SOKINEX—This company was at one time part of the Soforma group of companies. It is Belgian owned with over 400,000 hectares of concessions in Equatéur and Orientale. Most of its activities have been suspended since the civil war.

A partial list of other forest companies that have recently worked in the DRC, but have suspended operations include Agrifor, Bikin, Forescom, Bimpe, ICB, Socobela, Agripro and BBC.[34]

A-1.1.6 Harvesting Practices

Mechanized logging is the norm in DRC concessions. Typical heavy equipment includes bulldozers (Cats) front-end loaders, and road graders, all used in road construction and timber extraction. Chainsaws are used for felling and bucking. Trucks and trailers transport logs.

Selective logging is practiced throughout most of the areas, with logging intensities from one to several trees per hectare (which translates into 10-25 m³ of merchantable volume per hectare). Most of the damage to residual vegetation is from the extraction, or skidding, of the logs to a loading site. Logs are dragged through the forest by either Cats or skidders. Skyline cable logging and other reduced impact logging (RIL) techniques to minimize damage to the residual forest are not utilized.

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33 http://www.primexparquet.com/.

34 Luhunu, K.S. and Kiyulu N'Yanaga-Nzo, J. 2001. *Integration of Biodiversity into the Forestry Sector in the DRC: Congo Case Study*. UNEP, CIFOR, GEF. Paper presented for planning workshop held in Bogor, Indonesia (CIFOR headquarters).

Mechanized logging with heavy equipment is less common in eastern DRC. Only one official concession has been awarded in that area, and is not presently active. Timber cutting occurs throughout the eastern forests, but not at the same harvesting levels as in active concessions. Traditional pit sawing, or modifications of traditional practices are more common throughout the eastern DRC. In that region, most of the easily accessible timber close to the main roadways has already been harvested.

Logging in eastern DRC is also selective and designed to "high-grade" the most desired species. Pit sawing involves cutting planks from the trees where the felling takes place. Traditional methods employ cross cut saws specially designed for pit sawing work. This is time consuming relative to more mechanized methods (portable saw mills or moving logs to the nearest saw mill). In northern Kivu and eastern Orientale, to save time woodcutting methods have shifted from using cross cut saws to chain saws for cutting boards from logs.[35] This method is quicker but much more wasteful: the width of the cut (kerf) is greater using chain saws and the cut is rougher, meaning that additional fiber must be planed from the wood to smooth the surface during final processing. Ugandan woodcutters handle most of the chain saw planking. They have been brought to DRC logging sites because of their experience with this technique. Laborers carry out cut boards individually to the closest road site and load them on vans or trucks to be shipped to local markets and beyond.

A-1.1.7 Transportation

In all regions except eastern DRC, the extensive river system is the principle means of transporting timber from concession sites to Kinshasa. Most of the timber is latched together and floated in groups, sometimes with the assistance of a small outboard motor or boat. The density of several species (wenge, for example) is too high for floating—the logs sink when placed in the river. Wenge logs are normally transported on simple open barges (which adds to the transport costs). Logs destined for export are loaded onto rail cars in Kinshasa and then shipped to the Matadi seaport on the lower Congo River. Timber exported in the round (as unprocessed logs) is loaded on flat bed rail cars. Planks, boards and other processed timber products are loaded into container cars and often shipped by rail to the port city. The majority of the timber arriving in Kinshasa at this time originates in Equatéur and Bandundu.

The DRC's road network has deteriorated significantly during the past forty years. Road transport of timber is significant only in Bas Congo and eastern DRC. Although most of the easily accessible forests in Bas Congo have already been cut over, the road system is still regularly used to transport timber either to Kinshasa or the coast.

In addition to serving to transport timber short distances to local markets, the eastern DRC road system is the only means of moving timber in that area. Timber is destined for either towns or communities in the eastern provinces, or it continues to markets in neighboring and regional countries (Uganda, Rwanda, Burundi and Kenya). Some of that timber has made its way to the Kenyan coast to be shipped to points in Asia, the Middle East and Europe.

One other rail line that is sometimes used for timber transport connects the Kasai Provinces with Katanga Province, Lubumbashi and Zambia. This is the rail line that was to have been used for the extraction of timber in concessions granted to the Zimbabwean military. The concession plan called for timber to be shipped by rail through Zambia, into Zimbabwe and points south. Lack of start-up capital, logistic problems, transport costs and the relatively small amount of timber (on a per hectare basis) impeded activation of the Zimbabwe concession agreements. The initiative has since been abandoned.

[35] Uganda Forest Department, Kampala.

A-1.1.8 Processing

For the size and potential productivity of the DRC forest resource base, the processing infrastructure is modest. The majority of the wood processing in the DRC revolves around sawmills scattered throughout the country. The capacity of the mills varies greatly, but at least 15 are capable of processing large volumes of timber.[36] Most of the more important mills are located in Kinshasa, Mbandaka or Kisangani. The mills primarily serve the domestic market.

A single plywood mill, located in Kinshasa, currently operates in the DRC. The amount of plywood exported is minimal, which represents a loss of potential income. Processing capacity in general limits the amount of revenue that the DRC can retain on its timber resources, as prices for processed wood are considerably higher than wood shipped in the round. Furthermore, domestic economic opportunities from mill employment and ancillary industries and services are lost when the wood is processed offshore. Table 2 highlights the value differences between exporting logs and processed materials for eight of the more commonly used species.

Table A-1.2. A Comparison of Value-added Processing for Selected Timber Species in the DRC (SPIAF 2001)

Scientific and Commercial Name	Euro/m³ Logs (round)	Euro/m³ Cants (squared logs)	Euro/m³ Boards	Euro/m³ Plywood	Euro/m³ Finished Veneer
Pericopsis elata (Afromosia)	240.56	304.54	435.04	549.59	845.23
Entandophragma utile (Sipo)	196.66	299.88	428.40	556.91	685.42
E. cylindricum (Sapelli)	162.69	214.25	306.06	397.87	490.00
E. angolensis (Tiama)	88.21	185.06	264.37	354.52	453.02
Miletia laurentii (Wenge)	209.81	304.54	435.04	549.39	950.91
Khaya anthotheca (Khaya)	118.83	192.13	274.49	368.08	489.70
Terminalia superba (Limba)	83.63	102.90	146.96	185.60	285.55
Gossweilerodendron blsam (Tola)	97.49	164.42	234.88	299.53	436.36

Note: Parquet flooring was not included in the above table because only two of the eight species listed are used in the DRC for that end product (Wenge and Afromosia). The value of parquet flooring of the two species in 2001 was respectively 629.87 Euros/m³ and 594.46 Euros/m³ . This places parquet flooring just above plywood in terms of added value and below finished veneer.

A-1.1.9 Reforestation

Reforestation is addressed in the forestry code. Specifically, reforestation is covered in the section that addresses inventory, management and reforestation (Title VI), Chapter III, Articles 77 through 81. The following articles cover reforestation:

- Article 77—Defines reforestation as being either natural (allowing residual parent trees to provide the seed and seedlings), or artificial (replanting).
- Article 78—Defines who can be involved in reforestation activities (government officials at the national and provincial level, concession holders, woodcutters, and local communities). This article also states that the appropriate GOC ministry officials are responsible for supervising this work.
- Article 79—Notes that the local population should be encouraged to the greatest extent possible to play a role in reforestation. It also provides the local population with access to non-classified

[36] SPIAF, Kinshasa.

forestland, tree seed and seedlings, and offers GOC technical support for reforestation activities. All of this must be carried out with the approval and supervision of the Minister's office.

- Article 80—States that any product that results from a reforestation activity must be exploited according to the existing law and with respect to environmental safeguards. These activities are also subject to the approval of the Ministry.
- Article 81—Calls for the establishment of a National Forestry Fund that is designed to sustainably support reforestation and forest management activities. This fund is established through taxes levied to support reforestation and other sources of forest revenues. The Ministry manages the fund, although the President of the Republic determines organization and methods of implementing the fund.

Although the DRC's Forest Code addresses many, if not most of the issues normally related to reforestation, the situation on the ground is considerably different. With the timber industry operating at very low productivity levels, reforestation efforts are minimal. Communal forest concessions are very rare. The ability of the Ministry to oversee reforestation work at any level is limited, and it will probably remain that way for the near future until harvesting operations increase. Essentially, although natural reforestation occurs on areas selectively harvested, reforestation activities through replanting or direct seeding are not common. On paper the Forest Fund is a good idea; in reality it has not worked well. Prior to the civil war the fund supported some limited reforestation work, but it fell far short of target numbers. Since the civil war the fund has been suspended. There are plans to renew the mechanism once the stability and the transition period are over.[37]

Forest law from the post-colonial period obliges anyone who cuts a tree to replant at least one tree. However, since forests (and trees) under law are owned by the State, small-scale woodcutters and farmers hesitate to grow trees at any level beyond scales that they can easily control. In most rural areas, farmers are reluctant to plant trees because they fear that the government will use trees as an excuse to expropriate land and resources.

The original forest code (*Regime Forestier*) was enacted April 11, 1941. Since that time there have been modifications to the code that more adequately reflect changing political, economic, social and environmental conditions. The GOC has received external support (largely from the Canadians from 1975 through 1990) in modernizing aspects of the DRC's forest code. More recently, in an effort to modernize the Code, the DRC enacted the "Loi 011/2002 29 Aout" which modifies preexisting law.[38] The latest modifications highlight nine changes: five that address institutional issues and four that focus on management. The following text summarizes the nine points.

Institutional:

- The national government will eventually develop a National Forest Policy to be derived from a National Forestry Master Plan (NFMP). The central focus of the NFMP is the economic development of the forestry sector. The NFMP will not be a static document; it will be regularly revised to reflect the prevailing economic and social conditions (the NFMP process has not yet started, however the FAO is taking the lead by providing long-term Canadian technical assistance for a three year period).
- Forests can be classified or declassified by the Minister according to guidelines and procedures established by the President of the Republic.
- Current law calls for three classes of forests: 1. Classified Forests (multiple-use forests), 2. Protected Areas (parks and reserves), and 3. Production Forests (primary role is wood production).

[37] Ibid.
[38] Loi 011/2002, 29 Aout, 2002 – Portant Code Forestier.

- Creation of a central and provincial forest database designed to capture all existing forest laws and related issues (contracts, management plans, and boundaries). This will enable planners and managers to consolidate and reconcile information related to effective management and to develop sound forest policy.
- The creation of national and provincial forest advisory committees. The national committee will be responsible for national level forest planning; the provincial committee is more concerned with management, especially as it relates to classifying or declassifying forestland (this process will include input from local populations).

Management Planning:

- All forests that are to be handed over to companies or communities will be the focus of preliminary fact finding missions to ascertain all claims and rights to the area in question. This procedure will require discussions with local communities.
- To ensure sustainable use of forests, two activities must be conducted: a preliminary forest inventory, and management plan development.
- Concession agreements must follow the approved boundaries and be concerned only with timber extraction. Each concession agreement will be managed through a contract that specifies roles and responsibilities.
- The original forest code calls for the establishment of the Forest Fund mentioned above. The latest version permits the government to modify rules and procedures related to the Fund to more adequately reflect the prevailing socioeconomic conditions of the country.

Another new initiative in the revised forest code is a provision for setting up conservation concessions where cutting would not be permitted. These concessions would be established to protect endangered species, promote tourism, protect carbon sinks and for the maintenance of key environmental services (watershed forests). The new code also encourages the active participation of the international conservation NGO community to support conservation concessions as well as management of the protected area network.

Forest industry comments on the revised forest code are mixed. The more well established enterprises are pleased with the fact that fees have been increased for industry and that the bidding process is set up to be more competitive. Industry leaders hope that this will eliminate the less serious companies that are not in the DRC for the long-term. However, the same groups are concerned that the new code burdens logging companies with too much responsibility for the welfare of communities affected by forest operations. Some companies also believe that the new code does not go far enough in eliminating illegal logging.[39]

Though most of the Forest Code revisions are positive, there are critical areas in relation to global forest management trends that are not adequately addressed. In most other nations, the management of natural resources (including forests) is in the forefront of decentralization initiatives. This is not the case for the DRC. The current decentralization initiative, designed to move forward once the transition period is over, has little direct relation to forest management issues. This is an oversight when considering that DRC ranks among the top three countries globally in relation to quality and quantity of productive tropical forests. Centralized management has clearly not been effective, and the current law only hints at the possibility of empowering provinces to manage forest resources. The majority of the authority still rests with the central government (Ministry and President's Office).

[39] Forests Monitor. 2001. Sold down the river. The need to control transnational forestry corporations: a European case study. Cambridge, UK.

Another issue inadequately addressed is the role of local communities in the management of forests. Provisions have been included requiring consultation with communities on questions related to classifying and declassifying forestland. Changes also call for granting concessions in exceptional cases to local communities that can demonstrate cultural or ancestral ties to a particular forest. However, the amended Code contains only limited discussion on the role of communities as stewards of their forests. As with forest management and local or provincial government, again, authority remains with central government.

A-1.1.10 Environmental and Social Impacts

Reliable estimates of environmental damage associated with logging do not exist for most parts of the country. However, a number of trends indicate that problems are looming on the horizon. First, it has been noted that sediment loads in rivers and streams are steadily increasing downstream from logging sites. Riverine forests are usually among the first areas logged because of their accessibility. Guidelines are established which prohibit logging right up to the water's edge, but these are often ignored. Second, road networks are established in concession areas. Companies hire laborers to work the concessions; some remain to establish villages or communities within the forests. Poaching and other destructive practices sharply increase near new communities. Furthermore, opening forest areas often encourages others to settle within these new communities and leads to the conversion of forests to agricultural land. In the mountainous areas of eastern DRC, logging frequently accelerates soil erosion, which in turn limits agricultural productivity and threatens food security.

Once logging operations begin and new communities are established they usually become dependent on the forest company for a wide range of goods and services, many of which the companies will not or cannot supply. This is especially true in the case of education and health services. Also, most of the logging companies do not follow safety standards and procedures that are established to protect laborers. Logging concessions also appear to perpetuate or indirectly support a system of community structure (established during the colonial period) that leaves the most disadvantaged with little chance of obtaining secure tenure, while profits from land stewardship rest with the local chiefs and their clients. As noted earlier, the recent Forest Code reform does not adequately address local government or community issues.

The groups that suffer the most as a result of logging operations and forest conversion are the traditional forest people of the Congo basin, the Pygmies. Pygmies in the DRC and neighboring countries have been relegated to the status of second class citizens. Fellow nationals, (from farmers to the elite) frequently view them as little more than an ethnic curiosity. This perception has largely developed because Pygmies derive their livelihood from the forest (a place most others fear).

The destruction of their forests often leads to malnutrition and increased incidence of disease among Pygmy groups. While logging and forest conversion pose a direct threat to the Pygmies' livelihood, they are additionally at risk from conservation initiatives. Some current conservation plans call for the exclusion of Pygmies from their traditional hunting grounds (Ituri Forest). In the 1970s and 1980s, Batwa Pygmies were expelled from the Kahuzi-Biega forests in Kivu, without compensation or provision of alternative lands.[40] Similar initiatives have been implemented in other forests throughout East/Central Africa; in Rwanda and Uganda, laws authorized removing pygmies from "their" forests and resettling them in communities on the outskirts of forest areas (this has happened to a certain extent in Burundi as well). In all cases, the Pygmies' transition from forest-based livelihood to agriculture has gone poorly.

[40] Ibid.

APPENDIX 2 - MARKETS AND MARKETING ANALYSIS

A-2.1 Global Demand for Wood Fiber

Annual average global wood consumption in the late 1990's was about 3.5 billion m³. This equates to roughly 1% of the global growing stock. About 65% of this was used for fuel and other domestic uses, and the rest for industrial round wood. Consumption rates and patterns vary greatly from country to country and depend to a great degree on a country's industrial capacity as well as the standard of living. In developing countries, 80% of wood consumed goes for fuel. This contrasts dramatically with more developed countries where wood fuel consumption drops to about 33%.[41] Recent projections indicate that wood demand will increase by about 1.1% per year for fuel and 1.7% for industrial roundwood through the year 2010.

Two issues most directly affect global wood demand: population growth and standard of living. Despite zero or negative growth rates in many developed countries, some estimates place the world population at 10 billion by the year 2050. This would amount to almost doubling the global population of 1990, in a mere 60 years. Wood products are used by virtually everyone, and demand for wood products is almost certain to increase along with population growth. Developed countries use wood products at a higher per capita rate than developing countries. As developing countries become more industrialized, the demand for wood will probably grow. There has been positive growth in the emerging economies particularly in East Asia and the Pacific over the past 40 years. These markets grew faster than other developing regions with a GDP growth of 5.3% per year. In 2000 Japan was the world's largest importer of tropical timber after China and the European Union.

North America and Europe dominate the world's timber trade both in terms of exports and imports except for plywood where developing countries such as Indonesia (31.5%) and Malaysia (15.7%) were dominant. In 2001, the world trade in timber comprising industrial roundwood, sawn timber, wood panels together amounted to an export volume of 300.3 million m³. Sawn timber constituted the largest share at 47% followed by wood-based panels (35.2%) and industrial roundwood (17.7%).[42]

Current production and consumption rates clearly demonstrate one trend: all regions of the world are producing more than they are consuming. The one glaring exception is Asia (including Russia). Asia produces about 300 million m³ per year, while it consumes about 500 million m³.[43] This is not likely to change soon and Asia will remain a net wood-importing region for some time to come.

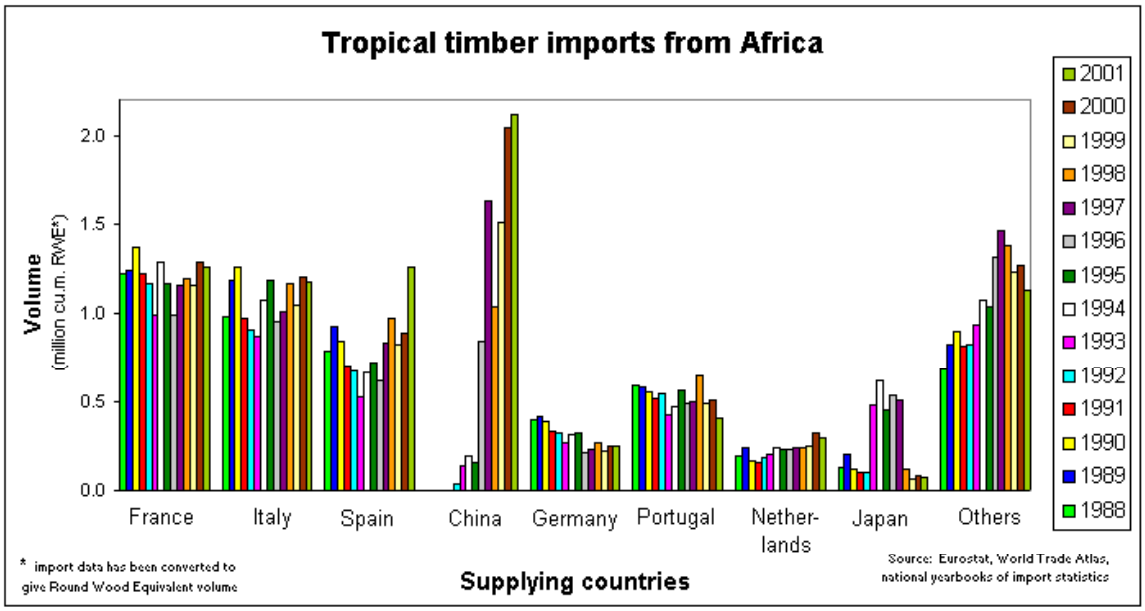
In the global sense, technology could offset some of this demand. For example, annual global per capita consumption of industrial roundwood between 1970 and 1990 is estimated at about 0.4 m³. During the 1990s this number dropped to just over 0.3 m³ (Timberland report). Technology (increased recycling), decreased production from North American and Russia forests (for ecological and political reasons, respectively) and economic downturns in Asia during the 1990s are believed to be the root causes for this change.

The FAO indicates that the world timber trade is shifting in the last decade toward value-added processing for timber products for furniture and carpentry needs. It is expected that world trade in these products will continue to grow annually at an impressive rate of 9 to 10%. Many of the tropical timber

[41] FAO. 1999. Committee for Forestry. Progress toward sustainable forest management and follow up to UNCED including work on the Intergovernmental Panel on Forests (IPF).
[42] Malaysian Timber Council. http://www.mtc.com.my/
[43] FAO, 1999.

producing countries are progressively moving into this area. In these countries export of these products have grown more than 300% in the last ten years.[44]

Figure A-2.1. Main Countries Importing African Timber in Period Since 1988



Source: Global Timber UK 2002

A-2.1.1 African Exports

Global timber markets are dynamic, and this is underscored by the shift in timber exports during the past decade. Although the US, Europe and Japan have been and continue to import the greatest quantities of timber, China, Malaysia and other Asian nations are closing the gap. This is especially true for African timber. Up until the late 1990s markets in France, Italy, Spain, and Portugal took the majority of timber exports from Africa. Since the late 1990s, however, exports to China have risen dramatically in countries like Liberia, Gabon and Cameroon. This is highlighted in Figure 1 above. China's imports exceed those of any other country by at least 500,000 m³ roundwood equivalent. Combined European imports (excluding those of the United Kingdom, the Scandinavian countries and other European Union members not specifically listed in Figure A-2.1) of an estimated 4.6 million m³ of round wood equivalents, however, in their turn amount to more than double the current Chinese demand. Figure A-2.1 does not present the amount of US. demand.

Prior to 1990, Ivory Coast was Africa's leading exporter of tropical timber. Since that time Ivory Coast has been replaced by Gabon and Cameroon. Ghana exports a significant amount, but falls well below the Ivory Coast. By 2000, Equatorial Guinea had become the sixth largest of Africa's exporters of tropical timber, just ahead of Liberia (which used to be the fourth largest).[45] The exports of tropical timber from Congo (Brazzaville) fell during the 1990s but remained substantial.

44 http://www.globaltimber.org.uk/index.htm.
45 Ibid.

A-2.1.2 Domestic and Export Markets for the DRC

Relative to its size and vast forest resource base, current DRC timber production is a small fraction of what the country could potentially produce. Some project that the DRC's forests could generate over 14 million m³ of timber per year. This would make current production rates about 1/35th of the country's actual potential.[46] Similarly, DRC timber exports are very low. The majority of timber produced in the DRC is for the domestic market and is consumed for fuel (in 2001: 6,608,100 m³). Table A-2.1, below, illustrates these trends.

Table A-2.1. Forest Products Production 1993-2001 (FAO)

	Units x1000	1993	1994	1995	1996	1997	1998	1999	2000	2001
Roundwood	Cum	**57010**	**60055**	**62128**	**63688**	**64878**	**66050**	**67293**	**68556**	**69734**
Industrial Roundwood	Cum	**3211**	**3309**	**3369**	**3545**	**3578**	**3644**	**3653**	**3653**	**3653**
Sawlogs and Veneer Logs	Cum	288	272	226	309	258	244	170	170	170
Other Industrial Roundwood	Cum	2923	3037	3143	3236	3320	3400	3483	3483	3483
Wood Fuel	Cum	**53799**	**56746**	**58759**	**60143**	**61300**	**62406**	**63640**	**64903**	**66081**
Sawnwood	Cum	**105**	**75**	**65**	**85**	**90**	**80**	**70**	**70**	**70**
Wnwood (NC)	Cum	105	75	65	85	90	80	70	70	70
Wood-Based Panels	Cum	**28**	**17**	**17**	**21**	**21**	**21**	**3**	**3**	**3**
Veneer Sheets	Cum	14	8	8	10	10	10	1	1	1
Plywood	Cum	13	8	8	10	10	10	1	1	1
Particle Board	Cum	1	1	1	1	1	1	1	1	1
Paper and Paperboard	Mt	**3**	**3**	**3**	**3**	**3**	**3**	**3**	**3**	**3**
Other Paper+Paperboard	Mt	3	3	3	3	3	3	3	3	3

Most of the DRC's official exports are destined for Europe, although smaller quantities do make their way to North America, Asia and the Middle East. Official export figures are suspect and partial at best since they can only tell part of the story because they address only areas under control by the current government. Timber production and exports in the DRC are addressed at two levels:

- Officially reported estimates that represent volumes and values provided by the GOC from areas under their control, and
- Informal estimates from eastern Congo based on local information and sources within neighboring countries (Uganda, Rwanda and Burundi).

Most timber exports from the DRC are shipped as roundwood rather than in the form of processed material. This represents a considerable loss of revenue that could be gained from value-added processing within country. The transformation part of the forest industry sector could also employ a sizable number of technicians, laborers and support staff. Thus far the only measure taken by the GOC to encourage the export of processed products rather than logs is an export tax. Veneer sheets are taxed 1.5%, sawn wood is taxed 2% and logs are taxed 4%.[47] Unprocessed wood exports pay at least double the rate levied on processed wood, but the initial processed wood rate is low enough that the taxes on unprocessed logs are not dissuasive.

Total production in the DRC has declined since 1996. The war slowed production even more in 1997 and further still in 1998. Table A-2.2 summarizes DRC timber exports from 1986 through 2002.

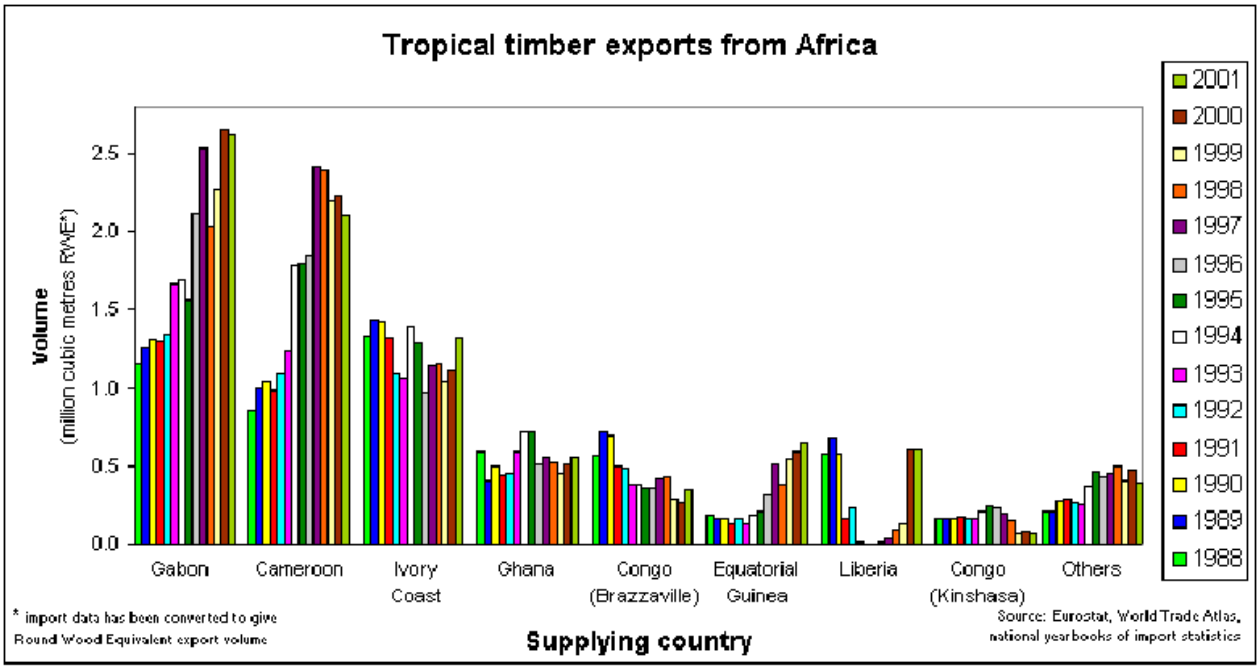
[46] Luhunu, K.S. and Kiyulu N'Yanaga-Nzo, J. 2001.
[47] Forests Monitor. 2001.

Table A-2.2. DRC Export Rates by Product since 1986 in m³ (SPIAF 2002)

Year	Logs	Boards	Veneer	Total
1986	109,832	20,286	12,660	142,778
1987	116,509	26,868	10,342	153,719
1988	89,809	22,089	7,415	119,313
1989	361,123	130,975	-	492,098
1990	29,503	3,574	264	33,341
1991	89,026	23,922	4,802	117,750
1992	72,430	34,688	3,361	113,479
1993	75,574	39,161	6,186	120,921
1994	118,160	40,590	7,532	166,282
1995	111,520	44,666	7,868	164,054
1996	121,551	55,013	7,718	184,282
1997	97,830	30,933	5,636	134,399
1998	105,248	38,210	5,702	149,160
1999	40,133	20,262	1,022	61,418
2000	25,195	7,539	352	33,086
2001	24,015	9,767	-	33,782
Total	**1,587,458**	**548,544**	**83,860**	**2,219,862**

Figure A-2.2 below, provides a clear picture of how official DRC's timber exports rank in relation to other African countries.

Figure A-2.2. African Timber Exports by Country since 1988 (Global Timber UK 2002)



Most of the timber that was once a vital part of the DRC's exports is located in northern Equatéur and Orientale provinces, both areas controlled by rebel groups. Prior to the civil war Kisangani was the main transfer site for timber cut in Orientale Province. From Kisangani it was then rafted or shipped down river

to Kinshasa. Rebels have controlled Kisangani since 1998, interdicting river transport and curtailing active harvesting in the region.

A-2.2 Wood Exports via Eastern DRC

Roads connecting Kisangani to eastern Congo are in poor condition. There are convincing reports that rebels did transport warehoused, processed wood by cargo plane to Kigali[48] during the war, but sources in that city could not confirm this information [49], [50].

Timber is also exploited in the Kivu provinces. Traditionally, northeastern Orientale and the Kivu provinces have been dependent on East African countries and their transportation corridors for trade and the importation of key commodities. Fuel and other commodities arrive on the East African coast and then are loaded on to trucks and transported to the inland countries of East/Central Africa, including eastern DRC. The trucks return to the coast with goods, including timber and processed wood, from eastern DRC, Uganda, Rwanda and Burundi.

As with other goods, timber from eastern DRC has been shipped to neighboring countries and beyond for decades. Timber in eastern Congo is greatly undervalued since most of it is illegally logged and few if any taxes and access fees are paid or collected. Timber from eastern DRC has at times flooded the markets in Uganda, Rwanda and Burundi, making sustainable harvesting of locally available timber species unprofitable. Often, domestic timber in these countries cannot compete with the material coming in from eastern DRC.

During the initial years of the civil war the flow of timber increased substantially as rebel groups moved to fund activities and profit from unmonitored access to the resource base. As in most cases, loggers high graded the most valuable species closest to the main access routes. This phase of timber exploitation is winding down; most of the easily accessible timber has already been harvested. In future, transportation costs will predictably be higher and eastern DRC timber less competitive with timber in neighboring countries. The following brief summary of eastern DRC timber export activities draws on sources in Uganda, Rwanda and Burundi.

A-2.2.1 Uganda

Throughout the civil war Uganda imported the highest volumes of eastern DRC timber. Mahoganies (*Khaya spp*. and *Entandophragma spp*.) accounted for the majority of the wood exported. Most of the timber coming into Uganda from eastern DRC was used in domestic construction and the furniture industry. The Ugandan construction industry has a long history of using valuable timbers (considering their international market value) for products usually reserved for less valuable species. This is especially true for mahogany. It is prestigious to have mahogany used for interior and exterior trim work, window frames, shelving and other similar secondary products. Elsewhere, these products are usually produced using less inexpensive and more readily available structural timbers (pines, cypress, eucalyptus, and more common indigenous hardwoods). The periodic glut of undervalued DRC mahogany on the Ugandan market has helped maintain such practices in Uganda.

Uganda's main production forest, the Budongo Forest Reserve, is the site where much of the Ugandan mahogany was normally harvested. From the onset of the civil war until recently, less expensive DRC mahogany replaced domestic stocks. At present, stocks of mahogany from Budongo and other areas are

48 USAID/Kinshasa.
49 USAID/Kigali.
50 Conservation and development NGO, Kigali.

becoming limited, while the prices of eastern DRC mahogany are also rising. The Ugandan wood industry is slowly shifting to alternative species to turn out less valuable products.

Some timber did transit Uganda and continue on to Kenya (for sale in Kenyan markets) or to Mombassa for export. Most wood exports from Mombassa are destined for either Europe (Denmark) or Southeast Asia. Official import/export figures for eastern DRC timber are unavailable at the Ugandan Forest Department.

The current flow of eastern DRC timber into Uganda is low. Species are essentially limited to mahoganies and cypress (*Cupressus lusitanica*). Cypress is not native to the region and is planted either as a windbreak or in plantations. Its wood is valued for construction and, to a lesser extent, for furniture making. Timber imports are low for three reasons:

(1) Military and other officials have tried to distance themselves from these activities since the release of the UN Special Report on resource exploitation in the DRC by neighboring countries.
(2) Consumer preference—Ugandans view Budongo mahogany (domestic) as superior to eastern DRC mahogany.[51]
(3) As indicated above, much of the easy access timber has already been harvested.

The main border crossing for eastern DRC timber (from the Ituri area) into Uganda is in the West Nile District (extreme northwest corner of Uganda) at either Nebbi or Arua. Other entry points for timber from the Virungas or other forests are Bundibugyo (just south of Lake Albert), Ishasa near Lake George and south of Kasese (between the Rwenzori Mountains and Queen Elizabeth National park), and Kisoro (in the extreme southwest corner near the borders of the DRC and Rwanda). These are the main access points into Uganda from the DRC—the roads are paved most of the way to Kampala.

A-2.2.2 Rwanda

Timber exports into Rwanda from the DRC have fallen dramatically during the past six months. The current flow is down to several truckloads of boards per week, and most of that is mahogany.[52] Only wealthier segments of society continue to seek eastern DRC mahogany in Rwanda. Domestic mahogany stocks are limited and found within a protected area, the Nyungwe Forest Reserve. For these reasons, the construction and furniture industries have reverted to domestic stocks of exotic hardwoods and pines (*Grevellea robusta, Cupresses lusitancita, Pinus patula and Eucalyptus spp*.) for much of their needs.

The current price of mahogany has risen to close to $500 per m³ of boards. This has occurred for several reasons. First, most of the easily accessible timber in secure areas has already been cut. The remaining nearby DRC timber stocks are located in areas frequented by Mayi Mayi and Interahamwe rebel groups. Also, as in Uganda, the UN report has tended to discourage resource plundering.

The main access points for Rwanda from the DRC are Gisenyi (next to Goma on the northern shores of Lake Kivu) and Cyangugu (next to Bukavu on the southern shores of Lake Kivu). Paved national highways connect both DRC communities to major Rwandan centers (Rhuengeri, Butare) and the capitol Kigali.

A-2.2.3 Burundi

As with Rwanda and Uganda, timber from eastern DRC has been exported to Burundi for years. Most of the imports go to Bujumbura for the domestic market. From 1997 until 2000 the official imports of timber

[51] Uganda Forest Department, Kampala.
[52] Conservation and development NGO, Kigali.

from eastern DRC increased. There was a slight drop off in 2001. The following list represents official estimates of timber imports:[53]

Table A-2.3. DRC Timber Exports to Burundi (Burundian NGO source)

Year	Volume (m^3)	Value
1997	200	$426/m³
1998	384	$701/m³
1999	420	$660/m³
2000	577	$811/m³
2001	531	$793/m³

The volume figures are almost certainly underestimated. Burundian military shipments are not subject to regular inspection, and the border between Burundi and eastern DRC is difficult to monitor, especially regarding small boat traffic. Timber species native to the DRC and imported to Burundi include limba, okoume and the mahoganies. Others are exotics that appear to be harvested from plantations likely established in the DRC during the colonial period or shortly thereafter. *("meranti" light and dark red is also listed—meranti is a common name for Shorea spp, a valuable timber species native to Southeast Asia).*

Burundi's domestic timber resources are very limited and localized mostly in two protected forest areas: the 40,000 hectare Kibira National Park and the 4,000 hectare Bururi Forest Reserve. Both areas contain several valuable timber species in limited quantities. Since the Burundian civil war started (1993 – present), both forests have been regularly used by rebels as base camps. Also, rebel groups and local officials have reportedly initiated timber extraction from the protected areas in part to finance their operations.

DRC timber exports to Burundi would either pass the border at Uvira (10 kilometers from Bujumbura), or Bugarama (about 70 kilometers north of Bujumbura, where Rwanda, Burundi and the DRC meet). Paved highways connect both border crossings. The other means of importing timber is by boat across Lake Tanganyika. Several lakeside towns south of Bujumbura in Burundi also receive imports from the DRC (Minago, Rumonge, Nyanza Lac).

A-2.3 Findings

- Forest production data and concession information are not consistent. Figures from different sources (including NGOs, the GOC and international organizations—FAO, ITTO, etc.) vary considerably. Moreover, much of the information does not track ongoing activity in areas under rebel control.
- Despite the current slowdown in forest production, the diversity of companies that are active (or potentially active) in the sector is considerable. Companies range in structure and size from modest, family-owned business to operations that are subsidiaries of substantial international corporations. All have their strengths and weaknesses in relation to sound forest management practices.
- Concessions correctly receive most of the attention in regard to timber production. However, in eastern DRC (Eastern Orientale, Kivu provinces)—which counts but a single official concession—a steady flow of timber moved out of non-classified forests as well as protected areas for decades.
- Value-added wood processing is critically underutilized. While most other nations are moving rapidly to retain revenue and jobs domestically through wood processing technologies, the DRC continues to export the vast majority of its forest production in the round. This poses a critical set of economic

[53] Conservation and development NGO, Bujumbura.

problems: loss of jobs and multiplier effects in DRC's local and national economies, loss of hard currency export earnings, etc.

- Reforestation is minimal and an area of concern for sustaining forest management.
- Unlike most other nations, the forestry sector in DRC is not in the forefront of the national initiative to decentralize governance. Given the DRC's post-colonial history (minimal support from central government—"Article 15", and the strength of local church organizations), plus the vast forest resource base, the DRC could be using its forest resources as a prime vehicle to decentralize governance and to empower local institutions (including communities). This could also serve to increase transparency and reduce the potential for conflict.
- The central government is not capable of effectively managing the forest resource base.
- The Forest Code still retains too many provisions and regulations from the 1949 decree. It needs to be further updated to reflect the DRC's social and ecological diversity.
- Forest communities, especially Pygmies, have suffered from commercial forest operations.
- Deterioration of the road system, the civil war and widespread corruption have helped "conserve" certain forest areas. However, this is a short-term dynamic that will rapidly change once modest levels of peace and stability are restored.
- Although the DRC's timber exports have not yet dramatically shifted to China and other Asian countries as has been the case among other African timber producers, this will likely change in the near future.
- Timber is not viewed as a "conflict commodity" by many stakeholders involved in or affected by timber production. In some cases even illegal logging is not seen as a serious crime, especially when the illegality involves selective cutting in unauthorized areas adjacent to concession sites. Most people understand fully that trees, unlike minerals, are a renewable resource.

A-2.4 Recommendations

- During the transition period the Mission (with assistance from other donors, the NGO community, the GOC, and others) should compile the best available information related to DRC forestry (including environmental services, social impacts, biodiversity conservation, commercial operations, community forestry, etc.) to create a forestry database. This information would then be used to carefully monitor the sector as the DRC emerges from the transition period.
- Similarly, the Mission (in association with neighboring Central African Missions) should reinforce communications and information exchange with Missions, donors and NGOs in neighboring countries, especially Rwanda, Uganda and Burundi. Additional information should also be sought for Tanzania, Zambia and Angola. CARPE could help in this regard.
- Develop profiles of all the forest industry firms currently and potentially operating in the DRC. The Mission could then establish relations with some of the more influential and progressive companies in an effort to promote transparency and productive alliances with local communities. The international NGO community is well situated to play a positive role in that regard.
- Encourage and actively participate in the development of the NFMP as well as any revisions concerning the Forest Code. The Mission is well suited to focus on decentralization and democracy and governance issues and how they relate to the plan and the code.
- The Mission (in association with other groups/agencies) should work to develop an action plan for forest communities threatened by forestry related initiatives (concessions, protected areas). This plan could be a subset of the strategy the Mission is currently undertaking to address social and economic issues after the transition period.

APPENDIX 3 - CONFLICT AND GOVERNANCE ANALYSIS

A-3.1 Conflict Analysis: Causes, Dynamics and Mitigating Opportunities

A-3.1.1 Conflict Timeline

To properly understand the conflict that has ravaged the Democratic Republic of Congo since 1998, one must consider the country's colonial past, first as the personal domain of the Belgian King Leopold II, then as a colony of the Belgian Government, the violent assassination of its Independence leader, Patrice Lumumba, earlier secessionist movements in the 1960's and the thirty-year-long kleptocracy of President Mobutu. Equally important to understanding the current conflict are events that transpired outside of the Congo, e.g., periodic migrations of population groups within the region over the past several centuries; redrawing of colonial boundaries within the Great Lakes Region after WWI; and catastrophic events such as the 1994 Rwandan genocide and the cross-border Rwanda and Uganda/DRC reprisals that followed. While each of these periods and events has had an impact on the current conflict, this discussion focuses on the period following the fall of President Mobutu in 1997, and the conflict events that have transpired since then.

Fall 1996	The Laurent Kabila-led and Rwandan- and Ugandan-supported *Alliance des forces démocratiques pour la libération du Congo-Zaire* [AFDL] engages Mobutu's army, the *Forces Armées Zairoises* [FAZ] in eastern Zaire.
May 1997	AFDL routs FAZ and takes Kinshasa. Mobutu flees. Laurent Kabila inaugurated as President and changes the country's name back to Congo.
Early 1998	President Laurent Kabila breaks with Rwandan and Ugandan supporters.
Mid 1999	Congolese domestic rebel forces, with support from neighboring Rwanda and Uganda, take control of much of northern, central and eastern Congo and threaten to take Kinshasa.
July 1999	Lusaka Peace Accords signed.
All 2000	Laurent Kabila moves slowly in implementing Lusaka Accord. The Inter-Congolese Dialogue process, designed to engage Congolese political and military factions in the search for peace, proves dysfunctional.
Jan. 2001	President Laurent Kabila assassinated. Joseph Kabila, Laurent Kabila's son and Army Chief, named President.
Feb. 2001	Inter-Congolese Dialogue restarted
Feb. 2001	UN military observer mission (MONUC) in the Democratic Republic of Congo (DRC), authorized by the UN Security Council in May 1999, redeploys regional operations.
April 2002	Sun City Accord signed, which provided for an initial power-sharing agreement and Joseph Kabila retaining the presidency, with eventual integration of all armed forces (Congolese rebel and DRC) in a single army.
May 2002	Kisangani sacked for the 2nd time by rival armies from Rwanda and Uganda in their struggle to control this strategic city in NE Congo.

July 2002	DRC President Joseph Kabila and Rwandan President Paul Kagame reach agreement brokered by Republic of South Africa (RSA) President Theo Mbeki
Nov. 2002	Substantially complete[54] withdrawal of foreign troops from Congo
Dec. 2002	Plans for Transitional Government signed in Pretoria by domestic and foreign protagonists involved in the Congolese civil war.
Feb. 2003	Plans for integration of the Congolese Army, preparations for Transitional Government and preparations for redrafting the Congolese Constitution finalized and agreed upon.

Recent events in this conflict reveal several tendencies. First, the conflict has been characterized by frequently shifting alliances. Repeatedly, parties to the conflict have split with and then attacked former allies. Secondly, the peace process lurches forward with considerable variation in speed. That process, stalemated under the father, President Laurent Kabila, initially registered rapid progress under his son and successor, President Joseph Kabila. Thirdly, interventions by neighboring states have had major impacts in terms of encouraging the conflict as well as encouraging peace.

A-3.1.2 Conflict Player Scorecard

Any conflict assessment must try to fully describe the individuals and the groups involved, either directly or indirectly, in the conflict. To fully understand and be able to deal with a conflict situation, one needs a complete, well-grounded stakeholder analysis that covers all the players and highlights their interests and motivations, both those openly expressed as well as those concealed. An important part of a sound stakeholder analysis is grasping how members of different groups view each other as well as how they see themselves. Lastly, it is important to remember that regardless of the conditions and stakeholder motivations that prevail at the time a conflict starts, both *will* change over time and *will almost certainly be* modified by the dynamics of the conflict itself. Given limits on Congo team time and travel for applied research, we can provide only incomplete, summary descriptions of the major parties involved in this conflict, and a general understanding of their respective interests and the motivations that inspired their participation in the conflict and/or the peace process. To ensure accuracy of these summaries, initially prepared from secondary sources, individuals who have a thorough understanding of the Congo conflicts reviewed them.

The summaries do not cover the full range of stakeholders: several minor rebel groups have been omitted and opposition parties have not been included. Furthermore, stakeholder roles, interests and motivational factors can be expected to change rapidly as individual groups of stakeholders are brought into the transitional government. An ongoing and more thorough stakeholder analysis will be an important tool for tracking progress during this transitional phase.

[54] Ugandan troops were requested by MONUC and agreed to remain in RDC around Bunia to deal with ethnic conflict in that region. Ugandan troops were expected to withdraw on March 20, 2003. That withdrawal date recently was extended until April 24, 2003 by mutual agreement.

Table A-3.1. Parties, Interests and Motivating Factors (International Actors)

	Dem. Rep. of the Congo	Uganda	Rwanda	Burundi	Zimbabwe
Party Organization		Uganda P Defense Forces	RPF		Zimbabwe Defense Forces and others
Leader	Joseph Kabila	Yoweri Museveni	Paul Kagame	Pierre Buyoya	Robert Mugabe
Priority Interest	*Rid* Congo of foreign troops and external economic control of Congo natural resources	*Stop rebel* (ADF and LRA) *incursions* from DRC and Sudan	Stop periodic armed incursions from Congo by ex-Forces *Armees Rwandaises and Interahamwe*	Security: Stop periodic incursions from Congo by FDD and FNL	Marxist/socialist ideology
Secondary Interest	Maintain national unity	Obtain wealth in DRC: Gold, oil, diamonds, wood and high quality coffee	Control DRC wealth, especially minerals and wood	Initially, open trade routes to bypass regional trade embargo.	Political/ Military/ Economic alliance
Other interests	Control national wealth		Land: Rwanda overpopulated & needs land for crops & livestock	Land	Business/Wealth

Other neighboring states have played lesser roles in the ongoing Congo conflict, specifically Angola, Chad, Namibia and Sudan. Angola and Namibia have supported the DRC Kabila governments, while Chad and Sudan sought to plunder resources.

Table A-3.2. Domestic Parties, Interests and Motivations

	MLC (1)	RCD-K/ML	RCD-Goma	RCD-N	Mayi-Mayi
Leaders	Jean-Pierre Bemba	Mbusa Nyamwisi	Adolphe Onosumba (2)	Roger Lumbala	Mil: Gen. Padiri Pol: ?
Proxy Sponsors	Uganda	Kabila Gov't (1)	Rwanda	Uganda	Kabila Gov't
Area(s) Controlled by Party/Militia	Equateur and western Oriental Provinces	South Oriental and North Kivu Provinces	Kivus, Maniema, north Kantanga and Northern Kasai Provinces	Northern Oriental Province.	North and South Kivu Provinces
Interest	Began looking for wealth	Ambition to replace slain brother.	Puppet (Rwandan proxy) but has aspirations for power	Power	Self-defense actions by indigenous resistance fighters
Motivation	Expanded to ambition for leadership	Power	Wealth	Regain political clout	Ambition for power
Secondary Motivation	Now seeking power	Wealth	?	?	Plunder

(1) RCD-K/ML, initially supported by Uganda, has recently fashioned a new alliance with the Kabila government.
(2) Predecessors include Wamba dia Wamba (1998) and Emile Ilunga (1999).

Table A-3.3. Parties, Geographic Base, Interests and Motivating Factors (Ethnic Groups [1])

	Banyamulenge (2)	Hutu	Hema	Lendu
Geographic Area(s) of Dominance	North/South Kivus, Maniema, Northern Katanga	North/South Kivus, eastern Congo generally	Ituri Province	Ituri Province
Interests	Traditionally livestock producers	Traditionally crop producers	Traditionally livestock producers	Traditionally crop producers
Primary Motivating Factor	Security against attacks	Security against attacks	Security against attacks	Security against attacks
Secondary Motivating Factor		Tribal recognition	Natural resources use	Natural resources use
Tertiary Motivating Factor	Congolese nationality Right to own land	Self Governance		

(1) The four ethnic groups above represent only four relatively small ethnic groups that live in eastern Congo. While the relationships among other ethnic and tribal groups may be less contentious, differences still exist and can shape the future of this conflict.
(2) The Banyamulenge are ethnic Tutsi of Rwandan and Burundian origin who settled in Southern Kivu during the eighteenth and nineteenth centuries. To bolster their claim to Congolese nationality they adopted their current name in the early 1960s in an effort to distinguish themselves from the Rwandan Tutsis who fled to the Congo in the late 1950s.

A-3.1.3 Significant Underlying Factors of Conflict

The conflict in eastern Congo and in the Great Lakes Region of Central Africa has been studied by a number of different individuals and organizations. Here we simply summarize and present the major observed causes of conflict in a prioritized listing. Creating such a list is obviously a subjective exercise. Several informants helped us prioritize the causes of conflict. While considerable differences of opinion exist, the following list reflects informants' general priorities. In the bibliography at the end of this report are noted a number of publications that provide a more in-depth look at the causes of this conflict. See particularly Moyroud and Katunga, Prunier, and ICG (2002).

- In many ways, the conflict in Eastern Congo amounts to a geographical expansion of the ethnic conflict that has plagued the Great Lakes Region for centuries. In essence, Hutu and Tutsi exported their long-standing rivalries in Rwanda and Burundi to the Eastern Congo. Those rivalries drove several different waves of refugees from those countries to flee to the Congo. These different waves of migration date back at least a century. The many motivations for those rivalries retain all their original power, but current confrontations take place mainly on Congolese soil rather than in Rwanda or Burundi.
- In many ways, the relatively rich natural resource endowment of the Congo creates strong incentives for predatory behavior on the part of neighboring states, especially when the Congo's resource base is compared with the weaker resource endowments of its neighbors. This incentive is more compelling whenever the Congo is perceived to have difficulty defending itself. The Congo's mineral, forestry, land and water resources make it an inviting target. The abundance of high value, easily lootable mineral resources in eastern Congo has encouraged both personal profiteering and outsiders'

perceptions that they can finance their military incursions into the Congo with resources plundered in that country.

- Steady deterioration has characterized the Congolese economy since shortly after independence in 1960. This long-term economic decline has given rise to an economy based more on corruption and rent-seeking than on economic production and productivity. The current state of the economy is such that both individuals and the State are impoverished and have considerable difficulty providing for their own security and well-being.
- Equally steady deterioration of authority, power and respect for the rule of law and for the central government in Kinshasa has occurred over the preceding four decades. Many of the reasons for this deterioration in the rule of law and the authority of the central government can be traced directly to the corruption and crony capitalism of the 30-year-long Mobutu regime.
- Much of the Great Lakes Region, especially Rwanda and Burundi, face serious overpopulation problems. These two countries particularly confront disastrous land/population ratios; many of their development difficulties derive from that situation. While the border areas of Eastern Congo are also heavily populated, the hinterland is more lightly populated. Much of the contemporary conflict is fueled by Rwanda's and Burundi's need to acquire more land to sustain their largely agricultural economies.
- The successive waves of migration into Eastern Congo from the Great Lakes Region have created a complex problem involving rights and benefits of Congolese nationality, ethnicity and the need for land to continue traditional lifestyles.[55] Moreover, the complex question of ethnicity is equally evident in most civil society institutions in the eastern Congo. Church groups tend to be predominately one ethnic group. NGOs tend to be tribally segregated.
- For the past decade, armed opposition groups have organized incursions from their bases in DRC territory into Uganda, Rwanda and Burundi. Absent meaningful control by the central government, opposition groups easily operate on DRC soil. All three of the so-called "Eastern Tier" countries have cited this as the principle reason for sending their armies into Eastern Congo.

A-3.1.4 Conflict Dynamics

Regardless of the issues that trigger conflicts, the interactive process of conflict will modify the rationale and the nature of the confrontation over time and space. To successfully deal with conflict, it is important to track and understand its dynamic nature. The Congo conflict dynamics we observed from afar include the following.

- As the Peace Process unfolds, President Joseph Kabila seems to be gathering strength while rebel leaders are losing ground. Part of this dynamic seems linked to the relative ability of the respective parties to access resources. While all the internal parties of this conflict are still strapped for cash, Kabila seems better positioned to acquire resources from existing government institutions that he controls when compared to the various rebel leaders and the geographic sectors and resources they

[55] While Rwandan immigrants have lived in Eastern Congo for well over a century, they are not recognized as "indigenous tribes" and were, until the 1970's, barred from receiving Congolese nationality and the right to own land. During his regime Mobutu lifted that ban and retroactively granted Rwandan immigrants citizenship, in the process angering other populations in the Kivus. In the 1980's, Mobutu reinstated the original ban on Congolese citizenship for Rwandan immigrants, leaving many Congolese Tutsis in legal limbo. Likewise, in several other areas of Eastern Congo, successive waves of Hutu immigration over the past several decades have allowed them to build up a demographic majority. But the Congolese government currently refuses Hutus recognition as an indigenous ethnic group; thus Rwandan Hutus have no more right than Rwandan Tutsis to a "home territory" in the Congo where they can enjoy some security andfunction as self-governing communities.

control. Perhaps a more significant part of this dynamic is that Kabila seems to be building considerable popular support in the areas of the country that he controls. Rebel leaders seem to have ignored the need to elicit popular support from the populations living within the areas that they control. The proposed structure of the transitional government, seated in the Congo's traditional capital, Kinshasa, with Kabila as president and the rebel leaders as vice-presidents somewhat removed from their areas of control, seem likely to reinforce this trend.

- As the armed conflict lessens and foreign troops return to their countries of origin, various parties to the conflict have made efforts to institutionalize activities that were initiated as pillage and plunder. Parties seem intent on establishing institutional means of continuing their access to and exploitation of the natural resources of the eastern Congo. For example, Rwanda has withdrawn its military forces and is attempting to put in place proxy entities (RCD-Goma) that will safeguard its economic interests and access to natural and mineral resources in the eastern Congo. In a similar manner, the government of Laurent Kabila and the Zimbabwe government established a set of interlocking business organizations designed to give the Zimbabweans continued access to timber and mineral resources in the post-conflict period after Zimbabwe had withdrawn its military forces. In both of these examples, it has proven difficult to institutionalize such arrangements. Given the high value of the mineral resources and the potential returns, it seems reasonable to expect such efforts will continue.
- The current conflict is distinguished by an *absence of secessionist tendencies*. Previous conflicts in the Congo over natural resources led to secession attempts (notably in Katanga and in the Kasais). At present, by contrast, the Congolese people appear to place relatively high priority on maintaining national unity. The international community and institutions including the UN, World Bank and the IMF, as well as many bilateral donors, fully support this position.
- The "proxy" strategy adopted by neighboring countries to maintain control over groups in Eastern Congo and so protect their perceived interests there has not engendered viable, long-term, sustainable relationships or arrangements between rebel groups and their external state sponsors. So far, these proxy arrangements have done more to foster frequent leadership changes in certain rebel groups and splinter movements than to consolidate external control. *If indirect control proves an ineffective strategy, one wonders whether the neighboring states will revert to more direct forms of control.*

A-3.2 Observations and Recommendations: Opportunities for Mitigating Conflicts

A-3.2.1 Observations

(1) In looking at the current conflict and its likely ramifications in the future, especially on the nation's natural resources, we see three basic alternatives:

- Peace is restored and accompanied by a very substantial amount of economic and political policy reform, especially related to devolution and de-concentration of central government authority;
- Peace is restored but with only minimal amounts of policy reform; and
- Conflict continues in roughly the same vein as it exists today.

Of those three options, peace with no substantial policy reform appears as the scenario that would exert the largest negative impact on the sustainability of the DRC's renewable natural resources, especially forestry resources. Peace without reform would enable timber firms to return to their concessions but would not change the basic rent-seeking behaviors of Government officials. Forest industry sector companies' concerns about the stability of the peace would encourage them to cut and evacuate as much timber as possible (and as rapidly as possible) to recuperate investments in a shorter timeframe and avoid longer term risks.

(2) The Inter-Congolese Dialogue and the peace process that accompanies it was rightly structured as an inclusive affair with more than 300 delegates attending and representing various segments of government, rebel groups, political opposition groups and representatives of civil society. This inclusiveness seems set to continue given the make-up of the transitional government. Yet when one reads of the atrocities committed by rebel groups and the poverty of the communities in northern and eastern Congo, one can question whether this is a just peace. A cynic might suggest that those most responsible for the atrocities and the poverty are being offered the opportunity to exploit the few remaining resources of the Congolese State, while little is being done to address the suffering of those communities most affected by the conflict. A cynic might question the wisdom of inviting many of the political elite who have benefited extensively from mismanagement of the State during the past 40 years to establish the institutions for future governance. An outstanding issue is whether the international community will somehow deal with the suffering that countless women and children face during and after this conflict. Somehow it seems important to recognize their suffering and give them a greater opportunity in rebuilding the governance structures that will affect their lives and communities rather than to continue to put great hopes in those who have perpetrated their suffering.

A-3.2.2 Recommendations

Clearly one needs a framework for peacebuilding in the DRC characterized by multiple interventions at multiple levels of society. In presenting our recommendations, we want to *highlight the importance of interventions at multiple levels of society.* Moreover we key our recommendations to the levels which we believe should receive priority.

- ***Reconciling and Rebuilding Communities***

  Direct greater amounts of assistance to strengthen conflict-ridden communities. Much of the infrastructure needed to sustain healthy communities has been destroyed by neglect or by conflict. Moreover, many war-torn communities have few legitimate opportunities for income generation. We recommend starting the process of rebuilding these communities by helping them recover from the trauma and the social divisions caused by the conflict. Dealing with trauma and reconciling communities should emphasize giving voice and community leadership opportunities to women who have borne a disproportionate amount of the suffering caused by this conflict. Advance then to providing assistance to communities to facilitate residents rebuilding of their communities, much along the lines of the current CARE/OTI program. We believe, however, that dealing with the trauma of conflict and reconciling communities internally is a critically important first step towards sustainable peace and development.

  The current conflict has often been associated with the access to and exploitation of natural resources, including gold, diamonds, coltan and timber and land for crop and livestock production. As people leave urban areas and return to rural communities, one can anticipate disputes over access to and use of natural resources. While new laws are under consideration for mining and forestry, most local communities know nothing of these changes and their rights and responsibilities thereunder. Local and international PVOs and NGOs have the opportunity to work with communities and define means and methods for communities to participate in natural resources management and assume some of the burden of monitoring and policing the use of these resources. Again, we doubt whether communities can play a constructive role in natural resources management until they have dealt with the trauma engendered by the conflict and achieved significant reconciliation within communities.

- ***Reestablishing Provincial-level Systems***

  We encourage initiatives such as IRM's Kasai River Initiative as a means of reducing conflict and rent seeking behavior of authorities. While it encourages and promotes good governance it will also help rehabilitate important regional transportation infrastructure and encourage greater economic activity. We would encourage other such initiatives that are grounded in the principles of self-help, community development and that deal with improving transportation infrastructure and/or fostering local stewardship, and careful management and use of natural resources.

  The mining and forestry laws currently under consideration at the national level seem to be an important step towards better management of the nation's natural resources. Yet these laws have been prepared with little input from mining or forestry companies or from communities. We have learned of several activities that seek to expand the role of rural communities in conserving and protecting natural resources, including endangered species. For such community-level activities to be successful and sustainable, they will need the effective support of local and provincial levels of government. We would strongly encourage tasking local and provincial authorities to adopt collaborative approaches to defining the administrative rules and regulations that will structure implementation of these new laws. Once more we would encourage defining the rules and regulation in a manner that would incorporate community participation in the monitoring and policing of the use of natural resources located within the jurisdiction of the community.

  Given our concern about tendencies to institutionalize wartime pillage and plunder activities into longer lasting exploitive business deals during the peacetime that seems now to be dawning in the DRC, we would recommend establishing a capacity to monitor the principle conflict commodities and the growth and development of markets for these commodities within the Congo and links to corresponding international commodity markets. We believe that by monitoring how markets develop, one could reasonably judge the efficiency and propriety of business interests dealing with those commodities. In establishing a network to monitor the marketing of conflict commodities, we believe that the provincial level should be given priority.

- ***At the National Level***

  We note and fully support the national level attention now given to promoting governance and economic reform. Among the national level reforms being considered we would emphasize the importance of reforms related to devolution and de-concentration of political authority. We would also point out the substantial investment that will be required to put in place provincial and district level institutions indispensable to assume such delegated responsibilities and execute them successfully.

- ***At the International Level***

  The conflict in the DRC is greatly influenced by neighboring countries. We are heartened to see within the Congo a strong and growing commitment to maintaining national unity. We believe the continued withdrawal of foreign troops is critical to maintaining peace. Furthermore, once withdrawn, it will be important to keep foreign troops out of the DRC. We believe the continued support and influence of Western and African nations on the Congo's neighbors will be necessary to prevent renewed incursions by foreign troops in the Congo.

  In our meetings with various international financing and donor organizations in Kinshasa it was apparent they have invested considerable effort in donor coordination. We applaud the concerned organizations for this effort and believe it will continue to be critical to the success of this transitional period.

APPENDIX 4 - ECONOMIC GOVERNANCE

A-4.1 Introduction: Financial Corruption, Money-Laundering and Conflict

The extraction and trafficking of illicit commodities to fund regional conflicts reached new heights in the Democratic Republic of Congo (DRC) with the use of timber, diamonds, gold, cobalt, and coltan to finance Africa's "first world war". The extraction of these commodities has allowed rebel forces, including armies from Rwanda and Uganda, to establish full-fledged commercial operations in the DRC, and provide a means to prolong conflict in the region. Each of these armed forces established commercial operations in the DRC to facilitate the extraction and distribution of conflict commodities. Since none of the groups are licensed to trade in products, the trade violates UN Resolution 1803, which accords "people and nations…. permanent sovereignty over their natural wealth and resources".[56] Furthermore, each of these groups have exploited the significant deficiencies in the DRC's anti-money laundering regime to purchase armaments and funnel profits from the conflict commodities trade through regional and global financial centers. Despite the recent signing of a peace agreement by the warring parties, deficiencies in the financial sector in the DRC will continue to provide enormous opportunity for groups exploiting conflict commodities to launder profits and funnel illicit monies through domestic and regional financial institutions.

A-4.2 Corruption problems: Financial System Characteristics and Factors Facilitating Illicit Finance in the Democratic Republic of Congo

A-4.2.1 Links Between High-Ranking Political and Military Officials and Organized Criminal Groups

Elite Networks Overseeing Resource Extraction

High-ranking government and military officers in Rwanda, Uganda, and the Democratic Republic of the DRC have significantly benefited from trade in a number of conflict commodities. For instance, numerous reports link the Rwandan Patriotic Army's Congo Desk to operations in the eastern Democratic Republic of Congo that oversee the illicit extraction of natural resources.[57] Ugandan military forces have also been linked to illicit trafficking of commodities. In October 2002, a UN report on illegal resource exploitation in the DRC described the Ugandan criminal network. It consists of a core group of members including high-ranking Uganda People's Defense Forces (UPDF) officers, and private businessmen involved in the conflict commodities trade in a number of urban centers, including Bunia, Beni and Butembo.[58]

Linkages between the illegal exploitation of natural resources in the DRC and the conflict must be understood both in terms of funding military operations, but also in terms of financing personal enrichment. The chaotic environment of post-war DRC has facilitated development of criminal organizations, which have close ties to government officials and official structures that protect them from political adversaries and enforcement activity. In recent months, with the signing of the peace accord, these groups have constructed a series of networks to oversee the illicit extraction of conflict commodities in the DRC. These criminal affiliations are supported by rebel, military and paramilitary forces, which maintain sophisticated mechanisms for revenue generation. To add a veneer of legality, these groups are

[56] United Nations General Assembly Resolution 1803 (XVII) of 14 December 1962, "Permanent Sovereignty Over Natural Resources".

[57] Report of the Panel of Experts on the Illegal Exploitation of Natural Resources and Other Forms of Wealth of the Democratic Republic of Congo, Document S/2002/1146, 16 October 2002.

[58] Ibid.

establishing front companies and long-term trade agreements to monopolize the extraction and transport of conflict commodities from the DRC.

Corruption

There is simply no way to conduct business in the DRC without some form of bribery. Specific cases of high-level corruption in the DRC allegedly include the Office of the President regularly approaching the Central Bank for emergency funds to combat Ugandan and Rwandan military forces and other rebel groups. The funds, however, are not used to support the war effort. Instead, these "emergency funds" are diverted from the national budget to private offshore bank accounts held by high-ranking government officials.[59] Also, the Central Bank is reportedly implicated in several schemes that involve the selling of confidential financial information, including lists of clients and recent financial transactions, to banking officials willing to pay for the information.[60] In recent weeks, the head of the Central Bank was allegedly accused of maintaining a bank account in South Africa containing illicit profits transferred from the DRC. The South African government has requested an investigation into these holdings (see adjoining box).[61]

Box A-1. DRC Request: Director of Central Bank Financial Investigation

1. Financial investigation into possible fraudulent activities of a Director of the Central Bank of the DRC refers.
2. The depositing trend of large amounts into his bank account in South Africa (Standard Bank) is highly suspicious and the origin of the funds is questioned.
3. It would be appreciated if you can determine whether the suspect does indeed occupy the post of Director of the Central Bank and his spouse that of owner of the "BOL's Hotel" in the DRC.
4. Additional information such as additional sources of income, involvement in other business activities, partnerships, standard of living, standing in the community, political profile, level of corruption, etc. will be appreciated.
5. Personal detail is as follows:

Name	:Gabriel Boponde BOLENGE
Pp No	:S 0003995
Occupation	:Director of the Central Bank of Congo
Nationality	:Congolaise
Residential address	:Av Christ RO1, no 1, Kingshasa Limete, Quartier Motel, Fikin
Tel No	:# 243981 19178 # 2438939656
Spouse:	: Angema Mongbondo BOLENGE
Pp No	: C 0171687

6. Your cooperation and speedy feedback will be appreciated.

Additionally, corrupt high-ranking government officials are routinely awarded contracts for public work projects, such as road construction. The work is rarely initiated, and never completed. The unutilized funds go into the pockets of the government ministers.[62] Rampant corruption is made possible by the lack of regulatory oversight that permits (and in fact encourages) routine transfer of illicit funds from government agencies to private offshore bank accounts. As a result, the pattern for embezzling assets from the state budget has been repeated systematically in recent years. After entering office, government officials quickly begin to plunder state assets. After a two-year period of transferring state assets to private bank accounts, the political official leaves office.[63] In many instances, political and military officials appoint relatives or close associates to preside over front companies, which launder "profits" that are in fact the proceeds of bribes collected by

[59] Interview with an editor of opposition newspaper *Potential*, 18 March 2003.
[60] Interview Stanbic Bank representative, 14 March 2003.
[61] Document provided by Nigel Morgan, Managing Director, Overseas Security Services, 14 March 2003.
[62] Interview with member of DRC anti-corruption nongovernmental group, 18 March 2003.
[63] Ibid.

these officials. For example, the wife of the head of the Central Bank allegedly is the owner of the "BOL's Hotel Kinshasa."[64]

Provinces in the DRC are also plagued with high levels of corruption. The lack of central control during the conflict resulted in the creation of autonomous provinces ruled by rapacious governors. In some instances, regional leaders exceed the incidence of corruption witnessed at the national level of government. For example, legitimate firms operating in the region are routinely stripped of their assets by the provincial government. Additionally, regional leaders have been linked to schemes involving the granting of "informal concessions" to rebel armies and criminal networks. Illicit profits from these transactions are used to purchase expensive real estate, including luxury homes, and construct a corrupt network of like-minded regional and local politicians who profit from the conflict commodities trade.

A-4.3 Systemic Weaknesses: Rules and Enforcement

A number of factors collectively promote and reinforce high rates of corruption at the local, provincial, and national levels in the DRC:

- A systemic pattern of bribery, which originated during the colonial era, remains an integral part of the political and economic process;
- The government remains overly involved in resource allocation, which results in a lack of market competition, and distortion of market activities;[65]
- Inadequate salaries for civil servants provide fertile ground for bribery by domestic and international businessmen to obtain contracts and preferential treatment;[66]
- Overlapping bureaucratic portfolios and a corrupted civil servant class make governmental processes obscure and contribute to a chronic lack of transparency at local, regional and national levels of government;[67]
- The DRC lacks a robust and independent judiciary;[68]
- Frequent replacement of executive branch officials, including Cabinet members, inhibits efforts to implement programs to reduce corruption in the DRC; and
- While current government efforts focus largely on ensuring implementation of the peace process, the DRC lacks a long-term strategy to combat political corruption.

A-4.4 Illicit Market Activities

A-4.4.1 Black Economy

Black market activity was "a predominant element in the colonial and immediately post-colonial Congo to the extent of being denominated as '*Système d'Article Quinze'* or '*Debrouillez-vous'*."[69] Currently,

[64] Document provided by Nigel Morgan, Managing Director, Overseas Security Services, 14 March 2003.
[65] Interview Stanbic Bank representative, 14 March 2003.
[66] Interview with member of DRC anti-corruption nongovernmental group, 18 March 2003.
[67] Documentation provided by Françoise Van de Ven, Directeur General, *Société Africaine de Bois SPRL* (SAFBOIS), 17 March 2003.
[68] Interview with a leading businessperson who operates a number of business concerns in the eastern DRC, 18 March 2003.

regulatory and law enforcement officials in the DRC estimate that the black economy accounts for some 90% of the total economy, employing about 500,000 workers in a country with a population of more than 54 million people. The underground economy in the DRC consists of two components: the informal/unofficial market, and the illegal/criminal market. The informal/unofficial market, which is pervasive throughout all social strata in the DRC, consists largely of legal economic activities that are not reported to the appropriate authorities, who are often more rapacious than criminal extortionists. Most firms evade taxes through a system of 'double book-keeping', and rarely report the number of staff members who work for the firm. The other component of the underground economy is criminal groups, which earn illicit profits through illegal banking networks, smuggling, and arms trafficking. Both components of the underground economy continue to generate numerous deleterious effects for the economy in the DRC. This in turn undermines legitimate businesses, damages the domestic financial system, and hinders economic development.[70]

A-4.5 Fostering Criminality

A-4.5.1 False Invoicing Scheme by Private Firms

All business firms in the DRC take part in false invoicing schemes to stay in business.[71] The lack of authentic documentation, and the ease of developing false documents make it child's play to transfer illicit profits through the formal financial services sector, as part of routine import-export activity. The funds generated through false invoicing schemes in the DRC are routinely transferred abroad or invested in local firms. Smaller, struggling companies use their undeclared profits from false invoicing schemes to maintain operations until the business climate improves.

A-4.5.2 Co-opting Legitimate Congolese Business Enterprises

The inability to monitor the extraction of valuable natural resources in the DRC created an elite criminal class with significant assets who invested their illicit profits into legitimate businesses. While foreign firms are required to maintain their adherence to the Organization for Economic Cooperation and Development (OECD) Bribery Convention and U.S. Foreign Corrupt Practices Act, a number of criminal groups linked to the conflict diamond trade in the DRC have invested heavily in a growing number of business ventures, including the production of bread, plastics, and soap. These groups are also linked to schemes involving importation of frozen foods, smuggling of cloth into the DRC from Congo-Brazzaville, and the illicit distribution of fuel.[72] Customs officials are routinely bribed to allow passage of these goods into the market. This permits the illegitimate importers to undercut legitimate competitors by providing a lower margin for the imported goods.[73] Legitimate firms in Kinshasa contend that by bribing customs officials, illegitimate firms can sell their goods at prices one-third lower than the minimum prices that legitimate businessmen must achieve to stay in business .[74]

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69 Celine Moyroud and John Katunga, "Coltan exploitation in the Eastern Democratic Republic of Congo" in *Scarcity and Surfeit: The ecology of Africa's conflicts*, Ed. Jeremy Lind and Kathryn Sturman, African Centre for Technology Studies and Institute for Security Studies: Pretoria, South Africa, 2002.

70 Interview Stanbic Bank representative, 14 March 2003.

71 Interview with member of DRC anti-corruption nongovernmental group, 18 March 2003.

72 Interview with member of DRC anti-corruption nongovernmental group, 18 March 2003.

73 Ibid.

74 Ibid.

A-4.5.3 Granting of Illegal Concessions and Selling Property in Rebel-Held Territories

With the onset of the conflict, invading armies sold property and real estate, including farms, hotels, and apartment buildings, and revoked concessions that belonged to individuals who fled to the western DRC to avoid the warring parties.[75] In some instances, disenfranchised citizens supported the invading armies to gain the right to purchase properties in the eastern half of the country. Consequently, ***there are two owners for many properties in the eastern DRC***. Under normal circumstances, the judicial system would decide ownership of the property, but judges throughout the DRC are underpaid and routinely request bribes from plaintiffs in return for favorable judgments. Most owners of property that was confiscated by rebel armies are waiting until a later date to file a claim in the hope that the political transition will bring greater transparency and reduce the number of judicial decisions favoring the litigant who pays the highest bribe to the presiding judge.[76]

A-4.5.4 Black Market Finance Schemes

Cash and diamonds from the DRC are frequently used by criminal networks to purchase household goods, including sugar, soap, clothing, and medicine, and high-cost items, such as electronic products and automobiles, in the United Arab Emirates. The imported products are then re-sold in the DRC, and profits are used to purchase diamonds or raise hard currency. The process begins either when diamonds are purchased in the DRC or dealers obtain large quantities of U.S. currency. The diamonds and US currency are transported by plane to the UAE for the purchase of goods from exporters. The goods are then transported to the DRC aboard aircraft owned by regional criminal networks. The items are exchanged in the DRC for diamonds or US currency, and the broker now controls a pool of assets that appear "clean". The illicit assets are transferred abroad, or used to purchase additional goods that will be sold in the DRC.[77]

A-4.5.5 Illicit Use of Aircraft and Airport Facilities

Domestic air surveillance capacities in the DRC are grossly inadequate, and customs personnel lack the resources or the infrastructure to tackle smuggling of conflict commodities or illicit finance transfers. In the absence of strong state apparatus and legitimate government, a great deal of money flows into the DRC from Europe and Middle East.[78] Since ***85% of financial transactions occur outside of the formal banking sector***, there is a routine exchange of diamonds for cash at air facilities throughout the DRC.[79] Most companies own fleets of planes, and pilots and stewards routinely transport diamonds and cash on flights [leaving?] the DRC. This lack of adequate controls over civil aviation also allows the routine transport of conflict commodities to neighboring jurisdictions. After the United Nations linked the Belgium airline SABENA with illicit shipments of coltan, SABENA suspended all shipments of coltan from the DRC. A Dutch company, however, known as Martinair, subsequently replaced SABENA and operates between Kigali and Amsterdam. Several air companies representing Ugandan and South African interests are also apparently involved in the transport of illicit commodities. The network is maintained by SDV-Transitra between Kigali and Mombassa or Dar-es- Salaam. From there, the coltan is loaded into Safmarine cargoes for transfer to Antwerp or Ostend.[80] High-ranking military officials also maintain close commercial ties with transnational criminal networks, including arms trafficking groups overseen by

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75 Interview with a leading businessperson who operates a number of business concerns in the eastern DRC, 18 March 2003.

76 Ibid.

77 Ibid.

78 Ibid.

79 Interview Stanbic Bank representative, 14 March 2003.

80 Report of the Panel of Experts on the Illegal Exploitation of Natural Resources and other Forms of Wealth of the Democratic Republic of Congo, Document S/2002/1146, 16 October 2002.

Victor Bout. Bout is allegedly connected with the trafficking of arms in the region, and the laundering of millions of dollars through African, European, and Middle Eastern financial institutions. In the DRC, Bout's aircraft are routinely used to smuggle illicit capital, and transport conflict commodities and military equipment.[81]

A-4.6 Deficiencies in the Financial Sector Exploited By Domestic and Regional Actors

A-4.6.1 Traditional Banking Institutions

Since the Central Bank has proven unable to oversee domestic banking institutions, the formal banking sector fails singularly to deter laundering of profits linked to conflict commodities. Especially troubling is the lack of due diligence in banking institutions to obtain information about the true identity of the persons on whose behalf an account is opened or a transaction conducted. Additionally, financial institutions are not required to scrutinize complex, unusual large transactions, and lack internal programs that mandate adequate anti-money laundering procedures and controls.[82] Most banks in the DRC maintain correspondent banking activities with neighboring jurisdictions, and a variety of actors use these relationships to transfer illicit profits through wire transfer services. Moreover, the high rate of corruption and unstable political environment adversely affects the financial services sector. Most businesspersons eschew banks in the DRC. Investors fear that financial data will be sold to business competitors, or that political enemies in the government will seize assets deposited in banking institutions.[83]

A-4.6.2 The Eastern Congolese Financial Sector

During the occupation of eastern DRC by Rwandan and Ugandan forces, most banks were used to store money gathered through regional and local tax collection schemes. The funds collected in the eastern DRC were shipped to Rwanda and Uganda through porous border checkpoints. Banks in the eastern DRC served also to hold funds used to pay the salaries of military personnel and purchase armaments for the armies that controlled the region. Since 1998 banks have operated in Beni and Butembo for export/import services.[84] Currently, banks with links to Kigali and Kampala operate in Goma, Bukobu, Kisangani, and Bunia.[85]

Throughout the DRC, inadequate rules for the licensing and creation of financial institutions remain in force. As a result, regulatory authorities do not investigate the backgrounds of bank managers.[86] This permits Rwandan and Ugandan business leaders with links to the conflict commodities trade to establish banks in the DRC. For instance, Alfred Gabuka Kalisa, a Rwandan businessman linked to the conflict diamond trade, established the *Banque de Commerce et de Développement* (BCD) after Laurent Kabila became president.[87] Kalisha is reportedly also operating a bank in Kigali and allegedly gained partial control of a bank in Goma.[88]

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81 Interview with member of DRC anti-corruption nongovernmental group, 18 March 2003.
82 Ibid.
83 Interview Stanbic Bank representative, 14 March 2003.
84 Interview with a leading businessperson who operates a number of business concerns in the eastern DRC, 18 March 2003.
85 Ibid
86 Interview with Citibank banking official, 20 March 2003.
87 Ibid.
88 Interview with a leading businessperson who operates a number of business concerns in the eastern DRC, 18 March 2003. There are also rumors that Kalisha failed to gain control of the bank in Goma.

With the signing of the peace accord, a number of banks, including *Banque Commerciale du Congo*, and the *Union des Banques Congolaises*, are preparing to open branch offices in the eastern DRC. The Nouvelle Banque de Kinshasa is also preparing to open banking operations in Goma, Beni and Butembo.[89] With little regulation of financial institutions in the DRC, banks in the east could increase the flow of illicit finance through domestic and regional financial centers. The reduction of violence has also permitted nongovernment organizations to establish a permanent presence in the eastern DRC, and increased the importance of regional commercial centers. As a result, Kinshasa-based banking institutions are establishing branch banks to oversee distribution of international aid in eastern DRC. For instance, Stanbic Bank was recently awarded a contract to handle UNICEF funds in the eastern DRC. Moreover, the growth of regional commercial centers, such as Bunia and Beni, in that part of the country and long-standing cross-border relationships among Nandi merchants will dramatically increase the flow of funds between the DRC and neighboring countries, especially Uganda.

A-4.6.3 Illicit Stock Market Activity

The lack of oversight of stock options is also troubling. With no properly functioning regulatory mechanisms, such as an equivalent of the U.S. Securities and Exchange Commission, and with poor civil enforcement remedies, the DRC lacks mechanisms to develop high standards for accounting, auditing and documentation. Moreover, stockbrokers are not required by law to conduct enhanced scrutiny of funds for suspicious activity when incomplete information on the originator is presented for a transaction.[90] In many instances, members of the political and military elite in the region are offered significant amounts of stock for assisting in the trafficking of illicit commodities. [91] In most instances, tenders are not publicly announced, and high-ranking DRC political officials sit on the boards of companies in the DRC.[92] The tangled, opaque ownership structures of numerous Congolese firms remains a daunting obstacle for local and foreign investors. To date, there has been little progress in streamlining the ownership structure of Congolese firms. Such an effort would significantly increase transparency, uncover government officials collecting rents, and lead to increased market capitalization of the company.

A-4.6.4 Alternative Remittance Systems and Unlicensed Money-Exchangers

During the armed conflict, alternative remittance systems have gained a prominent position in the transfer of funds in the DRC market. Located throughout the DRC are numerous money transfer shops (*transfert d'argent*) that move sums of money as small as US $2-3.00, and as large as tens of thousands of US dollars throughout the DRC.[93] While the Central Bank does regulate the transfer of funds through banks and private transfer shops, there is no effective oversight of these institutions.[94]

To transfer funds through an independent transfer shop (i.e., a non-banking establishment), the money transfer shop requests the name, address, telephone number, and the name of a relative of the individual sending the money. The transfer shops charge a fee of 10% for each transaction.[95] The operator of the shop will contact another transfer shop near the residence of the individual receiving the transferred funds. Transfer capabilities exist with counterparts throughout Africa, especially neighboring states, such

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89 Ibid.

90 Interview with member of DRC anti-corruption nongovernmental group, 18 March 2003.

91 Interview with an editor of opposition newspaper *Potential*, 18 March 2003.

92 Ibid.

93 Interview with owner of unregistered money transfer shop, 19 March 2003.

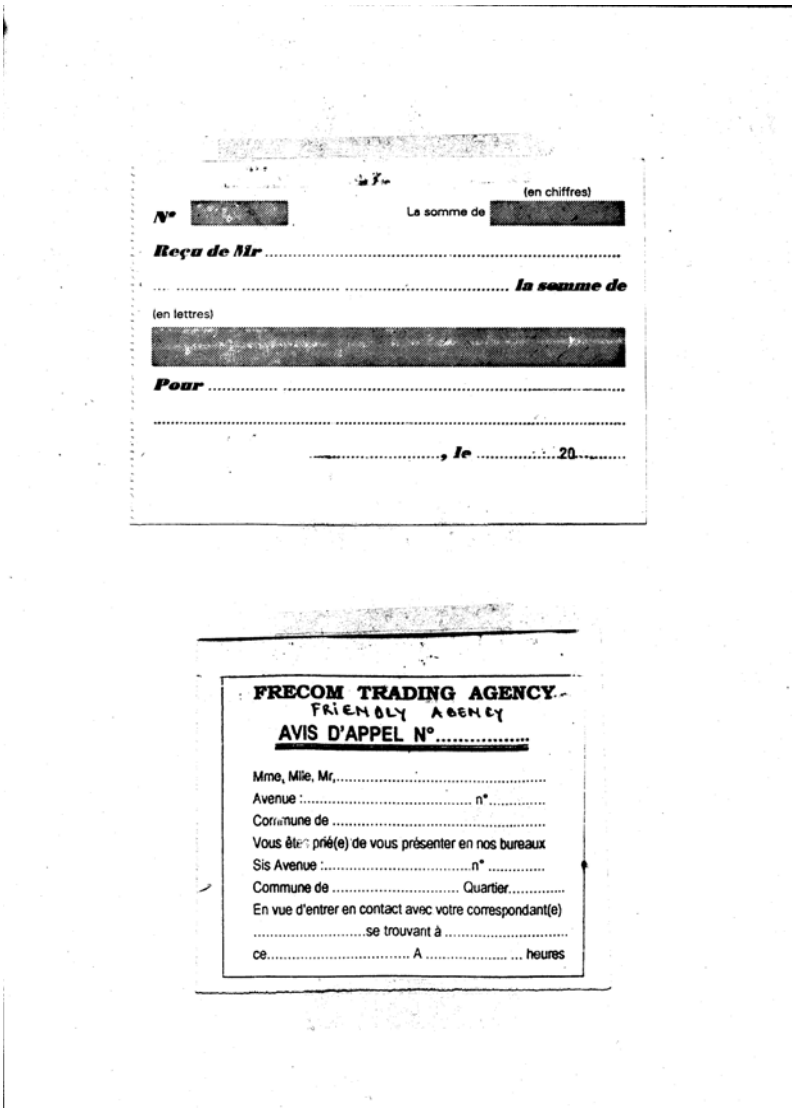
94 See Instruction Administrative No. 006, *Relative Au Fonctionnement Des Messageries Financieres, Banque Centrale du Congo*, May 2001, and *La Réglementation du Change en RepubliqueDémocratique du Congo*, *Banque Centrale du Congo*, May 2002.

95 Banks and wire transfer shops, such as Moneygram and Western Union, charge a comparable 10% fee, but citizens have little faith in formal financial institutions in the DRC.

as Angola, Burundi, Rwanda, Uganda, and South Africa, Western Europe, including Belgium and France, and the United States, and Canada.[96] The contact is made via cell-phone, short-wave radio, e-mail, or fax machine. Money is rarely exchanged between the transfer shops. When a transaction is sent in the reverse direction, the transferred sums frequently offset one another. If the transfer is exceptionally large, a steward or pilot flying to the region will bring the money to the money transfer shop for a small fee, and balance the accounts between the two transfer shops.

The large number of unregistered money transfer shops significantly hampers any effort to curtail illicit finance schemes. The shop owners do not include accurate and meaningful originator information, including name, address and account number, on fund transfers, and there is no licensing or registration regime in place for money remitters. Money-transfer shops also fail to adhere to international norms for maintaining years of records on financial transactions.

Figure A-3.1. Receipt from Informal Money Transfer Shop and Notification that Funds have been Received from Another Money Transfer Shop



Another major cause for concern is the large number of money-exchangers throughout the country. Money exchangers operate on most street corners in Kinshasa. These individuals could be independent entrepreneurs, but in most cases, the money-exchangers are employed by local merchants or importers linked to the conflict diamond trade to raise hard currency to dispose of Congolese francs at favorable exchange rates.[97]

A-4.6.5 Bulk Cash and Diamond/Gold Smuggling

The DRC has not implemented feasible measures to detect or monitor the physical cross-border transportation of cash or diamonds. Similar to other war-torn countries with porous borders, smuggling bulk capital figures as an important component of illicit finance schemes. With numerous, poorly policed border checkpoints and airport facilities, the DRC offers enormous opportunities for bulk cash and

[96] Interview with owner of unregistered money transfer shop, 19 March 2003.
[97] Interview with member of DRC anti-corruption nongovernmental group, 18 March 2003.

diamond smuggling. The requirement to declare funds greater than $10,000 is not enforced throughout much of the country. In fact, customs forms do not require individuals entering the country to declare the amount of money being brought into the DRC. Congo's borders with Rwanda and Uganda are particularly vulnerable, given the large number of traffickers, and elite networks routinely utilize airport facilities to transport illicit profits throughout the region.

A-4.6.6 Traditional Congolese Savings Mechanisms

The war forced closure of many banks throughout the DRC, and reduced client confidence in traditional banking institutions. Ordinary citizens see banks as institutions closely linked to the national government, and easily corrupted. As a result, citizens rarely use banks in the DRC, and the economy is largely cash-based. If salaries are deposited in banks, the owner of the account quickly withdraws the funds and stores the currency in a secure location at home. For move funds longer distances, individuals rely on money transfer shops. Informal couriers (*porteurs*) are also routinely used to transfer funds between rural and urban areas; formal couriers are assigned to carry company funds on a more regular basis. Businesspersons also rarely deposit funds in banks. Workers are routinely paid in cash. If a shop or factory is located in a rural area, the payroll is transported by air, and a steward or pilot on the flight delivers the funds to a trusted manager in the firm.

Small groups of workers also routinely take part in the "merry-go-round", an informal arrangements that allows people to save large sums of money, but not store the money at their home. This is a system in which workers deposit a portion of their pay in a joint pool overseen by a trusted co-worker each time they receive their salary. The list of workers participating in each "merry-go-round" determines who receives all the money collected each payday, with distributions going to members in good standing in the order their names appear on the list. When each member has been served in turn, the rotation begins again. Groups of workers in the DRC also maintain among themselves "insurance" funds from which individuals can borrow small sums of money (at a 10% rate of interest) to finance emergency expenditures, such as travel expenses to attend a funeral. There appears to be little illicit activity connected with these traditional savings mechanisms. *The fact that members voluntarily participate in them suggests that these arrangements are in fact quite trustworthy and reliable in an economy otherwise ridden with irregularities.*

A-4.6.7 Infiltration of the Banking Sector

The lack of faith in the formal banking sector is well grounded. In recent months, criminal groups have begun to infiltrate DRC financial institutions by placing people inside banks in positions where they have access to sensitive customer information. Despite the growing problem, bank officials are reluctant to report fraud committed by employees for fear of damaging their already fragile reputations. Existing bank workers are also targeted by criminal groups to alter documents, and glean data about customers. The extent of the problem is unrecognized, because banks are not required to report fraud attempts to police, or financial regulators.[98]

A-4.7 DRC in the Wider Financial Picture: Links, Temptations, Incentives

A-4.7.1 Ease of Moving Funds Offshore

Collusion among military officials, financial regulators involved in capital flight, organized criminal groups, facilitated by very lax customs oversight has made it easy for high-ranking politicians to move illicit funds offshore. Illicit funds leaving the DRC have been transferred to financial institutions in

[98] Interview Stanbic Bank representative, 14 March 2003.

neighbouring jurisdiction, including Burundi, Kenya, Rwanda, Tanzania, Uganda, and Zimbabwe. The use of correspondent bank accounts in foreign banks, especially the United Arab Emirates, South Africa and Belgium, remains a significant problem, because money launderers can commingle funds from many sources through this mechanism.[99]

A-4.7.2 Regional Financial Centers

Regional financial institutions are also profiting from the conflict. The (Central) Bank of Tanzania has been involved in the smuggling of Congolese diamonds, and a Congolese rebel faction, RCD-Goma, maintains a presence in Dar-es-Salaam.[100] Neighboring jurisdictions provide enormous opportunity for laundering illicit assets. Uganda and Rwanda are not regional financial centers, but Ugandan and Rwandan banks are routinely used to launder proceeds from the conflict timber trade. Nairobi, the regional financial center for East Africa, has more than 50 banks, and is linked to funneling illicit profits from the conflict in the DRC. Launderers use financial institutions in Nairobi, because Kenya only criminalizes money laundering related to narcotics-trafficking offenses. Illicit finance schemes involving conflict commodities is not a predicate offense in Kenya. These deficiencies permit the transfer of illicit profits through regional financial centers that maintain correspondent banking activities with a number of financial institutions throughout Africa, North America and Western Europe.

A-4.7.3 United Arab Emirates Links to Illicit Finance

The United Arab Emirates (UAE) houses the Middle East's most sophisticated financial services sector, which is intensely competitive and lightly regulated. The UAE has no foreign exchange controls and no corporate or income taxes. Local financial institutions consistently file few suspicious transaction reports, and except in cases involving massive frauds, essentially no cases have been investigated, let alone prosecuted. Bulk money is shipped by air on unmarked transports from the United Arab Emirates.[101] At least two banks in the UAE, one local and one foreign, are known to keep cadres of staff whose sole job is to cater to individual cash demands from US $500,000 to US $2 million.[102] The UAE also operates a number of free trade zones within its borders, which tax imports at roughly 3%, but charge no export fees. These zones are linked with a number of black market trading schemes. One free trade zone, Jebel Ali, houses more than 90 multinational companies, and permits 100% foreign ownership of companies. Operating licenses are easily attainable for firms in the free trade zones, which for legal purposes are treated as being offshore or outside the UAE. It is unclear whether any existing regulations within the UAE govern the financial transactions involving free trade zones in the UAE.

A-4.7.4 Belgian Links to Illicit Finance

Flights also routinely bring diamond traders from Belgium to the DRC, where the diamonds are exchanged for hard currency.[103] Belgians also routinely hire Congolese representatives to oversee the purchase and transfer of diamonds. This allows Belgian diamond brokers to avoid entering the DRC. There are other links between the two countries. Belgian authorities permit a number of arms dealers linked with the DRC arms trade to operate out of Belgium. Among the businessmen linked to the conflict

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99 Interview with a leading businessperson who operates a number of business concerns in the eastern DRC, 18 March 2003.

100 Interview with member of DRC anti-corruption nongovernmental group, 18 March 2003.

101 Ibid.

102 Saudi Arabia bridles at Americans' insistence on the role of Saudi citizens in providing al-Qaeda cash: Saudi Arabia and the Gulf have become the focus of US efforts to track the money driving Islamic militancy, *Financial Times* (London), 21 February 2002

103 Interview with a leading businessperson who operates a number of business concerns in the eastern DRC, 18 March 2003.

commodities trade in the DRC is a Belgian national, George Forrest, who owns New Lachaussée, a leading manufacturer of ammunition and light weaponry. Reports allege that Forrest benefits from strong backing from some political quarters in Belgium. Sanjivan Ruprah, who maintains an affiliation with the DRC Desk in Kigali, was arrested in Belgium on suspicion of planning to provide millions of dollars to the RCD-Goma to assist in trafficking conflict commodities from the DRC. In an effort to curtail the growing illicit arms trade, Belgian police arrested Ruprah in early February 2001. While there is a clear trend in Belgium toward compliance with international anti-money laundering norms, links with the DRC, especially through the conflict diamond trade, will continue to provide criminal elements in the DRC with access to Belgium's sophisticated financial infrastructure.

A-4.8 Bureaucratic and Regulatory Inefficiencies: The Impact on Forest Industry Firms

A-4.8.1 Overlapping Government Ministries

Business firms are also hampered by an ever-increasing number of government agencies vested with power to oversee the extraction, import and export of commodities in the DRC. In many instances, each government agency demands a small bribe to facilitate the processing of required documents and licenses. This pattern of overlapping ministerial functions is especially evident with firms extracting or processing timber products in the DRC. For instance, each shipment of timber is inspected by three agencies, including the *Office Congolais de Contrôle* (OCC), Customs, and local authorities. Timber firms exporting finished products must deal with even more agencies, as more than half a dozen different ministries oversee the extraction and exporting of processed timber products in the DRC. Most of the agencies "have to be visited twice, as some documents have to be validated by several services."[104] Most of the documents must be countersigned by the different agencies, which requires "second and third rounds at the same place."[105] Six separate DRC national agencies provide oversight of the timber and wood export trade (see Box "DRC Oversight of Wood Exports," above).

Box A-2. DRC Wood Sector Tax Regime

- Ministry of Environment:
  a) 1.5% of Free On Board (FOB) value for processed wood;
  b) 4.0% of FOB value for logs;
- The *Office Congolais de Contrôle* (OCC):
  a) 0.6% of FOB value for processed wood;
  b) 1.20% of FOB value for logs;
- The Customs Department (OFIDA):
  a) 6% of FOB value for logs;
  b) No taxes on processed wood;
- The National Office for Freight Shipments (OGEFREM):
  a) 0.5% of FOB value;
- CITES Certification: US $120.00 per certificate; and
- Certificate of Origin and Phytosanitary certificate: US $50 per certificate.[1]

A-4.8.2 The Oppressive Tax Regime

The black economy has been created in part by the DRC's complex tax system that has led to an environment in which many businesses view total compliance with all assessed taxes and penalties to be

[104] Documentation provided by Francoise Van de Ven, Directeur General, *Société Africaine de Bois SPRL* (SAFBOIS), 17 March 2003.

[105] Ibid.

incompatible with staying competitive.[106] In an effort to maintain market shares in the DRC, companies have developed an array of schemes to lower actual costs, and hide funds from tax authorities. In many instances, businesses offer tax officials small bribes in return for a lower formal tax bill. Legitimate companies that abide by international anti-bribery conventions are required to pay a wide array of taxes. In an effort to raise tax revenues, the government taxes firms for each transfer of cargo at the port of Matadi. For example, the government mandates that grain companies pay transit costs in Matadi for emptying grain from cargo ships through suction tubes, and depositing the grain in storage facilities. The tax rates in the DRC are higher than any other state in the region. Taxes for piloting boats into harbor at Matadi are nearly seven times those of neighboring Congo-Brazzaville, and far more expensive than any other port in western Africa.[107] (See Appendix 6, "Comparative Port Costs." N.B.: comparative totals for other West and Central African ports, presented in Appendix 6 table, last line, "Less Expensive Than Matadi," should all be increased by the figure of ONATRA's charges—$32,866 US—for unloading 8,000 MT of corn or wheat.) Thus the same grain unloading activity conducted in Point Noire would cost $63,581 less (or $8 less/ton of grain unloaded) than in Matadi; for Douala, the corresponding figure would be $56,034 ($7 less/ton of grain unloaded). To what degree it is possible to extrapolate from "relative comparative costs" for *grain unloading* activities to *timber and lumber loading* activities in the same ports is uncertain. These figures would tend to suggest, however, that it is more expensive to conduct a wood and log export operation through Matadi than through either Point Noire or Douala.

Timber firms contend that the existing tax regime is oppressive and reduces the possibility for legitimate firms to operate honestly (in accord with fiscal regulations) and still remain competitive enough to maintain market share in the DRC. The tax regime for the extraction and export of raw logs and processed wood includes charges noted above see Box A-2. "DRC Wood Sector Tax Regime," above).

To ensure that the services are provided, firms must pay extra fees to government officials, or risk delays in export formalities that can add two or three weeks or even more to the time required to issue indispensable documents. Furthermore, any company operating in rebel-held areas must routinely pay to the locally controlling force import and export duties, and taxes on fuel, spare parts, and foodstuffs.[108]

A-4.9 Emerging Threats to Remaining Unexploited Natural Resources

A-4.9.1 Potential Growth of the Timber Sector

Timber resources in the DRC are immense and easily accessible. With the signing of the peace accord, the timber industry, with modest investment in the sector, could experience significant growth in the short-term. The war devastated that industry, but many wood sector professionals remain in the DRC who worked in the more than 150 timber firms that operated before the war. The infrastructure in the DRC can support the transfer of large logs shipped by barge or floated down the Congo River. The infrastructure in neighboring states, especially Congo-Brazzaville, cannot easily support the transfer of large logs shipped down the Ubangi and/or Congo Rivers to the Kinshasa/Brazzaville area. This also provides enormous opportunity for the pillage of timber resources by corrupt political officials and criminal gangs.

Throughout the war, numerous countries expressed interest in timber products in the DRC. Companies from Belgium, China, Denmark, Japan and the United States purchased wood from the now-defunct Thai logging firm DARA Forest, which operated a sawmill in Mangina.[109] Additionally, ENRA produced wood products in Beni throughout the war. In coming months, a series of factors that depressed the wood

[106] Interview with member of DRC anti-corruption nongovernmental group, 18 March 2003.
[107] Document provided by Philippe Bisoux, Directeur General, Midema, 12 March 2003.
[108] Interview with member of DRC anti-corruption nongovernmental group, 18 March 2003.
[109] World Rainforest Movement, "Pillage in the DRC certified in Uganda?" Bulletin No. 46, May 2001.

market will ease. With the signing of the peace accord, the river systems will gradually open, forest areas will no longer harbor rebels groups, such as the Mayi Mayi and Interahamwe, and foreign firms will increasingly send representatives to the DRC to place orders for expensive tropical hardwoods.

Firms from a number of countries, including Thailand, China, Malaysia, France, Belgium, Libya, India and South Africa, have recently inquired about future timber concession arrangements in the DRC. The high rate of corruption and dilapidated infrastructure, however, currently limits foreign investment in the timber industry. Firms are also aware of the inability of a Malaysian group (after an alleged bribe of US $500,000) and of the Zimbabweans to run profitable timber operations in the DRC. These examples serve a clear warning to potential investors.[110] In an effort to curtail the loss of significant investments, buyers are placing individual orders for timber or visiting the DRC and purchasing logs on sight. A large number of buyers from Jordan, Turkey, Japan, the United States, and Belgian routinely visit Kinshasa to purchase timber products.[111]

A-4.10 Legislative, Regulatory and Enforcement Deficiencies

A-4.10.1 Insufficient Legislative Regime

It is not accidental that no efforts have been made to construct the fundamentals of a regime to combat corruption and illicit finance schemes in the DRC. The DRC's history is one of rulers aspiring to hold and retain a monopoly of power. Salaries of DRC officials have, in practice, been regularly and heavily supplemented by revenues from bribery. Currently, corrupt government institutions include the presidential administration, the Council of Ministers, provincial governors, and the regional and local administration. Allegations frequently circulate alleging that members of the Cabinet of Ministers accept bribes, especially from local businessmen and individuals connected with the conflict commodities trade.[112] Thus, even with the substantial international pressure on the DRC to pass anti-corruption legislation and a comprehensive money laundering law, enactment is likely to be a struggle.

A review of the current counter-money laundering regime in the DRC uncovers the core deficiencies, including:

- No comprehensive counter-money laundering laws or regulations that meet international standards;
- No penal law criminalizing money laundering of limited practical effect and application;
- A failure to implement "know your customer" laws for many transactions;
- No mandatory suspicious transaction reporting requirements;
- No provision for safe harbors for financial personnel; and
- Inability—as a practical matter—to cooperate to assist in foreign money laundering investigations.

The passage of anti-money laundering legislation that meets international standards for combating illicit finance schemes would remove most of the deficiencies. Immediate efforts must be made to implement the FATF Forty Recommendations, the basic legislative arrangements for anti-money laundering efforts that establishes a framework to permit regulatory, enforcement and judicial agencies to meet international norms for combating money laundering.[113] (See Appendix 5, below.)

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110 Ibid.
111 Information gathered at log transit beach on Congo River close to Kinshasa, 20 March 2003.
112 Interview with member of DRC anti-corruption nongovernmental group, 18 March 2003.
113 See http://www.fatf-gafi.org/40Recs_en.htm.

A-4.10.2 Lack of Regulatory Oversight

The DRC's areas of vulnerability and deficiency extend to every aspect of its financial services sector. **There may be no other nation in which the lack of transparency regarding fund transfers plays a greater role in debilitating its economy.** There remains no system for financial services record-keeping that is demonstrably enforced by bank regulators and no obligations to report the true beneficial owner of bank accounts. As a result, elaborate mechanisms have been established by financial elites in collusion with domestic financial institutions to transfer significant amounts of illicit profits offshore, where they cannot be traced. The Customs Department, which in theory should be monitoring false invoicing and illicit transfers of currency; and the Ministry of Justice, which is supposed to undertake internal coordination of money laundering efforts in the DRC, should oversee efforts to combat illicit finance schemes. In practice, only the Ministry of Finance and the tax police have directed a modicum of enforcement activity against money laundering in the DRC, with minor assistance from the Central Bank. To date, no financial institution in the DRC has ever been sanctioned for laundering money.[114]

A-4.10.3 Deficiencies in the Financial Sector

Enforcement and implementation of DRC's basic anti-money laundering legal and administrative framework remain by all accounts exceedingly limited. Lack of compliance with internationally accepted anti-money laundering standards by DRC banking and non-banking institutions has remained the norm. Legal coverage of other categories of DRC financial institutions by anti-money laundering laws remains uncertain, and no compliance efforts within such institutions are visible. In light of the presence of criminal networks overseen by parties from the DRC, Rwanda and Uganda, the DRC fails to meet the most rudimentary international anti-money laundering norms, especially:

- Financial institutions do not take reasonable measures to obtain information about the true identity of the persons on whose behalf an account is opened or a transaction conducted if there are any doubts as to whether these clients or customers are acting on their own behalf.
- Financial institutions do not pay special attention to all complex, unusually large transactions, and all unusual patterns of transactions, which have no apparent economic or visible lawful purpose.
- Financial institutions have not developed programs against money laundering that would establish internal policies, procedures and controls, and adequate screening procedures to ensure high standards when hiring employees;
- Financial institutions do not give special attention to business relations and transactions with persons, including companies and financial institutions, from countries, which do not or insufficiently apply international anti-money laundering norms, especially Burundi, Rwanda and Uganda.
- Financial institutions permit anonymous accounts or accounts in obviously fictitious names.
- The DRC fails to provide a safe harbor to banking officials who report illicit finance violations to financial regulators or law enforcement agents.
- DRC does not make efforts to assure a spontaneous or "upon request" international information exchange relating to suspicious transactions, persons and corporations involved in those transactions between competent authorities. There is no central authority to take expeditious action in response to requests by foreign countries to identify, freeze, seize and confiscate proceeds or other property of value corresponding to such proceeds, based on money laundering or the crimes underlying the laundering activity.

[114] Interview Stanbic Bank representative,18 March 2003.

A-4.10.4 Inadequate Knowledge Base, Training, Government Capacity

The police, customs service, and formal judicial system in the DRC remain under-staffed. Their personnel are poorly trained, poorly paid, and operate with antiquated communications and data information systems.[115] Law enforcement agencies have very limited experience in investigating and prosecuting significant financial crime cases, confront problems of integrity, training, capacity, and resources, and have to contend with uncertain laws, duplicitous sources of potential evidence, and major gaps in the overall regime for combating money laundering, such as the failure to require currency reporting or mandatory suspicious activity reporting. While the local administration is re-structuring, civil servants are not paid, and in many part of the country the economy is almost at a standstill. Most laws and regulations used to prevent and resolve conflicts are either simply ignored or not applied. Local rebel administrations are more interested in natural resource exploitation and appropriation than in initiating any development schemes. For instance, in the Kivus where the state ceased to provide social services, the population took things in their own hands to provide the minimum of social; services, with support from a number of nongovernmental organizations and churches.

A-4.11 Recommendations: Potential Areas for Bilateral and Multilateral Assistance

The signing of the peace accord was a notable achievement, but recent efforts by Rwandan and Ugandan rebel groups could hinder progress, and solidify criminal networks throughout eastern DRC. In recent months, the highly centralized Rwandan system facilitated the organization of criminal networks throughout the eastern DRC with direct links to high-ranking Rwandan political and military leaders. The Ugandan network poses another problem. The largely de-centralized Ugandan forces and their proxies remain free from central control, and interact with a multitude of local, national and regional criminal actors to establish control over natural resources, and monopolize production, commerce and financial activities in the region. As a result, any delay in initiating a programmatic response to the high levels of corruption and illicit finance schemes will allow the criminal networks throughout the country to entrench themselves and become the dominant political and business forces in the eastern DRC.

The lack of a legislative regime to combat corruption and illicit finance schemes prevents adequate oversight of banking and non-banking institutions. It inhibits the most rudimentary efforts to curtail the black market, reduce corruption and tax fraud, or permit a review of concessions and property transfers, and stock tenders offered to supporters of the rebel armies. Additionally, the domestic customs service cannot prevent routine smuggling activities, based on illicit use of airport facilities. These deficiencies have contributed to the proliferation of illicit finance schemes, capital flight, unfair competition, and the *creation of a business climate that is estimated by foreigners as among the worst in the world.* To combat the rampant corruption, and trafficking of conflict commodities, USAID could support a host of initiatives. Useful efforts, especially by the United Nations, have been made to identify specific individuals linked to the conflict commodities trade in the DRC. The debate should now be broadened to develop methods to combat corruption and illicit finance schemes.

A-4.12 Recommendations: Assessing the Scope and Nature of Corruption

A-4.12.1 Anti-Corruption Initiative

There is no existing program to assist with anti-corruption efforts in the DRC. Corruption is an immense obstacle to development within the DRC and discourages national and international investment at all levels. Low civil service salaries, the military conflict, and long-enduring political-economic and cultural experience provide a foundation for widespread pay-off of government officials in exchange for

[115] Interview with member of DRC anti-corruption nongovernmental group, 18 March 2003.

economic privileges such as business permits, government contracts, exemptions from taxes and customs duties, and protection from investigations. The growth of political corruption in the DRC hinders the democratization process, increases social inequality, undermines entrepreneurial spirit, decreases investment in agriculture, industry and high technical areas, and limits foreign direct investment. Endemic corruption also limits transparency, decreases accountability, and hinders establishment of regulatory capacity and controls. In short, a set of acceptable and transparent rule must be enacted in the short-term.

Any effort to assist local actors and ensure the implementation and sustainability of local anti-corruption initiatives must begin with a detailed analysis of the causes and extent of corruption in the country.

This could be accomplished with the ***establishment of a Congolese chapter of Transparency International*** (TI).[116] A national chapter of TI could assist the government in establishing and implementing effective anti corruption programs, laws, policies, and institutional structures. A well-supported effort by TI could raise awareness about the damaging effects of corruption, advocate policy reform, work towards the implementation of multilateral conventions, and subsequently monitor compliance by governments, corporations and banks. A national chapter of TI could also work to increase levels of accountability and transparency, monitoring the performance of key institutions. The highly public position of TI would assure quick coverage by media groups of threats to untouched national resources, such as the vast timber reserves in the DRC.

Additionally, a national chapter of Transparency International could initiate a wide range of programs to combat corruption, including:

- **Coalition-Building:** Concerned stakeholders from the public and private sector, nongovernmental organizations, and international institutions, such as the IMF and World Bank, could facilitate cooperation through a national TI chapter. A national chapter could also initiate collaboration with established regional anti-corruption bodies, such as the African Parliamentarians Network against Corruption (APNAC), and the Indaba Initiative that brings together African Chapters of TI to develop a common strategy for the fight against corruption in Africa. If needed, both of these organizations could provide a national chapter of TI with significant political support.
- **Monitoring:** A national chapter of Transparency International could provide comprehensive or selective assessments of corruption incidence and trends. A local chapter could also monitor activities that assess government or private sector compliance with policy commitments or international conventions, and assess the transparency of government processes in, e.g., procurement, privatization and election financing.
- **Public Awareness Campaigns:** Anti-corruption campaigns at the national, provincial, local and community level could raise awareness about corruption, and enhance transparency and accountability. The public awareness component could facilitate public discussion of the negative impact of corruption on a variety of topics, including the need for electoral reform, and constitutional amendments to combat corruption and money laundering. An inexpensive radio campaign, with voiceovers by prominent personalities, during regular hour prime time radio programs, could raise public awareness at minimal cost. Topics could include the need for constitutional reform, the effects of budget misappropriation, advantages of implement the OECD Convention against Bribery, and the damaging effects of electoral malpractice. A public awareness campaign could also assist with the creation of an Independent Anti-Corruption Committee that could investigate and prosecute cases of theft, misappropriation, abuse of power and other improprieties in the conduct of affairs in both the public and private sector. Apart from investigating and prosecuting those guilty of criminal practices,

[116] Transparency International is a not for profit, non-partisan organization that works through a growing network of National Chapters to mobilize civil society, business, academia and government, to curb corruption both nationally and internationally.

and educating the public on corruption, the commission would be expected to liaise with law enforcement agencies and other public bodies in order to examine and weed out corrupt practices and procedures.

- **Advocacy:** The *immense scale of corruption in the DRC* requires a well-supported, well-funded advocacy group to encourage audits of government procedures, promote transparency and accountability mechanisms, enhance the professionalism of civil servants, build capacity of specialized agencies, reform customs and revenue administration, and add impetus to the passage of International and regional anti-corruption conventions and protocols and their implementation in the DRC.
- **Local Initiatives:** TI chapters are uniquely qualified to carry out surveys to determine the best programs needed to combat corruption at the provincial and local levels of governments. One of the most harmful assumptions held by many policymakers is that financial and material resources are the keys to their ability to succeed in combating corruption. In most cases, real corruption problems may be solved without significant financing. In-country training programs are most likely to allow personnel to recognize the ill effects of inexperience, error, or apathy. Professional training in transition countries in accordance with international standards is no easy task. It must go hand in hand with the professional training of local governments. A national TI chapter could oversee these efforts with a sustained period of workshops, conferences, and technical training for critical actors and leaders.

Immediate surveys needed to assess the level of corruption in the DRC are noted in Box A-3.

However, these efforts will be significantly limited unless the national chapter of TI is supported by a regional anti-corruption initiative that receives strong support through bilateral and multilateral aid programs. A unique set of circumstances mandates the creation of a regional initiative, especially the large number of regional actors, and their proxies with a strong presence in the eastern DRC. Moreover, merchants throughout the eastern DRC have established markets with counterparts in neighboring Rwanda, Burundi, and Uganda, and nearly abandoned Kinshasa as their reference point for most of their commercial exchanges. A successful strategy to combat corruption in the DRC will have to take into account such external as well as regional linkages and, one way or the other, accommodate these various forces, in order to bring about positive engagement. This will require cooperation among a broad range of actors, including nongovernmental organizations, and international and domestic government agencies. While there are multiple groups

Box A-3. Imperative DRC Anti-Corruption Surveys

- **A National Corruption Survey** could provide policymakers with information about perceived levels of corruption among public officials. The surveys could delineate the perceptions of business people, academics and country analysts, and delineate differences among national, provincial and local levels of government. A comparative study of the provinces will reveal disparities and local initiatives. The survey could also review the effects of corruption on men and women, and delineate areas of donor coordination. The survey must be undertaken for three consecutive years before valid statistical analysis of the data may be conducted, but important information is routinely gleaned from each of the annual surveys.
- **A Bribe Payers Survey** could analyze the supply side of corruption, ranking the leading countries that import DRC products according to their propensity to bribe. Such a survey would isolate conditions under which senior public officials and politicians take bribes. The survey could be also used to provide a comprehensive analysis of unfair business practices, and assess the willingness of the private sector to enforce international anti-bribery conventions, including the OECD Anti-Bribery Convention and the US Foreign Corrupt Practices Act.
- **An Election Vulnerabilities Survey** could provide a survey of election bribery practices and voter motivation, and determine the extent to which the voting public will accept money and gifts from electoral candidates and the number of citizens in favor of a campaign expenditure law.

that sustain and facilitate violence in the DRC, there is also a multitude of nongovernmental groups throughout the region that could assist with a serious regional anti-corruption initiative.

A-4.13 Recommendations: Anti-Money Laundering Initiatives

A-4.13.1 Legislative Initiatives

Any effort to combat corruption must include a package of legislative reforms to curtail illicit finance schemes. The growing concern of large-scale capital flight, the legacy of an intrusive, rent-seeking state bureaucracy, underdeveloped market institutions and lack of fiscal resources further complicate the fight against money laundering in the DRC. Thus, the money-laundering problem is a subset of and simultaneously a contributing factor to the governance problem, inexorably intermingled with it. Furthermore, the illicit profits raised through conflict commodities trafficking are laundered with ease in the DRC, because of significant legislative and bureaucratic deficiencies in the anti-money laundering regime in Congo.

Real reform requires the passage of comprehensive anti-money laundering legislation, tax reform to create a tax system in which individuals and companies have incentives to pay a fair share of taxes, civil service reform that creates incentives for honest enforcement of laws, including in the areas of taxation and customs, and judicial reform, to secure effective legal redress in cases of commercial disputes. Otherwise illicit financial flows will sustain conflict throughout the region. The establishment of a financial intelligence unit (FIU) would significantly counter the laundering of assets linked to the conflict commodities trade. In some instances, tracking finances will be easier than following easily extractable commodities, such as coltan, diamonds, gold and timber.

A-4.13.2 Regulatory Initiatives

The most important element in effectively halting the illegal exploitation of natural resources, which funds regional military and criminal networks, is mandating regulatory oversight of financial institutions and business firms. For instance, bilateral or multilateral aid programs could assist the Central Bank with programs that ensure domestic financial institutions comply with international anti-money laundering standards. The Central Bank has long been an inadequate regulator and supervisor of Congolese financial institutions, with little ability to police compliance with even basic elements of banking safety and soundness. Efforts to introduce identification and record-keeping requirements will permit authorities to construct a central data-base that includes the official or other reliable identifying documents, and records the identity of their clients, either occasional or usual, when establishing business relations or conducting transactions. The data-base will verify the legal existence and structure of the customer by obtaining from a public register, proof of incorporation, including information concerning the customer's name, legal form, address, directors and provisions regulating the power to bind the entity. Such a record could greatly reduce the transfer of illicit funds, and provide domestic banking institutions with a significant measure of soundness and security.

A-4.14 Conclusion

The war originated as a security concern on the part of Rwanda, Burundi, and Uganda. Subsequently, economic opportunities in Eastern DRC have clearly helped sustain military operations there. It is important to note, however, that Rwanda, Burundi and Ugandan security concerns persist, fueled in large part in ongoing guerrilla activity originating in Eastern DRC.

Control over, extraction and trafficking of illicit commodities have, however, become conflict-sustaining factors in the DRC. The conflict commodities market generates significant profits for local, national and

regional actors. Significant legislative and regulatory deficiencies hinder efforts to combat the illicit commodities trade. The combined lack of transparency and lack of integrity in the DRC's financial system have made it a sieve for most forms of financial abuses, with catastrophic consequences for the safety and soundness of the DRC's financial system, for tax collection, and for sustained foreign investment commensurate with the potential economy in the DRC. Any delay in dampening corruption and illicit finance schemes will permit criminal networks both to entrench themselves, and to transform themselves from criminal actors into an elite political class that controls access to the country's timber, diamonds, gold, cobalt, and coltan reserves, and provides concessions to regional actors who will continue to destabilize the region.

Any attempt to reduce the level of political corruption in the DRC will require a concerted effort by Congolese politicians, and the assistance of the international community. This will be a difficult, but not impossible task. To safeguard the nascent investments and achievements to date, including the peace process, local and regional capacities must be strengthened. A key here will be to structure the assistance provided to enhance transparency, good governance, and democratization programs and to ensure that funds are diverted from groups involved in conflict and directed to support provision of necessary services in the DRC. USAID could assist efforts to stem the trade in illicit commodities by helping to establish a national chapter of Transparency International, and promoting the need for anti-corruption and anti-money laundering initiatives. Otherwise, violence could shift from military conflicts to a range of confrontations between criminal organizations, with significant support from local, national and regional military and political actors.

APPENDIX 5 - ANTI-MONEY LAUNDERING MEASURES

Financial Action Task Force
On Money Laundering
Groupe d'action financière
Sur le blanchiment de capitaux

The Forty Recommendations

Introduction

The Financial Action Task Force on Money Laundering (FATF) is an inter-governmental body whose purpose is the development and promotion of policies to combat money laundering -- the processing of criminal proceeds in order to disguise their illegal origin. These policies aim to prevent such proceeds from being utilised in future criminal activities and from affecting legitimate economic activities.

The FATF currently consists of 29 countries[117] and two international organisations[118]. Its membership includes the major financial centre countries of Europe, North and South America, and Asia. It is a multi-disciplinary body - as is essential in dealing with money laundering - bringing together the policy-making power of legal, financial and law enforcement experts.

This need to cover all relevant aspects of the fight against money laundering is reflected in the scope of the forty FATF Recommendations—the measures which the Task Force have agreed to implement and which all countries are encouraged to adopt. The Recommendations were originally drawn up in 1990. In 1996 the forty Recommendations were revised to take into account the experience gained over the last six years and to reflect the changes which have occurred in the money laundering problem.[119]

These forty Recommendations set out the basic framework for anti-money laundering efforts and they are designed to be of universal application. They cover the criminal justice system and law enforcement; the financial system and its regulation, and international co-operation.

It was recognised from the outset of the FATF that countries have diverse legal and financial systems and so all cannot take identical measures. The Recommendations are therefore the principles for action in this field, for countries to implement according to their particular circumstances and constitutional frameworks allowing countries a measure of flexibility rather than prescribing every detail. The measures are not particularly complex or difficult, provided there is the political will to act. Nor do they compromise the freedom to engage in legitimate transactions or threaten economic development.

FATF countries are clearly committed to accept the discipline of being subjected to multilateral surveillance and peer review. All member countries have their implementation of the forty Recommendations monitored through a two-pronged approach: an annual self-assessment exercise and the more detailed mutual evaluation process under which each member country is subject to an on-site examination. In addition, the FATF carries out cross-country reviews of measures taken to implement particular Recommendations.

These measures are essential for the creation of an effective anti-money laundering framework.

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117 Reference in this document to "countries" should be taken to apply equally to "territories" or "jurisdictions". The twenty-nine FATF member countries and governments are: Argentina; Australia; Austria; Belgium; Brazil; Canada; Denmark; Finland; France; Germany; Greece; Hong Kong, China; Iceland; Ireland; Italy; Japan; Luxembourg; Mexico; the Kingdom of the Netherlands; New Zealand; Norway; Portugal; Singapore; Spain; Sweden; Switzerland; Turkey; the United Kingdom; and the United States.

118 The two international organisations are the European Commission and the Gulf Cooperation Council.

119 During the period 1990 to 1995, the FATF also elaborated various Interpretative Notes which are designed to clarify the application of specific Recommendations. Some of these Interpretative Notes have been updated in the Stocktaking Review to reflect changes in the Recommendations. The FATF adopted a new Interpretative Note relating to Recommendation 15 on 2 July 1999.

THE FORTY RECOMMENDATIONS

A. GENERAL FRAMEWORK OF THE RECOMMENDATIONS

1. Each country should take immediate steps to ratify and to implement fully, the 1988 United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances (the Vienna Convention).

2. Financial institution secrecy laws should be conceived so as not to inhibit implementation of these recommendations.

3. An effective money laundering enforcement program should include increased multilateral cooperation and mutual legal assistance in money laundering investigations and prosecutions and extradition in money laundering cases, where possible.

B. ROLE OF NATIONAL LEGAL SYSTEMS IN COMBATING MONEY LAUNDERING

Scope of the Criminal Offence of Money Laundering

4. Each country should take such measures as may be necessary, including legislative ones, to enable it to criminalise money laundering as set forth in the Vienna Convention. Each country should extend the offence of drug money laundering to one based on serious offences. Each country would determine which serious crimes would be designated as money laundering predicate offences.

5. As provided in the Vienna Convention, the offence of money laundering should apply at least to knowing money laundering activity, including the concept that knowledge may be inferred from objective factual circumstances.

6. Where possible, corporations themselves—not only their employees—should be subject to criminal liability.

Provisional Measures and Confiscation

7. Countries should adopt measures similar to those set forth in the Vienna Convention, as may be necessary, including legislative ones, to enable their competent authorities to confiscate property laundered, proceeds from, instrumentalities used in or intended for use in the commission of any money laundering offence, or property of corresponding value, without prejudicing the rights of bona fide third parties.

   Such measures should include the authority to : (1) identify, trace and evaluate property which is subject to confiscation; (2) carry out provisional measures, such as freezing and seizing, to prevent any dealing, transfer or disposal of such property; and (3) take any appropriate investigative measures.

   In addition to confiscation and criminal sanctions, countries also should consider monetary and civil penalties, and/or proceedings including civil proceedings, to void contracts entered into by parties, where parties knew or should have known that as a result of the contract, the State would be prejudiced in its ability to recover financial claims, e.g., through confiscation or collection of fines and penalties.

C. ROLE OF THE FINANCIAL SYSTEM IN COMBATING MONEY LAUNDERING

8. Recommendations 10 to 29 should apply not only to banks, but also to non-bank financial institutions. Even for those non-bank financial institutions which are not subject to a formal prudential supervisory regime in all countries, for example bureaux de change, governments should ensure that these institutions are subject to the same anti-money laundering laws or regulations as all other financial institutions and that these laws or regulations are implemented effectively.

9. The appropriate national authorities should consider applying Recommendations 10 to 21 and 23 to the conduct of financial activities as a commercial undertaking by businesses or professions which are not financial institutions, where such conduct is allowed or not prohibited. Financial activities include, but are not limited to, those listed in the attached Appendix. It is left to each country to decide whether special situations should be defined where the application of anti-money laundering measures is not necessary, for example, when a financial activity is carried out on an occasional or limited basis.

Customer Identification and Record-keeping Rules

10. Financial institutions should not keep anonymous accounts or accounts in obviously fictitious names: they should be required (by law, by regulations, by agreements between supervisory authorities and financial institutions or by self-regulatory agreements among financial institutions) to identify, on the basis of an official or other reliable identifying document, and record the identity of their clients, either occasional or usual, when establishing business relations or conducting transactions (in particular opening of accounts or passbooks, entering into fiduciary transactions, renting of safe deposit boxes, performing large cash transactions).

    In order to fulfil identification requirements concerning legal entities, financial institutions should, when necessary, take measures:

    (i) `to verify the legal existence and structure of the customer by obtaining either from a public register or from the customer or both, proof of incorporation, including information concerning the customer's name, legal form, address, directors and provisions regulating the power to bind the entity.

    (ii) to verify that any person purporting to act on behalf of the customer is so authorised and identify that person.

11. Financial institutions should take reasonable measures to obtain information about the true identity of the persons on whose behalf an account is opened or a transaction conducted if there are any doubts as to whether these clients or customers are acting on their own behalf, for example, in the case of domiciliary companies (i.e., institutions, corporations, foundations, trusts, etc. that do not conduct any commercial or manufacturing business or any other form of commercial operation in the country where their registered office is located).

12. Financial institutions should maintain, for at least five years, all necessary records on transactions, both domestic or international, to enable them to comply swiftly with information requests from the competent authorities. Such records must be sufficient to permit reconstruction of individual transactions (including the amounts and types of currency involved if any) so as to provide, if necessary, evidence for prosecution of criminal behaviour.

Financial institutions should keep records on customer identification (e.g., copies or records of official identification documents like passports, identity cards, driving licenses or similar documents), account files and business correspondence for at least five years after the account is closed.

These documents should be available to domestic competent authorities in the context of relevant criminal prosecutions and investigations.

13. Countries should pay special attention to money laundering threats inherent in new or developing technologies that might favour anonymity, and take measures, if needed, to prevent their use in money laundering schemes.

Increased Diligence of Financial Institutions

14. Financial institutions should pay special attention to all complex, unusual large transactions, and all unusual patterns of transactions, which have no apparent economic or visible lawful purpose. The background and purpose of such transactions should, as far as possible, be examined, the findings established in writing, and be available to help supervisors, auditors and law enforcement agencies.

15. If financial institutions suspect that funds stem from a criminal activity, they should be required to report promptly their suspicions to the competent authorities.

16. Financial institutions, their directors, officers and employees should be protected by legal provisions from criminal or civil liability for breach of any restriction on disclosure of information imposed by contract or by any legislative, regulatory or administrative provision, if they report their suspicions in good faith to the competent authorities, even if they did not know precisely what the underlying criminal activity was, and regardless of whether illegal activity actually occurred.

17. Financial institutions, their directors, officers and employees, should not, or, where appropriate, should not be allowed to, warn their customers when information relating to them is being reported to the competent authorities.

18. Financial institutions reporting their suspicions should comply with instructions from the competent authorities.

19. Financial institutions should develop programs against money laundering. These programs should include, as a minimum:

    (i) the development of internal policies, procedures and controls, including the designation of compliance officers at management level, and adequate screening procedures to ensure high standards when hiring employees;

    (ii) an ongoing employee training programme;

    (iii) an audit function to test the system.

Measures to Cope with the Problem of Countries with No or Insufficient Anti-Money Laundering Measures

20. Financial institutions should ensure that the principles mentioned above are also applied to branches and majority owned subsidiaries located abroad, especially in countries which do not or insufficiently apply these Recommendations, to the extent that local applicable laws and regulations permit. When

local applicable laws and regulations prohibit this implementation, competent authorities in the country of the mother institution should be informed by the financial institutions that they cannot apply these Recommendations.

21. Financial institutions should give special attention to business relations and transactions with persons, including companies and financial institutions, from countries which do not or insufficiently apply these Recommendations. Whenever these transactions have no apparent economic or visible lawful purpose, their background and purpose should, as far as possible, be examined, the findings established in writing, and be available to help supervisors, auditors and law enforcement agencies.

Other Measures to Avoid Money Laundering

22. Countries should consider implementing feasible measures to detect or monitor the physical crossborder transportation of cash and bearer negotiable instruments, subject to strict safeguards to ensure proper use of information and without impeding in any way the freedom of capital movements.

23. Countries should consider the feasibility and utility of a system where banks and other financial institutions and intermediaries would report all domestic and international currency transactions above a fixed amount, to a national central agency with a computerised data base, available to competent authorities for use in money laundering cases, subject to strict safeguards to ensure proper use of the information.

24. Countries should further encourage in general the development of modern and secure techniques of money management, including increased use of checks, payment cards, direct deposit of salary checks, and book entry recording of securities, as a means to encourage the replacement of cash transfers.

25. Countries should take notice of the potential for abuse of shell corporations by money launderers and should consider whether additional measures are required to prevent unlawful use of such entities.

Implementation and Role of Regulatory and Other Administrative Authorities

26. The competent authorities supervising banks or other financial institutions or intermediaries, or other competent authorities, should ensure that the supervised institutions have adequate programs to guard against money laundering. These authorities should co-operate and lend expertise spontaneously or on request with other domestic judicial or law enforcement authorities in money laundering investigations and prosecutions.

27. Competent authorities should be designated to ensure an effective implementation of all these Recommendations, through administrative supervision and regulation, in other professions dealing with cash as defined by each country.

28. The competent authorities should establish guidelines which will assist financial institutions in detecting suspicious patterns of behaviour by their customers. It is understood that such guidelines must develop over time, and will never be exhaustive. It is further understood that such guidelines will primarily serve as an educational tool for financial institutions' personnel.

29. The competent authorities regulating or supervising financial institutions should take the necessary legal or regulatory measures to guard against control or acquisition of a significant participation in financial institutions by criminals or their confederates.

D. STRENGTHENING OF INTERNATIONAL COOPERATION

Administrative Cooperation

Exchange of general information

30. National administrations should consider recording, at least in the aggregate, international flows of cash in whatever currency, so that estimates can be made of cash flows and reflows from various sources abroad, when this is combined with central bank information. Such information should be made available to the International Monetary Fund and the Bank for International Settlements to facilitate international studies.

31. International competent authorities, perhaps Interpol and the World Customs Organisation, should be given responsibility for gathering and disseminating information to competent authorities about the latest developments in money laundering and money laundering techniques. Central banks and bank regulators could do the same on their network. National authorities in various spheres, in consultation with trade associations, could then disseminate this to financial institutions in individual countries.

Exchange of information relating to suspicious transactions

32. Each country should make efforts to improve a spontaneous or "upon request" international information exchange relating to suspicious transactions, persons and corporations involved in those transactions between competent authorities. Strict safeguards should be established to ensure that this exchange of information is consistent with national and international provisions on privacy and data protection.

Other Forms of Cooperation

Basis and means for cooperation in confiscation, mutual assistance and extradition

33. Countries should try to ensure, on a bilateral or multilateral basis, that different knowledge standards in national definitions—i.e., different standards concerning the intentional element of the infraction—do not affect the ability or willingness of countries to provide each other with mutual legal assistance.

34. International co-operation should be supported by a network of bilateral and multilateral agreements and arrangements based on generally shared legal concepts with the aim of providing practical measures to affect the widest possible range of mutual assistance.

35. Countries should be encouraged to ratify and implement relevant international conventions on money laundering such as the 1990 Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime.

Focus of improved mutual assistance on money laundering issues

36. Cooperative investigations among countries' appropriate competent authorities should be encouraged. One valid and effective investigative technique in this respect is controlled delivery related to assets known or suspected to be the proceeds of crime. Countries are encouraged to support this technique, where possible.

37. There should be procedures for mutual assistance in criminal matters regarding the use of compulsory measures including the production of records by financial institutions and other persons, the search of persons and premises, seizure and obtaining of evidence for use in money laundering investigations and prosecutions and in related actions in foreign jurisdictions.

38. There should be authority to take expeditious action in response to requests by foreign countries to identify, freeze, seize and confiscate proceeds or other property of corresponding value to such proceeds, based on money laundering or the crimes underlying the laundering activity. There should also be arrangements for coordinating seizure and confiscation proceedings which may include the sharing of confiscated assets.

39. To avoid conflicts of jurisdiction, consideration should be given to devising and applying mechanisms for determining the best venue for prosecution of defendants in the interests of justice in cases that are subject to prosecution in more than one country. Similarly, there should be arrangements for coordinating seizure and confiscation proceedings which may include the sharing of confiscated assets.

40. Countries should have procedures in place to extradite, where possible, individuals charged with a money laundering offence or related offences. With respect to its national legal system, each country should recognise money laundering as an extraditable offence. Subject to their legal frameworks, countries may consider simplifying extradition by allowing direct transmission of extradition requests between appropriate ministries, extraditing persons based only on warrants of arrests or judgements, extraditing their nationals, and/or introducing a simplified extradition of consenting persons who waive formal extradition proceedings.

Appendix to Recommendation 9: List of Financial Activities undertaken by business or professions which are not financial institutions

1. Acceptance of deposits and other repayable funds from the public.
2. Lending.*
3. Financial leasing.
4. Money transmission services.
5. Issuing and managing means of payment (e.g., credit and debit cards, cheques, traveller's cheques and bankers' drafts...).
6. Financial guarantees and commitments.
7. Trading for account of customers (spot, forward, swaps, futures, options...) in:
   (a) money market instruments (cheques, bills, CDs, etc.) ;
   (b) foreign exchange;
   (c) exchange, interest rate and index instruments;
   (d) transferable securities;
   (e) commodity futures trading.
8. Participation in securities issues and the provision of financial services related to such issues.
9. Individual and collective portfolio management.
10. Safekeeping and administration of cash or liquid securities on behalf of clients.
11. Life insurance and other investment related insurance.
12. Money changing.

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* Including inter alia:
— consumer credit,
— mortgage credit,
— factoring, with or without recourse,
— finance of commercial transactions (including forfeiting).

INTERPRETATIVE NOTES[120] TO THE FORTY RECOMMENDATIONS

[120] During the period 1990 to 1995, the FATF elaborated various Interpretative Notes which are designed to clarify the application of specific Recommendations. Some of these Interpretative Notes have been updated in the Stocktaking Review to reflect changes in the Recommendations. The FATF adopted a new Interpretative Note relating to Recommendation 15 on 2 July 1999.

INTERPRETATIVE NOTES

Recommendation 4

Countries should consider introducing an offence of money laundering based on all serious offences and/or on all offences that generate a significant amount of proceeds.

Recommendation 8

The FATF Recommendations should be applied in particular to life insurance and other investment products offered by insurance companies, whereas Recommendation 29 applies to the whole of the insurance sector.

Recommendation 8 and 9 (Bureaux de Change)

Introduction

Bureaux de change are an important link in the money laundering chain since it is difficult to trace the origin of the money once it has been exchanged. Typologies exercises conducted by the FATF have indicated increasing use of bureaux de change in laundering operations. Hence it is important that there should be effective counter-measures in this area. This Interpretative Note clarifies the application of FATF Recommendations concerning the financial sector in relation to bureaux de change and, where appropriate, sets out options for their implementation.

Definition of Bureaux de Change

For the purpose of this Note, bureaux de change are defined as institutions which carry out retail foreign exchange operations (in cash, by cheque or credit card). Money changing operations which are conducted only as an ancillary to the main activity of a business have already been covered in Recommendation 9. Such operations are therefore excluded from the scope of this Note.

Necessary Counter-Measures Applicable to Bureaux de Change

To counter the use of bureaux de change for money laundering purposes, the relevant authorities should take measures to know the existence of all natural and legal persons who, in a professional capacity, perform foreign exchange transactions.

As a minimum requirement, FATF members should have an effective system whereby the bureaux de change are known or declared to the relevant authorities (whether regulatory or law enforcement). One method by which this could be achieved would be a requirement on bureaux de change to submit to a designated authority, a simple declaration containing adequate information on the institution itself and its management. The authority could either issue a receipt or give a tacit authorisation: failure to voice an objection being considered as approval.

FATF members could also consider the introduction of a formal authorisation procedure. Those wishing to establish bureaux de change would have to submit an application to a designated authority empowered to grant authorisation on a case-by-case basis. The request for authorisation would need to contain such information as laid down by the authorities but should at least provide details of the applicant institution and its management. Authorisation would be granted, subject to the bureau de change

meeting the specified conditions relating to its management and the shareholders, including the application of a "fit and proper test".

Another option which could be considered would be a combination of declaration and authorisation procedures. Bureaux de change would have to notify their existence to a designated authority but would not need to be authorised before they could start business. It would be open to the authority to apply a 'fit and proper' test to the management of bureaux de change after the bureau had commenced its activity, and to prohibit the bureau de change from continuing its business, if appropriate.

Where bureaux are required to submit a declaration of activity or an application for registration, the designated authority (which could be either a public body or a self-regulatory organisation) could be empowered to publish the list of registered bureaux de change. As a minimum, it should maintain a (computerised) file of bureaux de change. There should also be powers to take action against bureaux de change conducting business without having made a declaration of activity or having been registered.

As envisaged under FATF Recommendations 8 and 9, bureaux de change should be subject to the same anti-money laundering regulations as any other financial institution. The FATF Recommendations on financial matters should therefore be applied to bureaux de change. Of particular importance are those on identification requirements, suspicious transactions reporting, due diligence and record-keeping.

To ensure effective implementation of anti-money laundering requirements by bureaux de change, compliance monitoring mechanisms should be established and maintained. Where there is a registration authority for bureaux de change or a body which receives declarations of activity by bureaux de change, it could carry out this function. But the monitoring could also be done by other designated authorities (whether directly or through the agency of third parties such as private audit firms). Appropriate steps would need to be taken against bureaux de change which failed to comply with the anti-laundering requirements.

The bureaux de change sector tends to be an unstructured one without (unlike banks) national representative bodies which can act as a channel of communication with the authorities. Hence it is important that FATF members should establish effective means to ensure that bureaux de change are aware of their anti-money laundering responsibilities and to relay information, such as guidelines on suspicious transactions, to the profession. In this respect it would be useful to encourage the development of professional associations.

Recommendations 11, 15 through 18

Whenever it is necessary in order to know the true identity of the customer and to ensure that legal entities cannot be used by natural persons as a method of operating in reality anonymous accounts, financial institutions should, if the information is not otherwise available through public registers or other reliable sources, request information—and update that information—from the customer concerning principal owners and beneficiaries. If the customer does not have such information, the financial institution should request information from the customer on whoever has actual control.

If adequate information is not obtainable, financial institutions should give special attention to business relations and transactions with the customer.

If, based on information supplied from the customer or from other sources, the financial institution has reason to believe that the customer's account is being utilised in money laundering transactions, the financial institution must comply with the relevant legislation, regulations, directives or agreements concerning reporting of suspicious transactions or termination of business with such customers.

Recommendation 11

A bank or other financial institution should know the identity of its own customers, even if these are represented by lawyers, in order to detect and prevent suspicious transactions as well as to enable it to comply swiftly to information or seizure requests by the competent authorities. Accordingly Recommendation 11 also applies to the situation where an attorney is acting as an intermediary for financial services.

Recommendation 14

(a) In the interpretation of this requirement, special attention is required not only to transactions between financial institutions and their clients, but also to transactions and/or shipments especially of currency and equivalent instruments between financial institutions themselves or even to transactions within financial groups. As the wording of Recommendation 14 suggests that indeed "all" transactions are covered, it must be read to incorporate these interbank transactions.

(b) The word "transactions" should be understood to refer to the insurance product itself, the premium payment and the benefits.

Recommendation 15[121]

In implementing Recommendation 15, suspicious transactions should be reported by financial institutions regardless of whether they are also thought to involve tax matters. Countries should take into account that, in order to deter financial institutions from reporting a suspicious transaction, money launderers may seek to state *inter alia* that their transactions relate to tax matters.

Recommendation 22

(a) To facilitate detection and monitoring of cash transactions, without impeding in any way the freedom of capital movements, members could consider the feasibility of subjecting all cross-border transfers, above a given threshold, to verification, administrative monitoring, declaration or record keeping requirements.

(b) If a country discovers an unusual international shipment of currency, monetary instruments, precious metals, or gems, etc., it should consider notifying, as appropriate, the Customs Service or other competent authorities of the countries from which the shipment originated and/or to which it is destined, and should co-operate with a view toward establishing the source, destination, and purpose of such shipment and toward the taking of appropriate action.

Recommendation 26

In respect of this requirement, it should be noted that it would be useful to actively detect money laundering if the competent authorities make relevant statistical information available to the investigative authorities, especially if this information contains specific indicators of money laundering activity. For instance, if the competent authorities' statistics show an imbalance between the development of the financial services industry in a certain geographical area within a country and the development of the local economy, this imbalance might be indicative of money laundering activity in the region. Another example would be manifest changes in domestic currency flows without an apparent legitimate economic cause. However, prudent analysis of these statistical data is warranted, especially as there is not

[121] The FATF adopted this Interpretative Note on 2 July 1999.

necessarily a direct relationship between financial flows and economic activity (e.g., the financial flows in an international financial centre with a high proportion of investment management services provided for foreign customers or a large interbank market not linked with local economic activity).

Recommendation 29

Recommendation 29 should not be read as to require the introduction of a system of regular review of licensing of controlling interests in financial institutions merely for anti-money laundering purposes, but as to stress the desirability of suitability review for controlling shareholders in financial institutions (banks and non-banks in particular) from a FATF point of view. Hence, where shareholder suitability (or "fit and proper") tests exist, the attention of supervisors should be drawn to their relevance for anti-money laundering purposes.

Recommendation 33

Subject to principles of domestic law, countries should endeavour to ensure that differences in the national definitions of the money laundering offences -- e.g., different standards concerning the intentional element of the infraction, differences in the predicate offences, differences with regard to charging the perpetrator of the underlying offence with money laundering -- do not affect the ability or willingness of countries to provide each other with mutual legal assistance.

Recommendation 36 (Controlled delivery)

The controlled delivery of funds known or suspected to be the proceeds of crime is a valid and effective law enforcement technique for obtaining information and evidence in particular on international money laundering operations. In certain countries, controlled delivery techniques may also include the monitoring of funds. It can be of great value in pursuing particular criminal investigations and can also help in obtaining more general intelligence on money laundering activities. The use of these techniques should be strongly encouraged. The appropriate steps should therefore be taken so that no obstacles exist in legal systems preventing the use of controlled delivery techniques, subject to any legal requisites, including judicial authorisation for the conduct of such operations. The FATF welcomes and supports the undertakings by the World Customs Organisation and Interpol to encourage their members to take all appropriate steps to further the use of these techniques.

Recommendation 38

(a) Each country shall consider, when possible, establishing an asset forfeiture fund in its respective country into which all or a portion of confiscated property will be deposited for law enforcement, health, education, or other appropriate purposes.

(b) Each country should consider, when possible, taking such measures as may be necessary to enable it to share among or between other countries confiscated property, in particular, when confiscation is directly or indirectly a result of coordinated law enforcement actions.

Deferred Arrest and Seizure

Countries should consider taking measures, including legislative ones, at the national level, to allow their competent authorities investigating money laundering cases to postpone or waive the arrest of suspected persons and/or the seizure of the money for the purpose of identifying persons involved in such activities or for evidence gathering. Without such measures the use of procedures such as controlled deliveries and undercover operations are precluded.

APPENDIX 6 - COMPARATIVE PORT COSTS

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FRANCE

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Name of Port		Casablanca	Nouakchott	Dakar	Freetown	San Pedro	Abidjan	Takoradi	Tema	Lome	Douala	Owendo	Pointe Noire	Matadi
Currency		MAD	EUROI	FCFA	USD	FCFA	FCFA	USD	USD	FCFA	FCFA	FF	EURO	USD
Name of Agent		Globe Marine	Samma	Socopac	SLNS	Supermar	Supermar	Supermar	Supermar	UMAT	Socopac	Saga	Saga	Ami Con?
Pilotage/Tugs/Mooring														
RVM	Pilotage In/Out	6 500.00		600 000.00		511 646.00	350 000.00	$560.00	$560.00		658 370.00	8 230.00	€549.00	$4 054.?
RVM	Pilotage Bonus										124 728.00			
RVM	Gratuity to Pilots													$220.?
RVM	Towage In/Out	29 946.36		1 800 000.00		360 773.00	360 773.00	$1 400.00	$1 400.00		410 000.00	12 075.00	€2 287.00	
Agency	Mooring/Unmooring	1 007.00		200 000.00		204 658.00	180 000.00	$200.00	$200.00			3 150.00		
Dues														
RVM	Harbour Dues	33 400.00		2 300 000.00		520 667.00	520 667.00	$1 500.00	$1 200.00			24 323.00		
ONATRA	Quay Dues										2 633 479.00		€3 201.00	
RVM	Anchorage Dues													
ONATRA	Port Dues		€7 644.00			315 000.00	315 000.00			2 050 000.00	720 000.00			
RVM	Entry Dues	3 600.00												
ONATRA	Shelter Dues					120 000.00	120 000.00							
RVM	Light Dues							$389.88	$389.88					
Taxes														
RVM	Tonnag7e Tax	259.00												
Unknown	Chancellery Tax	3 000.00												
RVM	General Tax													$26 446.?
H. VILLE	City Council Tax													$118.?
ONATRA	Berthing Tax													$649.?
Unknown	Navy Merchant Tax										150 000.00			
GOVERN.	Tax on Revenue													$316.?
GOVERN.	Govt. Freight Levy				$16 000.00									
Miscellaneous Port Charges														
COMMAR	Marine Clearance	250.00			$11 560.00					70 000.00		4 500.00		
OFIDA	Customs Fees	561.00										4 100.00		
OFIDA	Custom Guards										1 125 000.00			
COMMAR	Police Fees/Harbor Master Police	300.00												$1 325.?
ONATRA	Port Overtime		€428.00			500 000.00	500 000.00				534 185.00		€686.00	
Unknown	Port Royalties										379 960.00			
Agency	Watchmen	7 140.00		175 000.00	$180.00	240 000.00	240 000.00	$200.00	$200.00	160 000.00	446 400.00		€1 067.00	
OTHERS	Garbage Removal	3 060.00		300 000.00										
QUARANT	Sanitary Inspection										150 000.00			
QUARANT	Phytosanitary Inspection										150 000.00			
DGM	Immigration/Health			150 000.00							150 000.00		€152.00	
RVM	Channel Fees										1 444 756.00			
QUARANT	Arrival Safety Control												€305.00	

Name of Port		Casablanca	Nouakchott	Dakar	Freetown	San Pedro	Abidjan	Takoradi	Tema	Lome	Douala	Owendo	Pointe Noire	Matadi
Currency		MAD	EUROI	FCFA	USD	FCFA	FCFA	USD	USD	FCFA	FCFA	FF	EURO	USD
Name of Agent		Globe Marine	Samma	Socopac	SLNS	Supermar	Supermar	Supermar	Supermar	UMAT	Socopac	Saga	Saga	Ami Con?
COMMAR	Maritime Commission											72 000.00		
POOL M.	Seamans Club					10 000.00	10 000.00							
OTHERS	Local Expenses													$7 000.?
Agency related expenses														
Agency	Agency Fee	19 380.00	€2 000.00	1 882 500.00	$2 950.00	1 000 000.00	1 000 000.00	$2 000.00	$2 000.00	1 100 000.00	3 000 000.00	13 980.00	€3 465.00	$1 757.?
OFIDA	Customs Clearance	4 896.00	€357.00	258 900.00	$110.00	110 000.00	110 000.00			60 000.00	125 000.00	3 526.00	€152.00	$2 333.?
Agency	Transportation/Car	4 284.00		369 584.00	$240.00					120 000.00	174 636.00			
Agency	Prep Cargo Docs/Manifest					50 000.00	50 000.00			150 000.00	150 000.00			
OTHERS	? Tlx., Fax, Copies	2 876.00								247 000.00	490 000.00	3 500.00		
Agency	Comms, VHF/radio	3 060.00		150 000.00		150 000.00	150 000.00			160 000.00	249 480.00			
OTHERS	Courier										75 000.00			
GOVERN.	Local tax/VAT on agency exp.			478 977.00		230 000.00	230 000.00			198 000.00	745 965.00	13 119.00	€1 815.00	
Agency	Misc. agency exp.		€300.00							200 000.00			€99.00	
Total Proforma Amt		120 519.36	€10 729.00	8 664 961.00	$31 040.00	4 322 744.00	4 136 440.00	$6 249.88	$5 949.88	4 515 000.00	14 086 959.00	162 503.00	€13 778.00	$44 222.65
In EUROS (DEC 2002)				€13 209.79		€6 590.05	€6 306.03			€6 883.15	€21 475.66	€24 773.69		
In USD (DEC 2002)		$11 700.91	$10 518.63	$12 950.77	$31 040.00	$6 460.83	$6 182.38	$6 249.88	$5 949.88	$6 748.18	$21 054.57	$24 287.93	$13 507.84	$44 222.65
Less Expensive than Matadi by:		$32 521.74	$33 704.02	$31 271.88	$13 182.65	$37 761.82	$38 040.27	$37 972.77	$38 272.77	$37 474.47	$23 168.08	$19 934.72	$30 714.81	

APPENDIX 7 - METHODOLOGICAL ISSUES

The Africa conflict timber team conducted its field research in DRC during the first three weeks in March 2003. Two members of the team and a Congolese colleague went by road from Kinshasa to Boma, a port on the Congo River located some 50 km inland from the Atlantic coast. A second planned field trip to areas of significant conflict in northwestern and eastern DRC was cancelled because of security concerns. In sum, much of the Congo case study is based on interviews conducted in Kinshasa with a range of qualified observers; these are buttressed by information gleaned from secondary sources, including:

- Documents,
- Distance interviews with professional contacts in Rwanda and Uganda about historical development of timber exploitation in Eastern DRC, and
- Interviews in Kinshasa with:
  - Congolese NGO field staff, gathered for a workshop on links between conflicts in the DRC and natural resources,
  - Individuals involved in the banking sector in the DRC,
  - A private sector entrepreneur familiar operation of the economic system under wartime conditions in Eastern DRC, and
  - USAID staff and partners knowledgeable about Congo field conditions relevant to conflict timber.

The Asian conflict timber team, though restricted in size and composition because of travel bans imposed on US government contractors in the wake of the Bali bombing in the fall of 2002, traveled widely within Indonesia. Team members conducted extensive interviews with a range of informants in six provinces and in the capital, Jakarta. In evaluating this report, readers should be aware of the disparity in the information available for preparation of the two country case studies.

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GABON CASE STUDY

Gabon Forests Overview

Gabon offers an interesting African "counterexample" regarding conflict timber. While comparatively rich in timber and other resources, the country has avoided the kind of timber-fueled instability that has recently plagued Liberia, Sierra Leone, and the Democratic Republic of Congo. Despite a lack of conflict timber situations in Gabon, the country may face both violence and environmental threats in coming decades as its oil resources give out and living standards begin to decline. Given regime structure and performance since independence in 1960, this will in all likelihood place greater pressures on remaining forest reserves which, if not properly managed, could lead to forest destruction, loss of significant economic opportunities in the forestry sector, environmental grievances, and political instability.

1. Identify forests managed primarily to generate revenues for fueling conflict.

Gabon's forests do not generate revenues fueling conflict.

Little if any evidence exists of conflict timber stemming from (or passing through) Gabon. Numerous sources, however, indicate the government allows illegal harvesting of large volumes of timber. In fact, Global Forest Watch (GFW) estimates that through the 1990s, 70% of all timber harvested in Gabon was "illegal" (GFW, 2000). More than a few sources discuss corruption in the forestry sector—especially in terms of the flow of financial resources (Tradeport, 2000, and *infra*).

2. Identify forests that harbor rebels, insurgents, or government-sponsored security units whose presence is the primary factor driving forest management decision making.

Not applicable.

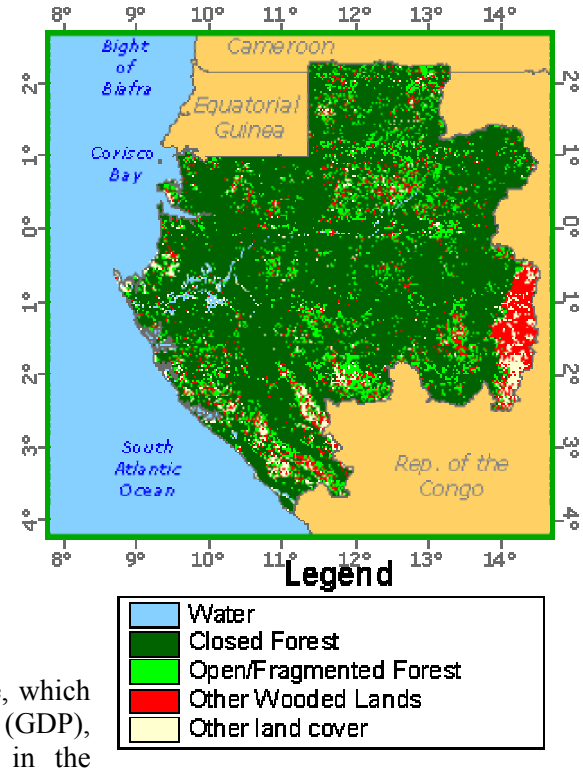
3. Identify forests where violent conflict occurs over forest resources that does not necessarily relate to a larger conflict issue and where local conflict ties more directly into local-level community access/user rights issues.

Not applicable.

4. Are there forests where several or all of these conditions exist?

Not applicable.

5. Types of communities living in or near these forests, or dependent on them either for specific products or for seasonal support.



Rural people rely on subsistence and market agriculture, which accounts for 10% of the gross domestic product (GDP), supplemented by wage earning activities, primarily in the forestry sector and to a lesser extent in mining (manganese). Gabon is lightly populated, richly endowed

(offshore oil production accounts for 50% of government revenues), and residents enjoy a notably higher standard of living at $5,500 per capita compared to most neighboring countries (CIA, 2002). Wealth disparities are pronounced.

Contemporary Gabonese stem from Bantu forebears who moved into the region seeking refuge from military pressure or land during the period 1300-1900. The country, with an estimated population of about one million, counts 40 ethnic groups, each with its own dialect (though sharing elements common to the Bantu linguistic family) and culture. The largest ethnic group, the Fang, accounts for slightly less than a third of the population.

Europeans, led by Portuguese exploring the West African coast in the 15th century, established contact with local populations. The Portuguese, Dutch, French, and British during the 16th century all frequented the Gabonese coastline and the Komo River estuary to trade for slaves. The French established protectorates over several coastal African kingdoms in 1839-1840. In the second half of the 19th century, American and French explored the interior jungles. The French occupied the country in 1885 and began to administer it in the very early 20th century.

During the colonial era (1885-1960), the French grouped Gabon with three other central African colonies (Chad, Central African Republic, and the Republic of Congo/Brazzaville) in the French Equatorial Federation. Given opportunities created by Gabon's mineral (oil, manganese) and timber resources, a relatively large French civilian population (7,000) still resides in the country, and France has continued to play a strong role in the political and military spheres (US Department of State, 2002).

6. Extent of timber harvesting, types harvested, off-take rates.

Forests are estimated to cover 17 to 21 million hectares (ha) in Gabon, or roughly 60 to 80% of the country's land mass (268,000 square kilometers; CIA, 2002). In the African context, such an extent of remaining forest cover is high. Yet the original forest cover has been reduced by 20 to 30%.

Okoume and Ozigo are the most important timber species, accounting for 80% of Gabon's timber exports. Gabon is the world's largest exporter of *Okoume*, a specialty, high-quality timber used for plywood and marketed primarily in Asia and Europe.

7. Conditions under which timber is harvested and transported.

In 1997, forestry activities generated 14.5% of total exports, preceded only by oil (78.6%) and followed by manganese (5.9%).

In 1998, the Asian financial crisis subjected Gabon to a dramatic downturn in timber sales. The *Société Nationale des Bois du Gabon* (SNBG) accumulated excessive timber inventories and built up significant arrears to its creditors. The Government of Gabon (GoG) decided to semi-liberalize its timber exports to the Asian market in September 1998. Gabon maintains a parastatal timber marketing company, the SNBG. Recently it has faced financial problems, probably linked to predatory practices of controlling officials. These financial problems meant that the GoG initially confronted difficulties convincing timber companies to resume timber deliveries to SNBG. The GoG, however, implemented a program of bank payment guarantees. Because of sustained demand in Europe and China, the timber market has now begun to recover. Some observers report that stocks can no longer meet demand. Gabon currently faces economic and budgetary difficulties occasioned both by the fall in oil prices and significant spending in 1998; thus a pick up in the timber sector is much needed.

8. Verified, estimated, "guesstimated" environmental impacts and damage.

During the 1997 boom year, the sudden arrival of a number of Malaysian companies spurred concerns about alleged "clear-cutting" and excessive harvesting of forest plots. Mismanagement of public debt, repeatedly criticized by International Monetary Fund (IMF) teams (US State Department, 2002), may imperil the country's economy, which is based in large part on rents from abundant mineral resources and remains strongly dependent on fluctuating prices in international mineral markets.

If oil prices remain buoyant, Gabon could moderate its timber harvesting. But if prices for its major mineral exports collapse, pressure on the country's timber resources might well escalate. The government needs revenue to subsidize services and incomes for the population, accustomed to a dramatically higher standard of living than residents elsewhere in the central African region. A severe recession could precipitate popular unrest in Gabon, of which the country has some history (US State Department, 2002). If, to meet economic needs, the GoG authorized even higher harvesting levels, it appears likely that the country's hilly interior could suffer significant soil erosion damage on denuded slopes and, quite possibly, difficulties in river traffic on its thousand plus kilometers of navigable inland waterways.

9. Who is logging conflict timber, and how is that timber being converted into cash? Any pre-export processing, export routes, probable most important buyers/markets for conflict timber in each case, other associated conflict commodities?

Private timber companies play a major role in Gabon's forestry/wood sector. They own 95% of the land concessions and provide 70% of the domestic output. Rougier Ocean Gabon S.A., a French company established in Gabon since 1953, is the biggest producer, harvesting 12% of the total timber (150,000 cubic meters in 1997) sold to SNBG. SNBG holds a monopoly on the purchase and sale of the valuable Okoume and Ozigo species, most of which are sold in international wood markets.

The *Compagnie Equatoriale des Bois* (CEB-Thanry) is the second largest lumbering company, with 11% of the market. It produced 132,000 cubic meters of Okoume logs and 5,000 cubic meters of other woods in 1997. The number three producer, Leroy Gabon S.A., harvested 7% of Gabonese timber production. Three other European companies split 9% of the harvest: Lutexfo (including Lutexfo-Soforga, *Société Equatoriale de Bois*, and *Industrie des Bois du Gabon*); *Société des Bois de Lastourville* (SBL); and the *Société de la Haute Mondah* (SHM). A number of smaller-sized companies, including some Malaysian firms, account for the remaining 58% of timber production. Malaysian firms, paying premium prices for their concessions, encountered problems with their entry into the market. The Asian crisis and the fall-off in timber sales forced most of the Malaysian operators to pull out or cut back, except for Bordamur and SFM.

The Gabonese timber sector is characterized on the one hand by a state marketing monopoly and state control of allocation of timber concessions and, on the other hand, by a large number of lumber companies, including several with major positions in the market that are dominated by outside interests. Discussion below of the country's political system and timber-related financial flows suggests that this industry configuration might mortgage the fate of Gabonese forests, clearly a significant economic and environmental resource, to the political and economic interests of the country's political elite.

10. Country forestry sector policy—which actors influence policy setting (only domestic, or external as well)? Degree of concern for sustainable forestry incorporated in policy? Organizational structures to implement policy?

Since the Asian financial crises, the GoG has sought to promote sustained yield practices in its timber industry, including increased in-country timber processing. The government is currently developing new forestry regulations, and has taken steps to protect 3.6 million ha; logging concessions have, however, been granted within protected areas, and the total area under logging concessions has nearly doubled over the past five years. Logging concessions now cover half of Gabon's forest area. Wood production has nearly doubled in the past decade.

Current laws governing forest management and protection have been poorly applied and enforced. The law remains largely uncodified. Only five of 200 logging companies have started work on management plans, required under existing legislation. In 1997, only 100 forestry agents were available to monitor and inspect 332 logging concessions covering 84,000 square kilometers—an area roughly the size of Austria. This lack of capacity (and/or political will) concerning regulation and enforcement, has allowed timber companies to engage, apparently, in high rates of illegal harvesting (World Rainforest Movement, 2002).

11. Importance of timber in the national economy, and contribution of conflict timber proceeds to financing violence (e.g., if other conflict commodities involved, rough comparative importance of each).

Over the recent past, the forestry sector counts as a key sector of the Gabonese economy. While comprising only 2.8% of GDP, Gabon's forestry sector employs 28% of the active population and is the second largest employer after the public sector.

Logging in Gabon appears typically as a "mining" operation, generating little income within the country but huge profits for foreign companies. More than 90% of Gabon's wood is exported in the form of raw logs with no in-country value adding. This practice creates numerous poorly paid jobs in logging and almost none in the wood-based industrial sector. Gabon captures little of the potential for adding value inherent in processing tropical hardwoods. Foreign currency earnings obtained from round wood exports remain low because of the limited value of raw logs. From another perspective, just five private companies, either partially or wholly owned by foreign interests, have access to more two-fifths of the country's remaining frontier forests. Half of all exported logs go to Asian countries.

Reducing timber harvesting rates to secure and protect environmental services that forests produce would threaten personal income of thousands of loggers, a group sufficiently organized that they have their own political party, the *Rassemblement National des Boucherons/Rassemble pour le Gabon* (RNB/RPG). This party currently controls eight of 120 seats (6.7%) in the national Parliament.

12. Genesis of the Conflict: Greed or Grievance?

At present, no open military conflict exists in Gabon.

Given the importance to rural populations of logging as an economic activity, and the current uncertainties that characterize Gabonese public finances, one could speculate that future conflicts might occur as a consequence of greed. Grievances might power such conflicts, however, in terms of popular participation. Yet rural people face mixed incentives in this regard. Reducing logging activity in the absence of wage increases would threaten household incomes, but indiscriminate logging in the form of

clear cutting or other ill-advised harvesting practices threatens environmental degradation, of which rural populations would be the first victims and most severely affected. The critical calculation seems to be whether logging companies could hire loggers to work outside their home areas and earn money by "destroying forests" where their families would not directly suffer the negative effects of these activities.

13. Uses to which the proceeds from conflict timber sales are being allocated.

Gabon plays a minor role in Africa, with a relatively small population and a peripheral position in Africa's economic, military, and political life. Nevertheless, the immense profits generated from the extraction of oil and timber leave Gabon extremely vulnerable to illicit finance schemes. In the wake of several major money-laundering investigations, Gabon has made numerous promises to international organizations and donor countries such as the United States regarding financial sector reforms, law enforcement reforms, and corruption reforms (BusinessWorld, 2001). To date, however, few reform efforts have resulted in fundamental change, and laundering profits from Gabon's illegal logging trade remains pervasive. As a result, the funneling of assets linked to the illegal logging trade in Gabon is a growing concern for international regulatory and law enforcement agencies.

The inadequate oversight of financial institutions via legislative and regulatory deficiencies permits the routine transfer of illicit assets from the illegal logging trade through Gabon's nontransparent banking system. Enforcement and implementation of Gabon's basic anti-money laundering legal and administrative framework remain, by all accounts, exceedingly limited. Lack of compliance with existing anti-money laundering laws by domestic financial institutions remains the norm. Legal coverage of other categories of Gabon financial institutions by anti-money laundering laws remains uncertain, and no compliance efforts within such institutions are visible. Ongoing regulatory deficiencies include:

- Discretionary licensing procedures, whereby financial institutions can operate without regulatory oversight;
- Absence of rigorous customer identifications for certain transactions;
- Lack of an obligation for financial institutions to report unusual or suspicious transactions;
- Regulatory or other systems allowing financial institutions to conduct financial business where the beneficial owner(s) of transactions remains unknown, or works through an intermediary who refuses to divulge that information to competent authorities;
- Secrecy provisions related to financial activities and professions, notably banking secrecy, which can be invoked against, but not lifted by, competent administrative authorities in the context of inquiries concerning money laundering or which cannot be lifted by judicial authorities in criminal investigations relating to money laundering; and
- Limited use of the formal banking system by substantial portions of Gabon's population who instead rely on cash, and may use underground money transmitters for cross-border transactions.

14. Commercial/bank routes through which sales transactions and placement of proceeds occur.

Traditional Banking Institutions. Profits from illegal logging schemes are transferred through financial streams established by corrupt, high-ranking officials linked to the laundering of profits from the domestic oil trade. The banking sector in Gabon is not large, but most major Western banks are represented, and a host of electronic banking services are offered to an elite clientele. The focus on providing services for the political and business elite produces significant earnings for banks in Gabon. Each such client can produce annual profits of as much as US $1 million for the bank. As noted above, banks in Gabon rarely examine the client's background, and banking officers rarely investigate the source

of financial deposits (Newsday, 1999). In a much-publicized case, an international investigation uncovered millions of dollars laundered through a front company linked to President Omar Bongo. The financial services, provided by Citibank financial institutions in Gabon, were established without identifying the beneficial owner of the account or the legality of the funds therein deposited. A significant portion of the funds were transferred to known money-laundering safe havens, including the Bahamas and Switzerland, which enforce strict secrecy provisions on financial accounts. The Bongo case illustrates the ease with which high-ranking officials in Gabon transfer illicit profits through lax domestic banking institutions (Bloomberg News, 2000).

Front Companies. Clients routinely use banks in Gabon to establish front companies abroad in financial safe havens, such as the Bahamas. For instance, President Bongo is linked to accounts in a private investment corporation known as Tendin Investments, a Bahamian-based entity that controlled more than $130 million. The laundered money may return to Gabon for purchase of real estate and local businesses, or may be transferred through correspondent bank accounts and remain abroad. Gabonese officials frequently establish front companies in the Bahamas, which hosts more than 400 banks and trust companies, and approximately 100,000 registered International Business Companies (IBCs).[122] Most IBCs are foreign owned, and fail to adhere to international anti-money laundering standards. Furthermore, the Bahamas permits financial services companies to provide services that conceal ownership of registered companies. Through domestic electronic banking services, officials in Gabon routinely access offshore sites and transfer illicit profits abroad.

Links to European Financial Institutions. Since the late 1990s, money laundering and asset-recovery cases undertaken by Western countries to recover funds looted by government officials in Gabon have highlighted the financial streams used by Gabon's political and business elite to launder funds in Europe through prominent, globally known financial institutions, including Citibank (Bloomberg News). Especially troubling are links with jurisdictions long known to avoid international anti-money laundering norms, especially Switzerland. The political and business elite routinely transfer funds to Swiss financial institutions. Those funds remain in Swiss accounts or flow to other financial safe havens (e.g., Cyprus and Liechtenstein). The Bongo investigation, which uncovered details of about $20 million in transfers from Switzerland to an account in another safe haven, highlights links between financial institutions in Gabon and major European financial institutions. While no links to profits from illegal logging have been specifically identified, investigators remain convinced that significant profits from the illegal logging trade move abroad (US State Department interview, 2003).

Low-Level Corruption. Gabon remains riddled with corruption, and government capabilities to combat crime remain low. Corruption has ensured minimal enforcement of a variety of legal norms, including those pertaining to financial crime. The lack of enforcement has extended to every Gabon institution responsible for combating illegal logging and financial crime: the police, bank regulators, customs, the judiciary, and forestry officials (US State Department interview, 2003). Officials in most of these institutions engaged in various forms of financial crime to enrich themselves, including money laundering. They have created a culture of corruption that incorporates Cabinet-level and other high-ranking political figures.

Grand Corruption. The legacy of persistent endemic corruption plays a continuing and fundamental role in Gabon's money laundering vulnerabilities and its lack of capacity to respond to the problem. Political officials in Gabon remain the country's most successful launderers of funds, engaging both in smuggling

[122] An IBC is usually created in a jurisdiction where tax concessions are available to non-residents. It can be formed with one shareholder; one director, bearer, or registered shares; and shareholder's meetings can usually be held anywhere in the world, even by phone or proxy. These jurisdictions are known for lax oversight mechanisms.

currency out of the country, and electronic techniques used by money launderers to conceal funds raised through illegal logging. A Citibank client profile of President Bongo from 1996 describes him as "head of state for over 25 years ... self-made as a result of position. Country is oil producer." The Citibank memo concluded that Bongo's "compensation must be enviable," (Newsday, 1999). Bongo, president of Gabon since 1967, is alleged to have laundered more than $130 million from bribes and funds looted from the state. Swiss prosecutors uncovered one account held at the Canadian Imperial Bank of Commerce in Geneva that was opened in the name of Bongo's adviser, Samuel Dossou-Aworet. The immense sums of money laundered has been exacerbated by the dependence of Gabon's economy on a small number of natural resources, including timber and oil, which has provided a significant source of revenue to be laundered by corrupt officials.

Increased Trafficking of Illegal Timber Products. With as much as 70% of the logging operation defined as "illegal," high-ranking political figures continue to siphon off profits from the timber trade (World Watch Institute, 2002). Accordingly, much of Gabon's timber industry will remain vulnerable to corruption and financial crimes. Especially troubling is the effect that laundering illegal logging (and oil) profits have on other economic sectors. Among affected sectors are:

- Financial services, which face rampant abuses of trust, understaffing, poor remuneration, fraud, theft, bribery, and corruption;
- International trading and import and export businesses, which frequently engage in or are victimized by forms of false invoicing, fraud, and theft;
- Construction, which often involves corruption, bribery, false bookkeeping, fraud, and theft;
- Government procurement, which affords opportunities for payoffs, graft, and self-dealing; and
- The transportation sector, which involves smuggling, frauds, thefts of goods transported, and bribery.

Other Ongoing Deficiencies. Probably the single most important deficiency in Gabon is the lack of a culture of lawfulness that would sustain a civil service in the law enforcement sector. Other notable deficiencies include Gabon's corrupt, inefficient, and politicized judicial system; lack of interagency cooperation against financial crime; limited experience in and commitment to international cooperation against financial crime; and poor compliance by the private sector, including by some of Gabon's most prominent banks.

Expectations that Gabon will meet any of its commitments to improve probity in financial management by enacting and implementing new laws should remain modest. In the past, Gabon has typically responded to foreign pressure by passing new laws, then utterly failing to implement them, while senior officials pretend that the problem has been completely solved, with the result that Gabon has little credibility regarding reforms. Accordingly, Gabon's progress in combating money laundering must be measured by results, rather than formal legal changes and rhetoric. These deficiencies, which might be partially alleviated with assistance from USAID, could include:

- Demonstrating Gabon's willingness to use laws by undertaking actual investigations, arrests, prosecutions, and convictions for money laundering;
- Revising banking legislation to create and enforce a unified licensing system and systematic requirements that all Gabonese financial institutions (bank and non-bank) report large transactions in currency and suspicious transactions;

- Creating mechanisms for oversight of Gabon's customs authority, which remains a primary mechanism for currency smuggling, false invoicing, and other frauds that involve or facilitate money laundering;
- Promptly providing reliable information on money laundering investigations to foreign regulators and law enforcement agencies when requested;
- Securing judicial reforms to ensure that properly presented money laundering cases cannot be frustrated by corrupt judges; and
- Developing transparency in Gabon government procurement and disbursement.

15. Type of political regime in conflict timber countries.

Gabon's political regime may be best described as "moderately authoritarian." This political structure explains to a considerable degree the extent to which Gabon's timber resources can be exploited to provide "rents" to powerful political officials.

France granted Gabon its independence in 1960. Two political parties contended for control of the 67-seat national Parliament, though neither party won an outright majority. Leon M'Ba, heading the *Bloc Démocratique Gabonais* (BDG), managed to bring several tiny parties into a winning coalition. The BDG's fragile majority convinced M'Ba and the leader of the other party, J.H. Aubame of the *Union Démocratique et Social Gabonaise* (UDSG) that they could better serve their shared interest in retaining power by consolidating their parties and forming a single-party state. The arrangement worked until 1964, when the BDG tried to marginalize the USDG. This provoked Gabon's only "successful" military coup to date, when security forces briefly intervened to prevent M'Ba from dominating the system.

The constitution was modified in 1966 to provide for an elected president and vice president. M'Ba sought the presidency in March 1967 with Albert Bongo (later Omar) as his running mate. When M'Ba died later that year, Bongo succeeded to office and has retained control ever since. In 1968, Bongo formally converted Gabon to a one-party state, replacing the BDG with the *Parti Démocratique Gabonais* (PDG). First elected president in his own right in 1975, Bongo has since been reelected four times (in 1979, 1986, 1993, and 1998) for terms of varying length as a result of further constitutional modifications.

Despite subsequent tinkering with the constitutional design, Gabon's fundamental law still provides its executive with a full range of powers, enabling him to dominate the polity and its 120-seat elected Parliament. Following popular political unrest in early 1990, a constitutional convention in March and April of that year finessed a return to multiparty democracy. Open and generally fair elections in September produced a government in which the PDG continued to play a controlling role. The government again modified the constitution. While retaining strong executive powers, it instituted a bill of rights, including freedom of assembly and press, and a senate (US State Department, 2002).

Gabon, with a million-member population divided into 40 ethnic groups, provides the usual "ethnic conflict" argument for guided, authoritarian democracy (i.e., a strong center must prevent constituent ethnic units from lurching into a civil war over power and control of the polity). The M'Ba/Bongo duo that has led the country for the 43 years since independence dominated politics and maintained a system in which citizens have not enjoyed much chance to challenge the central government. Political freedoms have been correspondingly constrained and political processes manipulated, but political stability has indeed prevailed.

16. Types of Conflicts (e.g., rebellions, insurgencies, state-driven, etc.).

The French intervened militarily in 1964 to annul in the one-day coup mounted by Gabonese security forces against Leon M'Ba, the country's first president. Then, in September 1990, in the aftermath of the constitutional convention, elements of the country's security forces plotted two domestic efforts at "regime change." Both were detected before they could be launched, and both failed. Several periods of popular protest against allegedly manipulated elections occurred in the 1990s, but no sustained rebellions or insurgencies have affected the country.

To date, Gabon's bounteous mineral wealth judiciously applied has apparently enabled the country's rulers to keep a firm hand on the domestic political situation.

17. Configuration of military forces.

Gabon currently has a total of 9,500 individuals in arms, of which 1,500 belong to the special Presidential Guard unit. The remainder are divided among the country's army, navy, air force, national police, and *gendarmarie* (CIA, 2002).

18. Political or economic impacts generated by conflict timber activities in Gabon.

Not applicable.

19. Interesting, significant, anomalous points concerning Gabon.

Logging constitutes a major source of employment and national revenue, and simultaneously figures as a primary cause of forest estate degradation. By contrast, in Cameroon in 1998, timber generated 28% of all non-petroleum export revenues and millions of dollars in taxes. The logging sector is one of the largest employers in both Cameroon and Gabon, and often plays a key role in bringing roads, education, medical care, and electricity to rural areas (Bikie *et al.*, 2000; Collomb *et al*., 2000). Logging companies are both the *de jure* and *de facto* managers of huge areas of forest in central Africa. In Cameroon, 80% of the forest estate outside of protected areas is zoned for logging (Bikie *et al*., 2000); in Gabon, the figure is 50% (Collomb *et al*., 2000).

Gabon's leaders have a strong long-term incentive to manage forest resources for sustained yield, ensure ongoing employment opportunities for rural populations, defend against environmental degradation, and consolidate their political base through proper stewardship of the country's resources. As the Cameroon example suggests, careful exploitation of Gabon's forest resources could spread development into rural hinterlands. Those same resources, exploited through sustained yield approaches, could also improve the country's economic prospects as the demand for forest products continues to strengthen and Gabon's oil reserves dwindle, particularly if incentives, institutions, and human resources were put in place to encourage wood industries and domestic processing and value adding therein. Perhaps most important, to lay the foundation for political stability, is maintaining the economic potential inherent in properly managed forest resources from which Gabonese have benefited for most of the preceding four decades.

On the other hand, current leaders evidently respond more to short-term incentives to extract value from forest resources for their personal accounts. It is not inconceivable that they also believe efforts to move French-owned forestry firms in directions that would benefit the Gabonese economy risk alienating France and perhaps weakening Gabon's military relationship with its former colonial power. Those relations, it must be admitted, provide valuable insurance to contemporary leaders against potential military coups. The current French intervention in cocoa-rich Ivory Coast demonstrates that France will still take action to defend stability and French economic interests in its former colonies.

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Map: www.cia.gov/cia/publications/factbook/geos/gb.html.

Photos: www.genesisny.net/TimberGabon.html and http://www.globalforestwatch.org/english/ gabon/forests.htm

GUINEA CASE STUDY

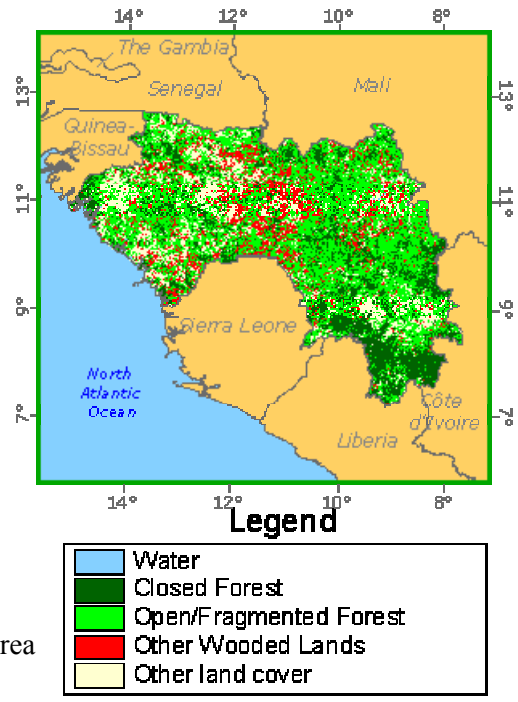
Guinea: A State on the Edge of Conflict Timber

Background

Guinea covers about 260,000 square kilometers. Total forest area (including savannas and woodlands) comes to 13,186,000 hectares (ha), or roughly 53% of total land area. The forest area is distributed as follows:

Forest Type	Hectares	% of Total Land Area
Mangroves	250,000	1
Dense Humid Forest	700,000	2.8
Dense Dry Forest	1,600,000	6.5
Wooded Savanna/Other	10,636,000	43.3

Guinea has 156 classified forests (forest reserves) covering 1,186,611 ha or roughly 4.38% of total area. It also has two national parks (Haut Niger: 54,000 ha, and Nyokolo-Badiar: 38,200 ha) and two Biosphere Reserves (*Réserves de la Biosphère Nimba* and ZIAMA). These areas together account for only about 14.7% of total forested area.



Most of Guinea's dense humid forests (situated at low and middle altitudes—up to 1,500 meters elevation—form parts of transboundary forests linked to Liberia and Ivory Coast. The highest point in Guinea is Mount Nimba (1,752 meters), which is the site of the Nimba Biosphere Forest Reserve and where the three countries comes together. The forest-savanna zone (the Guéckédou, Kissidougou, and Beyla regions), represents the transition between savanna and forest proper (the Macenta and Nzérékoré regions). The closed forest is fragmented and disappearing as a result of bush fires and clearing.

The deforestation rate is estimated at 30,000 ha per year, with the majority (26,000 ha) occurring in the humid dense forest zone. Forest degradation is a result of the following:

- Population pressure (growth rate of 2.6% per year);
- Slash and burn agriculture (three percent of forest area subjected to itinerant agriculture);
- Uncontrolled grazing, burning, and hunting;
- Clandestine exploitation of timber and firewood;
- Lack of forest service resources for management or protection; and
- The influx of refugees from surrounding states (especially Sierra Leone and Liberia).

Guinea is rich in minerals and contains bauxite (deposits estimated at 30% of the world's bauxite resources), iron ore, diamonds, gold, and uranium. The country also has significant hydropower, fish, and timber resources.

Timber and other wood products comprise, however, only about one percent of all exports. As such, the Guinean forestry sector does not serve as a major contributor to the country's export earnings. Timber and fuel wood, however, are an extremely important part of Guinea's domestic market.

Insecurity from Liberia and Sierra Leone has "closed part of the country's most productive forest and agricultural areas;" inflation has risen in 2002 to 7.1% from 5% in 2001, and investments have tapered off significantly.

1. Identify forests being managed primarily to generate revenues for fueling conflict.

As indicated above, the forests located in the south-southeast part of the country (in the border areas with Liberia, Sierra Leone, and Ivory Coast; see Map 1 above) suffer most from instability and are the most affected. These include Kissidougou, Guékédou, and Macenta. All lie on or near the Liberian border. Forests in all three jurisdictions are degraded to a great degree, but still contain some of the more valuable timber species found in Guinea. They are also located a great distance from the capital, Conakry. It is not clear from available sources just how much timber is extracted in that area and used by Charles Taylor's Liberian government to fuel conflict.

Forests in the immediate vicinity of Mount Nimba contain reserves of high quality iron ore. Mount Nimba straddles Guinea, Côte d'Ivoire, and Liberia. Ore extraction operations have already badly degraded that part of Mount Nimba situated in Liberia. Liberian-induced instability in the area has forced many mining companies that formerly operated there to shut down their activities. The Mount Nimba Biosphere Reserve is under great threat from iron ore mining. The area has also come under serious pressure from refugees fleeing Liberia.

2. Identify forests that harbor rebels, insurgents, or government-sponsored security units whose presence is the primary factor driving forest management decision-making.

Insurgents are now sheltering in the forests of Kissidougou, Guékédou, and Macenta prefectures. Until recently, USAID provided assistance for forests of Kissidougou prefecture under the Mission's natural resource management program. The program is designed to facilitate the development of community forest co-management strategies with the central government and the formation of village forestry committees to improve access to and management of the natural forests in the area. The program continues, but at reduced levels because of the presence of insurgents in the area.

3. Identify forests where violent conflict occurs over forest resources that does not necessarily relate to a larger conflict issue and where local conflict ties more directly into local-level community access/user rights issues.

Historically, and especially during the rule of Sekou Toure, Guinea's first president, conflicts erupted between communities and central government officials (foresters and members of the security forces) over access to forest resources. Sites where conflict occurred included the south-southeast, where government troops were sent in during the 1970s and 1980s to harvest timber and arrest community leaders who protested. Similar conflicts occurred in the upland watershed area of Futa Djallon, the headwaters of the Senegal and Niger rivers. Following elections in the late 1980s, tensions diminished between the communities and the central government (*Département National des Eaux et Forêts*, DNEF). One factor contributing to this process was the government of Guinea's realization that they were unable to effectively manage the national forest resource base. This led them to embark in the early 1990s on developing pilot forest co-management strategies with communities; these initiatives have continued for much of the past decade.

4. Are there forests where several or all of these conditions exist?

The forests currently most affected by conflict conditions are found in the prefectures of Kissidougou, Guékédou, and Macenta.

5. Types of communities living in or near these forests, or dependent on them either for specific products or for seasonal support.

The majority of Guinea's rural population practices subsistence agriculture, and most communities living near these forests follow that pattern. However, some communities have also become heavily involved with the mining industry, while others are comprised primarily of refugees from Sierra Leone and Liberia. One estimate numbers refugees in Guinea at 150,000. Conversely, some men/youth had left Guinea to work in the gold mines (Liberia, Sierra Leone), but have been returning, partly because of problems in both countries, and partly because of better opportunities at home.

6. Extent of harvesting, types of timber harvested, off-take rates.

The limited information available suggests that much of the harvesting currently taking place employs low-input/low-technology methods (pit-sawing). It has proven impossible to determine if Liberian timber interests are in fact using mechanized methods in Guinean forests, or if they are simply purchasing pit-sawn lumber and transporting that through Liberia. Timber trade volumes are also uncertain. It appears, however, that *Liberia targets Guinea's mineral resources more than its timber.*

On a national level, timber exploitation is concentrated in the south-southeast, the plateau, and to a degree in the western coastal areas. Commercial timber species found in the south-southeastern forests include two types of mahoganies, *Khaya sp*. and *Entandrophragma sp*., and a number of other species such as *Guarea cedrata and Lovoa trichilioides* (*Tarrietia utilis, Chlorophora excels, Triplochiton scleroxylon, and Terminalia sp*.). Some of these same species are also selectively harvested in the plateau region. People harvest trees in the mangrove forests on the coast for building materials and fuel.

As indicated earlier, timber exports are limited (about 32,000 cubic meters per year, with a value of just over $6 million). Most of the Guinea's forest production is consumed domestically. Guinea's total forest production for 2000 is about 24,000,000 cubic meters; with just over half of that being used for fuel wood. The rest is roundwood, primarily for domestic use, as well as poles and posts for agricultural purposes. Important non-wood forest products in Guinea include wild fruits, cola nuts, bushmeat, and medicinal plants (especially chewsticks [an indigenous form of toothbrush]).

7. Conditions under which timber is harvested and transported.

As indicated above, low input technology appears to play a major role in timber harvesting in Guinea. Transportation occurs primarily by truck.

8. Verified, estimated, "guesstimated" environmental impacts and damage.

Apart from the loss of biodiversity, when deforestation occurs, the principal environmental threat arises from degradation of key watersheds in the northeast plateau region and in the highland forests of the southeast. Particularly noteworthy are the catchment forests of the northeast that are the main source of water for several regionally important rivers.

In all, 22 rivers originate in the forested Guinean highlands, including the Niger and Senegal, West Africa's two largest rivers. Loss of forest cover carries with it the risk of serious soil erosion and siltation of

major dams along those rivers (e.g., the new Manantali dam in Mali on the Senegal River). Many donor and financing agencies, as well as political and economic leaders in Mali, Senegal, and Mauretania, have invested major funds and major hopes in that dam and the cheap energy it can generate to light municipalities and power industries throughout the tri-state region. These hopes would be dashed if the Manantali reservoir silts up.

Local communities also confront the risk of diminishing water supplies and soil erosion that deforestation and degradation of highland forests can engender.

9. Who is logging conflict timber, and how is that timber being converted into cash? Any pre-export processing, export routes, probable most important buyers/markets for conflict timber in each case, other associated conflict commodities?

If there is conflict timber, it most likely follows conversion schemes and processing routes that lead through Liberia. And conflict timber would almost certainly be associated with other conflict commodities such as Guinea's minerals (diamonds, some gold, etc.).

10. Country forestry sector policy—which actors influence policy setting (only domestic, or external as well)? Degree of concern for sustainable forestry incorporated in policy? Organizational structures to implement policy?

A brief history of forest sector policy highlights several changes during the past 60 years. Colonial efforts focused on bringing Guinea's forests under productive management systems. Low population densities fit well with colonial forest management systems and those systems proved effective for the time. After independence in 1958, the population was encouraged to protect the national forest estate. As in most other African countries of that period, the foresters played a paramilitary role. The forest department's main function was to protect the forests. To a great extent it failed because communities members believed that foresters worked against their best interests. In fact, local forestry agents commonly involved themselves in illegal harvesting operations. As a result of both foresters' abuses of their powers and increasing population pressure, most communities near forests quietly converted forests to agricultural land.[123] This was the predominant pattern until the mid-1980s. Then the forest department began stressing provision of services to communities rather than pursuing its former role as a paramilitary law enforcement agency. This policy reorientation was stimulated in part by visits senior forestry officials made to neighboring countries that were contemplating similar reform initiatives. Guinea was one of the first countries in West Africa to undergo this transformation, and was the first to abolish military uniforms for forestry personnel. As indicated earlier, the Guinean Forest Service has continued to develop this strategy.

Policies have been established to support this transformation and the *Département National des Eaux et Forêts* (DNEF) personnel have, through training and retooling activities, learned to address current realities more effectively. It is within this context that the USAID Mission has provided support to DNEF and communities for the development of forest co-management strategies.

11. Importance of timber in the national economy, and contribution of conflict timber proceeds to financing violence (e.g., if other conflict commodities involved, rough comparative importance of each).

123 Many communities in savanna areas of Kissidougou prefecture deliberately created forests through a long process perfected by their forebears because they clearly understood the critical role played by forests in their agricultural production processes. See Melissa Leach and James Fairhead, "Second Nature: Building Forests in West Africa's Savannas," [video] Haywards Heath, West Susses, U.K.: Cyrus Productions Ltd.

Mining represents about 75% of Guinea's export earnings (as compared to about 1% for timber). However, timber and other forest products play a very important role in the domestic sector. It is not clear how much of Guinea's mineral exploitation is being channeled toward conflict. Wood that does end up as conflict timber typically passes into the Liberian system. Liberian President Charles Taylor appears to channel proceeds to support insurgencies in Guinea and Sierra Leone.

12. Genesis for the conflict: greed or grievance?

Conflict over forest resources in Guinea during most of the postcolonial period has been primarily greed-driven. Forces resisting the regime of Liberian President Charles Taylor have sought refuge in some of Guinea's border forests.

13. Uses to which the proceeds from conflict timber sales are being allocated.

Available information sheds little light on this issue. If significant incidents of conflict fueled by timber do occur or have occurred in Guinea, it seems likely that any proceeds not funneled back through the Liberians' proxy networks in Guinea to Charles Taylor's war chest would have entered the accounts of individual operatives in Guinea, many presumably connected with government service.

14. Commercial/bank routes through which sales transactions and placement of proceeds occur.

In Guinea, the largely unregulated banking sector, independent currency exchanges, and ongoing illicit trade in licit goods (particularly gold and diamonds) facilitate money laundering activities. In many respects, the deficiencies in Guinea's anti-money laundering regime mirrors the deficiencies in regimes of the other major African states that are plagued with conflict commodities schemes, including trade in conflict timber products (US investigative journalist, interview, 2003). While links with conflict timber trafficking appear limited, Guinean financial institutions provide an array of methods to launder illicit assets. Lack of compliance with international anti-money laundering norms by Guinean banks has remained the norm, and enforcement and implementation of Guinea's basic anti-money laundering legal and administrative framework remain by all accounts exceedingly limited. Primary deficiencies include the discretionary licensing procedures, whereby financial institutions can operate without regulatory oversight, inadequate customer identification requirements, and excessive secrecy provisions (*Ibid*).

Factors Facilitating Illicit Finance Linked to Conflict Timber Groups

Traditional Banking Institutions. Guinea's formal financial sector consists of a small number of commercial banks that is largely controlled by foreign-owned banks with correspondent activities (*Ibid*). Local banks with correspondent US and French banking arrangements include:

- *Banque Islamique de Guinee* (BIG),
- *Banque International pour l'Afrique en Guinee* (BIAG),
- *Societe Generale des Banques en Guinee* (SGBG),
- *Banque Internationale pour le Commerce et l'Industrie en Guinee* (BICIGUI),
- *Union Internationale de Banques en Guinee* (UIBG), and
- *Banque Populaire Maroc-Guineenne* (BPMG). (*Ibid*)

Regulators are troubled by the routine failure by Guinean banks to adequately investigate large or unusual deposits from high-ranking government officials. As a result, illicit assets linked to the conflict commodities trade are transferred to neighbouring jurisdictions and offshore financial institutions.

Endemic Corruption and Organized Criminal Activity. Guinea remains riddled with corruption, and government capabilities to combat crime remain low. Guinean government officials remain the most successful launderers of funds, engaging both in smuggling currency and diamonds out of the country, and concealing funds through electronic means. In an effort to combat the endemic corruption, the former Speaker of the National Assembly, Boubacar Biro Diallo, sent a letter to President Lansana Conte demanding that Conte take immediate action to eradicate embezzlement and corruption at "all levels in the (government) system," (BBC Monitoring International Reports, 2002, and *Agence France Presse*, 2001). The lax enforcement regime in Guinea could provide a unique opportunity for Russian criminal networks to control a significant portion of Guinea's lucrative bauxite industry. In early 2002, Russian Aluminum (Rusal), the second largest supplier of aluminum in the world, attempted to purchase the assets of the British mining firm Rio Tinto, which has access to the majority of Guinea's bauxite reserves. Especially troubling are alleged links between Rusal chairman Oleg Deripaska and a myriad of criminal activities, including various trafficking offenses, bribery, extortion, mail and wire fraud, and money-laundering (*Independent on Sunday*, 2002). Regulators are gravely concerned that the sale to Rusal will increase the links between corrupt Guinean government officials and powerful organized criminal groups, and the flow of illicit assets to loosely regulated offshore institutions.

Underground Banks and Banking. Guinea's currency control regime has proven to be a boon for underground banks and unlicensed foreign exchange bureaus. Central Bank requirements that an importer have 100% of the value of import merchandise on account in Guinean francs have favored the illegal parallel market, especially for smaller merchants outside the Central Bank system. These institutions offer better exchange rates, allow capital to flee Guinea, protect customers from tax and customs authorities, and readily facilitate the laundering of the proceeds of the conflict timber trade.

Diamond and Bulk Cash Smuggling. Guinea has not implemented feasible measures to detect or monitor the physical cross-border transportation of cash. As with other diamond-producing countries in Africa where there are porous borders, smuggling diamonds and bulk cash is an important component of money laundering schemes. Recent reports indicate that Belgium imports almost double the volume of diamonds that are officially exported from Guinea. These could be either Guinean diamonds, or diamonds smuggled in from Sierra Leone. In an effort to curtail the export of diamonds linked to the conflict in Sierra Leone, De Beers closed its buying offices in Guinea in 2000. Nevertheless, porous airport facilities continue to provide Guinean diamond traffickers with unfettered access to diamond markets in Western Europe, and increasingly, India.

Regulatory Deficiencies. Guinea's banks have neither a functioning system of internal controls, nor effective external oversight. The result is reckless lending, rampant fraud, and epidemic misconduct. The Central Bank has been slow to exercise control over Guinea's commercial banks, and continues to hesitate in imposing anti-money laundering regulations. The result is a grossly inadequate system for financial regulation generally, and no regulation of money laundering specifically. Moreover, cronyism, insider lending, kickbacks, extortion, and embezzlement are all-important features of Guinea's business-government nexus, where personal relationships and mutual back scratching have proven far more important than any formal rules governing Guinean financial transactions. *In this corrupt environment, the incentives to commit economic crime are perceived by many as greater than the risks.* Other significant ongoing deficiencies include:

- *Inadequate customer identification requirements for financial institutions.* Guinea permits the existence of anonymous accounts or accounts in obviously fictitious names. There is no obligation to verify the identity of the client; no requirement to identify the beneficial owners where there are doubts as to whether the client is acting on his own behalf, and no obligation to renew identification of the client or the beneficial owner when doubts appear as to their identity in the course of business relationships;

- *Excessive secrecy provisions regarding financial institutions.* Oversight of deposits is hindered by secrecy provisions, which can be invoked against,but not lifted by competent administrative authorities in the context of enquiries concerning money laundering;

- *Lack of efficient suspicious transactions reporting system.* Illicit finance schemes cannot be monitored in the absence of an efficient mandatory system for reporting suspicious or unusual transactions to a competent authority;

- *Obstacles to international cooperation by administrative authorities.* Guinea fails to enforce laws or regulations assuring international exchange of information regarding illicit finance activities. Guinean institutions also prohibit relevant administrative authorities from conducting investigations or enquiries on behalf of, or for account of their foreign counterparts. There is an obvious unwillingness to respond constructively to requests from foreign investigative and regulator agencies regarding illicit finance schemes linked to Guinean government officials;

- *Lack of resources in public and private sectors*. Guinea fails to provide administrative and judicial authorities with the necessary financial, human, or technical resources to exercise their functions or to conduct their investigations. As a result, there are inadequate professional staffs in governmental, judicial, or supervisory authorities or among those responsible for anti-money laundering compliance in the financial services industry. Most importantly, Guinea lacks a centralised unit that oversees the collection and analysis of suspicious transactions.

- *Arms-Trafficking Links with Liberia and Sierra Leone*. Fighting along the Sierra Leone and Liberian borders has caused major economic disruptions in Guinea, especially the presence in Guinea of large numbers of Liberian President Charles Taylor's proxies, who oversee a myriad of illicit finance schemes (*Africa News*, 2001). The Liberians have maintained sophisticated trafficking routes in Guinea to transport diamonds abroad, and routinely use the proceeds to purchase weapons. In fact, few illicit finance schemes or transfers of conflict commodities take place without the knowledge and involvement of Liberian authorities and corrupt Guinean customs or police officials. This is true of all exports, especially armaments, diamonds and timber products. The presence of Liberian operatives has made Guinea a haven for the arms smuggling networks in the region (US investigative journalist, interview, 2003). A United Nation report released in 2000 describes the links between a number of airlines linked to the arms trafficking and illicit finance trade, including Centrafrican Airlines, San Air, and Transavia Travel Cargo. The airplanes routinely fly to cities in Belgium to rendezvous with diamond traffickers and arms traders.

Financial Relations Conclusion

Guinea suffers serious economic difficulties, weak governance, substantial organized crime involving foreign criminals, weak border controls, refugees crossing the border from neighboring states, and a government that is ineffective and corrupt. Guinea is not likely to achieve real progress until such time as the Guinean government is in a position to confront corruption within the power elite in the country. In the short term, progress to curtail corruption will be hindered by the lack of a comprehensive anti-money laundering regime, and continuing linkages between the private sector businesses and high-ranking government officials. Guinea remains a largely cash-based economy, and there are substantial opportunities for Guinean officials to engage in business activity that is not disclosed to regulatory agencies. Efforts to initiate change must include a financial intelligence unit with the ability to investigate individuals at all levels of government, including high-ranking government officials. Otherwise, Guinean officials will

continue to eschew international norms and profit from the trafficking of illicit commodities with regional and international criminal networks.

15. Type of political regime in Guinea.

Guinea was the first colony in the ex-French West African federation to vote for independence. It became an independent state in 1958, after a precipitous French withdrawal. President Sekou Toure, with a trade union background and organizational skills, led Guinea on the road toward a socialist economy with the backing of his *Parti Democratique Guinéen* (PDG) The PDG controlled the legislature after the 1957 territorial elections, with 56 of 60 seats, and did not relinquish its hold on power until President Toure's death in 1984. During his quarter-century in power, Toure created a police state in Guinea. Officials imprisoned thousands of dissidents and drove additional thousands into exile. The political system was structured to function in a highly authoritarian manner, continuing the tradition begun in the late 19th Century under French colonialism after they conquered Guinea following stiff resistance led by Samory Toure.

Directly after Sekou Toure's death, a military junta led by Lieutenant Colonel Alassane Conte (an ethnic Soussou) took power (US Department of State, 2001; this section draws heavily on this publication). Initial junta decisions led to the founding of Guinea's second republic, abrogated the constitution of the First Republic, banned the PDG and other political parties, unwound the mass organizations that supported the PDG and the Toure regime, and released thousands of political prisoners. Following six years in office, the junta promulgated a new constitution in 1990.

From 1984 to 1993 the junta under Conte ruled by fiat in the form of administrative decrees approved by the president and selected ministers. In 1985, a first set of presidential elections, the results of which opponents contested, confirmed Conte as president. President Conte's stewardship of the national economy has left something to be desired. The military government complied during the post-1984 coup period with International Monetary Fund's (IMF) demands that it privatize the many parastatal companies established during Sekou Toure's socialist era. Anticipated increases in foreign investment initially materialized but then withered when the Conte government proved incapable of or unwilling to combat rampant corruption. Faced with a faltering economy, President Conte in 1996 took the bold step of importing from Côte d'Ivoire a technocratic economist, Sidya Toure, and naming him Prime Minister. Conte empowered Toure to manage the economy, and supported him by naming as ministers a number of highly qualified Guineans who had returned to their homeland from the diaspora occasioned by Sekou Toure's repressive policies. The Ivorian Prime Minister achieved promising results, but then Conte, having been reelected in 1998, progressively undercut his power. He replaced qualified diaspora ministers with members of his own Sousou ethnic group and corrupt practices rapidly reemerged.

Rationale/Comment

Guinea was ruled throughout most of the 20th Century by authoritarian systems of governance. The population has had little formal experience with open democratic forms and self-governance at the national level. Local circumstances vary. In Guinea's Fouta Djallon Highlands, where Fulbe pastoralists dominated, governance structures appear to have been quite authoritarian. In the savanna and lowland forest regions indigenous communities may well have experienced greater degrees of democracy and self-governance.

At the national level, the 45 years since independence have been split between the repressive Toure regime and Alassan Conte's military junta. Both men won reelection more than once, but typically under contested conditions. During 2001 Conte devoted considerable effort to the common practice of elimi-

nating constitutionally based term limits so that he could once again run to succeed himself as President (US Department of State, 2001).

Throughout Toure's rule, and repeatedly during Conte's time in office, Guinea has suffered the ill effects of serious corruption. Foreign investors have shown interest in exploiting the country's rich mineral resources, and have spent considerable sums to set up mining operations, only to abandon them when massive corrupt practices rendered them unprofitable or inoperable.

Guinea, though blessed with a rich resource endowment, suffers from its location in a war-torn sub-region of West Africa. Troubles and strife in neighboring countries have overloaded Guinea's economy with hundreds of thousands of refugees. While many refugees are indigenous the majority stem from neighboring Sierra Leone and Liberia.

16. Types of conflicts (e.g., rebellions, insurgencies, state-driven, etc.).

The present government of Guinea does not engage either in significant attacks on its own citizens or on neighboring countries. Nonetheless, the country was estimated in July 2001 to harbor some 150,000 to 200,000 refugees fleeing from warfare and unsettled conditions in the neighboring states of Liberia and Sierra Leone. These refugees have congregated mainly in southeastern Guinea, site of the country's remaining major forested areas, and constitute a considerable burden both for the country and for its environmental resources.

Liberia's Charles Taylor, who has collaborated repeatedly with the Sierra Leonean Revolutionary United Forces (RUF) in organized attacks targeting control of Sierra Leone's diamond fields, in September 2001 sponsored RUF-backed attacks in southern Guinea. These uprisings led to the deaths of some hundred Guineans, and created a new wave of internally displaced persons as tens of thousands fled the fighting (US Department of State, 2001).

Simmering tensions in neighboring Côte d'Ivoire between indigenous groups and Sahelian immigrant communities long-established in the country burst into armed conflict in the latter half of 2002, following disputed election processes. French military intervention in late 2002 and continuing into 2003 has not yet succeeded in resolving this conflict, although diplomatic efforts continue and, by mid-2003, seem to have led to a durable cease fire and perhaps laid the groundwork for a power-sharing regime among Ivorian southerners and northerners. Fighting in Côte d'Ivoire, in which partisans dispatched by Liberian President Charles Taylor to support the "Sahelian" (northern) side have played a prominent role, did inundate southeastern Guinea with another wave of refugees in the early part of 2003.

Rationale/Comment

Liberia's President Charles Taylor clearly seeks to destabilize the government of Guinea, presumably with the objective of capturing some of the country's valuable mineral resources, particularly diamonds and gold. He has consistently pursued the same strategy concerning conflict commodities (gold and particularly diamonds) in Sierra Leone. Taylor pursues his destabilization strategy against most of his neighbors, financing insurgencies in part with proceeds of conflict timber harvested both in Liberia and apparently in several neighboring countries. Whether Taylor envisages a longer-term effort to establish hegemony within West Africa's Mano River countries (Sierra Leone, Guinea, and Liberia) remains unclear. His regime, in June 2003, faced serious threat from armed challengers within Liberia itself.

17. Configuration of military forces.

Guinea's security forces, organized in four branches, number close to 14,000. The largest, the army, has some 10,000 soldiers under arms. A 900-member navy operates coastal patrol boats, while the air force, with a complement of 700, maintains several Soviet-era fighters and transport planes. The national *gendarmerie* has a staff of roughly 2,000 responsible for internal security.

These security forces face a single significant threat, in the form of the Liberian national armed forces and insurgent groups sponsored by Liberia and based either there or in Sierra Leone. For the moment, however, President Charles Taylor of Liberia seems content to sponsor uprisings and attacks in neighboring countries, often through proxy forces such as the Sierra Leonean RUF, responsible for a decade-long insurgency in the latter country.

18. Interesting, significant, anomalous points concerning any profile country.

Not applicable.

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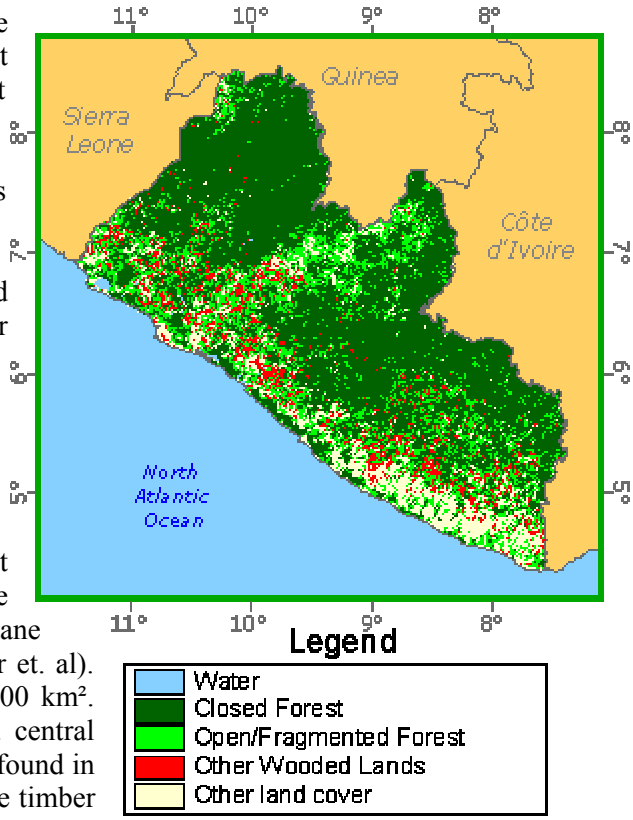
Liberia Case Study

Liberia: An Obvious Case of Conflict Timber

The current Liberian regime, headed by President Charles Taylor, relies heavily on timber as a prime conflict commodity, and probably more so than any other contemporary African regime. Taylor also depends heavily on diamonds—often mined in neighboring Sierra Leone—to finance his military campaigns of conquest within Liberia and destabilization in neighboring countries, particularly Sierra Leone, Guinea and, most recently according to December 2002 reports, the Ivory Coast.

1. Identify forests managed primarily to generate revenues for fueling conflict.

Liberia covers a total land area of some 111,370 square kilometers (km²). Uncertainty exists about the exact extent of forests in Liberia. One agency reports that forests cover as much as 47% of the country (Food and Agriculture Organization [FAO]), while another author states that forests occupy only 37% of Liberia's land area (Sayer et al.) The inclusion of degraded forests in the FAO total probably explains some of this discrepancy. Roughly 20% of Liberia is classified as woodland (designated as areas having a crown cover of less than 50% and, usually, less valuable timber species).



Liberia's forests are almost all lowland moist forests. These are divided into two cover types, the humid evergreen and the semi-deciduous forests (semi-deciduous forests are similar to rain forests, but characterized by slightly drier conditions). In total, the lowland forests cover about 41,200 km², the montane forests 55 km² and the mangrove forests, 6 km² (Sayer et. al). Forest plantations (mostly rubber) occupy another 1,100 km². The evergreen forests are located in the eastern and central parts of the country and the semi-deciduous forests are found in northern areas of the country. Almost all of the valuable timber exported by Liberia comes from these forests.

Liberia has 10 national forests (all legally open to timber exploitation), which cover an area of about 14,000 km². Liberia has a single national park, Sapo National Park, located in southeastern Liberia (70 km north of Greenville). It covers an area of some 1,300 km². Together, the national forests and Sapo National Park account for about 14% of the country's surface area. Little specific information is available concerning either exactly where the active concessions are located in the large forest types mentioned above or names of the national forests themselves. Logging concessions accorded to private companies are mostly located on national forest land.

Additional information is needed on the extent of cutting that takes place outside of national forests. Reports mention some timber cutting within the boundaries of Sapo National Park. At present, lack of

information about timber flows from parks and forests poses the greatest uncertainty in determining how much timber is coming out of what areas.

2. Identify forests that harbor rebels, insurgents, or government-sponsored security units whose presence is the primary factor driving forest management decision making.

One Liberian region with which many logging operations are linked, or even managed to a degree by rebels or insurgents, is the border forests with Sierra Leone. Liberia has for some years supported the Sierra Leone rebel group, the Revolutionary United Front (RUF). Although the Sierra Leone government has reached peace agreements with the RUF, rebel-controlled illegal timber harvesting operations continue.

In many areas where logging occurs, private concession holders have hired their own militia. Militia salaries and support payments amount to costs of doing business and are covered from revenues generated by logging operations. Often, however, these private militia organized by logging enterprises have induced conflicts with local community members. Reports indicate that this occurs throughout Liberia (and not just in border areas or areas where rebels or insurgents are active). It should be noted, however, that despite the poor working conditions, many community members pursue employment with logging operations.

Global Witness reports that Liberian-based logging operations are actively involved in cutting timber within Sierra Leone's borders. To a lesser degree, reports refer to logging taking place along the border with Guinea as well as on Liberia's border with the Ivory Coast. Ivory Coast's Tai National Park is located within a lowland forest that lies astride the boundary between the two countries. Illegal logging has occurred periodically in Tai National Park. This may be linked to conflict in the Ivory Coast. Moreover, the Ivory Coast has also been noted as an export point for timber cut in Liberia.

3. Identify forests where violent conflict occurs over forest resources that does not necessarily relate to a larger conflict issue and where local conflict ties more directly into local-level community access/user rights issues.

Little such activity is reported in Liberia, but additional work related to site-specific cases needs to be done to confirm this.

4. Are there forests where several or all of these conditions exist?

Logging in Liberia can be divided in two broad types of activities. The first is the large-scale logging that occurs within concessions. Such timber harvesting may directly affect as much as half of Liberia's forest estate, and involve millions of hectares and millions of cubic meters of hardwoods. It clearly poses a national and regional (international) issue. Similarly, the conflict issue (RUF in Sierra Leone) also occurs on national and international scales. RUF-supported insurgents struck neighboring Guinea in 2001. It will be interesting to see if conflict resources, including timber, are involved in the current civil war in neighboring Ivory Coast (evidence is not yet publicly available on this point). It appears that Liberian soldiers have joined with the "northern" opposition in the Ivory Coast and supported them in that conflict.

On a secondary, smaller scale, a range of conflict issues (private militias harassing local communities, RUF members taking refuge in border communities, etc.) may well link directly to logging. What is less clear is the prevalence and extent of local logging operations (not necessarily tied to the big companies) that may well feed conflict but go largely unreported because they do not attract the same level of attention as do the above noted concession operations.

5. Types of communities living in or near these forests, or dependent on them either for specific products or for seasonal support.

Liberia is an agrarian society. Most of its population practices subsistence agriculture. Forest industries do employ substantial numbers of Liberians. A general pattern characteristic of forest exploitation involves pioneer villages developing in association with the construction or opening of forest roads used to transport logs. This logging-related colonization of forest areas typically begins with a few families who organize services for logging companies while at the same time clearing land for agriculture. Once the pioneer community is established, other settlers migrate into the area and open farms. This process is encouraged, of course, as logging operations grow and additional roads are constructed. In this respect, communities linked to logging are often recently developed, opportunistic or transitory and sometimes unstable. It is less clear how much contact logging concessions have with stable, more traditionally established villages. This issue requires further clarification.

In border areas villagers flow back and forth over boundaries for both security and economic reasons. Once again, there is reason to believe (based on anonymous reports via Global Witness) that these groups are directly involved in or affected by logging operations, but to what extent remains to be more clearly determined.

6. Extent of harvesting, types of timber harvested, and off-take rates.

The rate of deforestation reported for Liberia over a ten-year period (1990-2000) averages just under 2% per year (FAO), or about 76,000 hectares of forest cleared each year. This is three times greater than the deforestation rate during the previous decade (1980-1990), reported to be 25,000 hectares per year (ITTO). Moreover, Liberia's deforestation rate is more than double the overall average deforestation rate for Africa, of 0.8%. Liberia's deforestation rates compare even less favorably with global deforestation rates during the 1990's, estimated at .24%.

The main reason for deforestation in Liberia is land conversion from forest to agriculture. Some of this follows directly on large-scale logging, but much of it also occurs as well in areas not adjacent to large timbering concessions. Reasons for such deforestation remain to be clarified, but the search for new arable land seems a major cause.

Annual off-take rates are difficult to estimate. A certain amount of timber is used domestically for various kinds of construction, but people probably use an even greater amount of wood for fuel (better estimates of household consumption are required). In general, domestic timber consumption for the period of 1997-2001 averaged about 35% of total production, with the other two-thirds passing into exports. In 1998, an anomalous year, domestic consumption at 48% accounted for nearly half of Liberia's wood production (ITTO).

Overall timber production surged in the late 1990's and peaked in 2000. In 1997 Liberia produced 75,000 m^3 of timber. Production increased at a galloping rate over the next three years, attaining 934,000 m^3 in 2000. In 2001 it dropped off to 659,000 m^3. As for export and import values of timber, in 2000 Liberia exported timber valued at US $68,850,000, most of this as industrial roundwood (98%) (FAO). Imports amounted to roughly US $380,000 of timber and almost exclusively in the form of paper and paperboard (writing paper, printing paper and paperboard).

Liberia's timber exports flow mainly to three countries: China, France and Italy. China's imports have dramatically increased over the past three years, with the country's rising demand driven largely by an

enforced domestic ban on logging. As recently as 1998 France, followed by Italy, were the largest importers and China's imports relatively modest. However, China's importation rates spiked in 2000 (from 14,000 m³ to a rate more than ten times that amount), followed by a very slight drop off in 2001. At the same time, France's importation rate has also increased but much less relative to China's. China now imports about twice the amount of Liberian timber as France, whereas in 1998 China imported only about 20% of France's imports. Italy's importation rates have declined steadily over the past two years. Other countries importing Liberian timber at relatively high rates include Turkey, Indonesia, Germany, Greece, the Netherlands, Spain and India. Of particular interest is the rapid increase of timber imports to Ivory Coast in 2000 (from 1,000 m³ in 1999 to 36,000 m³ in 2000).

About 240 timber species are found in Liberia of which, however, only about 40 are traded on the world market. The most valuable species are the African mahoganies (two genera are represented: (*Entandophragma* and *Khaya*) and what is sometimes called the African walnut (*Lovoa sp*.) (FAO). However, five species represent the greatest timber export production levels for Liberia. These are: *Lophira alata*, *Mitragyna sp*., *Tarrietia utilis*, *Terminalia ivorensis*, and *Tetraberlinia tubmaniana*. In 1999 these five represented 75% of total exports; in 2000 they dropped to 45% (ITTO newsletter). The average price for *Tarrietia utilis* was the highest both years among the five key species ($165/m³ and $145/m³ respectively). The average price for all other timbers (apart from the five listed above) was around $150/m³.

7. Conditions under which timber is harvested and transported.

Companies authorized by the Liberian government to operate logging concessions use heavy equipment to move timber from felling points to ports where logs are exported. According to Global Witness, those firms often use logs to create temporary bridges in their concessions so that they can move timber onto the national road network.

8. Verified, estimated, "guesstimated" environmental impacts and damage.

.Because of land clearing and shifting agriculture that often follow on government-authorized timber harvesting operations, logging clearly contributes to deforestation in Liberia, an area of quite heavy rainfall. This may contribute over the longer run to environmental degradation in the country.

9. Who is logging conflict timber, and how is that timber being converted into cash? Any pre-export processing, export routes, probable most important buyers/markets for conflict timber in each case, other associated conflict commodities?

Liberia's history of commercial logging dates back to the 1950s. It has fluctuated over time in light of prevailing political and economic conditions. Numerous firms operate in Liberia's timber industry. A handful of very large companies (especially those that appear to engage systematically in arms trafficking and conflict) control the majority of concessions. One is repeatedly mentioned in this regard: the Oriental Timber Company (OTC). Others include the Royal Timber Company, the Inland Logging Company, Salami Molawi Incorporated Bureau Ivorian Ngorian.

10. Country forestry sector policy—which actors influence policy setting (only domestic, or external as well)? Degree of concern for sustainable forestry incorporated in policy? Organizational structures to implement policy?

Forestry policy in Liberia, as indeed resource policy in general, has been fully subordinated to executive authority (Global Witness, 2001). The president can issue logging concessions as he sees fit (at locations he determines, to whom he pleases, for durations and on terms and conditions that he fixes, etc.).

11. Importance of timber in the national economy, and contribution of conflict timber proceeds to financing violence (e.g., if other conflict commodities involved, rough comparative importance of each).

The Liberian timber industry generated "US $186 million in 2000, of which only an estimated US $6.6 million went to the national budget," (Global Witness, 2002: p. 11). Liberia—or, more likely, Charles Taylor, the current warlord president—derives substantial revenue as well from the country's "maritime industry" (Global Witness, 2002: p. 29). These revenues consist mainly of payments received in exchange for authorizing ship owners to operate under the Liberian flag of convenience (Global Witness, 2001: p. 33).

12. Genesis for the conflict: greed or grievance?

The conflict in Liberia originated in an armed struggle over control of the national government. It spread out to include Sierra Leone when Taylor realized that he could capture control of industrial diamond deposits in that country by armed incursions and arrangements with Sierra Leonean insurgent groups. The recent conflicts linking Liberia and Sierra Leone continue a long tradition (see below).
#

13. Uses to which the proceeds from conflict timber sales are being allocated.

The laundering of proceeds from transactions in a number of illicit commodities, including diamonds and timber, has largely funded Charles Taylor's military activities in Liberia. However, a number of factors have recently affected Taylor's ability to fund his forces. With United Nations (UN) sanctions tightening, a decline in revenue from shipping companies paying for Liberian registration, and increasing activity from opposition forces, Taylor's cash reserves are dwindling (*Washington Post*, 2002). In an effort to increase revenues, Taylor has allocated timber concessions to close relatives, and long-time associates, and increased logging in Liberia. In the wake of these recent events, nongovernmental organizations are convinced that Taylor's efforts to fund his military forces in Liberia will create an environmental disaster (Global Witness, 2002).

The UN Panel of Experts on Liberia accuses the Liberian government of importing, between June and August 2002, some 200 tons of small arms, ammunition, hand grenades, missile launchers, mines and arms spare parts. In addition Liberian defense ministry officials are believed to have imported helicopter spare parts and mining hardware during this same period. The imported weaponry, munitions, and spare parts are represented as coming from used and surplus Yugoslavian stocks. It is believed that procurement and importation of these war supplies were arranged through a Belgrade-based arms merchant and delivered to Monrovia via an intricate scheme involving false documentation designed to deceive UN monitors. Accompanying documentation described the contents of these shipments as Nigerian oil drilling equipment. The contraband was reportedly delivered via six separate flights to Roberts Field, Monrovia, during the aforementioned time frame.

Increasingly, the Taylor government has relied on sea channels to bring in arms (Global Witness, 2001: p. 7).

14. Commercial/bank routes through which sales transactions and proceeds occur.

Evidence exists that the Taylor regime's external partners have supplied the government with small arms to some extent on what appears to be a barter basis. Ships arrive at a Liberian port, discharge crates apparently containing small arms, and then fill their holds with raw tropical hardwood logs stockpiled in the same ports (Global Witness, 2001: 7-9).

Factors Facilitating Illicit Finance Linked to Illegal Logging

Traditional Banking Institutions. Liberia's connections with the international payments system broke down during its civil war from 1991 through 1997. The most prominent non-Liberian financial institution, Citibank, left the country. Currently, Liberia has 16 banks, but only a small number are open to the public. These private banks are in practice unregulated, and provide Taylor and his associates with a secure means for transferring assets abroad through Internet banking and wire transfer services. Especially troubling is the access Liberian banks maintain to Asian, European and Middle Eastern financial centers and offshore zones. Recent reports by the UN are replete with examples of Liberian financial institutions involved in the transfer of profits linked to the illicit commodities trade. For example, in November 2001, the government of Singapore sought information from the UN regarding financial and weapons transactions involving payments for weapons deliveries that used the Chase Manhattan Bank in New York to transfer some $500,000 to a Singapore arms trafficking company. Significantly, the firms involved in the arms transfer are also alleged to be involved in logging in Liberia and Malaysia (*Singapore Business Times*, 2001). In examining the impact of Taylor's involvement in prolonging Sierra Leone's civil war, the UN Panel of Experts discovered that Liberia secured weapons and made payments for weapons destined for Sierra Leone through accounts at the Standard Chartered Bank in Sharjah, United Arab Emirates, sometime residence of the Russian arms dealer Viktor Bout.

The Liberian Offshore Zone. Liberia's commercial laws allow businesses from anywhere in the world to register in Liberia, with no requirement to maintain a physical presence in the country. Liberia's financial regime includes corporations with no capital requirement, issuance of shares that need not be reported or recorded in Liberia, companies with no obligation to file annual reports, tax forms, or audit statements, bearer shares. This guarantees anonymity and non-accountability. As a result of these deficiencies in the Liberian offshore sector, Liberia was named among seven uncooperative "tax havens" by the Organization for Economic Cooperation and Development (OECD) (*Lloyd's List*, 2002). The OECD is especially troubled by the issuance of bearer shares by international business companies, which withhold personal and financial information about directors and shareholders. In response to this "black-listing," Liberia approved major amendments to its laws of incorporation at the end of 2001. However, no effort was made to eradicate bearer share provisions or non-resident tax status.

Bulk Diamond and Cash Smuggling. As with other countries where there are porous borders, smuggling bulk cash and diamonds is an important component of illegal finance schemes. In the wake of international pressure, Liberia enacted new anti-money laundering legislation in late 2001 to curtail cross-border currency exchange. Under the new regulations, monies carried out of the country in excess of US $7,000 must be in the form of travelers' checks, money orders, or bank drafts. When entering the country, amounts of money that exceed US $10,000 must be declared to the Central Bank of Liberia (*Associated Press Worldstream*, 2001). In practice, however, customs officials routinely accept bribes at border checkpoints and airports, and rarely enforce anti-money laundering provisions. A typical money-laundering scheme usually involves a businessman entering Liberia with a large amount of cash. The investor purchases timber products in exchange for cash. The illegal logs are passed through customs and shipped abroad to international markets (Interview with US investigative journalist, 2003). The illegal logging trade in Liberia attracts buyers from all regions of the globe. In recent months, Liberian authorities have questioned several individuals from Asia, the Americas, and the Middle East who were transporting tens of thousands of US dollars out of Liberia. None of those individuals were arrested.

Political Corruption and the Political-Criminal Nexus. Few substantial sources of revenue in the country have remained outside the control of Taylor and his associates. The list of individuals linked to illicit commodity extraction in Liberia, such as conflict timber, involves all levels of government and business activities in the country. Long-time associates, such as former Governor of the National Bank John Bestman and Dutch national Gus Kowenhoven, have been awarded lucrative logging concessions, and regularly supply Taylor with vessels for arms shipments. The same vessels are used to smuggle bulk cash and diamonds abroad. Funds from the trafficking of Liberian timber are also increasingly invested in seemingly legitimate businesses. For instance, Kouwenhoven operates Hotel Africa in Monrovia, and a number of businesses, including a hotel, in Brazzaville, Congo.

False Invoicing by Private Timber Firms. There are no restrictions on logging vessels. As a result, shipping vessels are routinely used to transport military equipment and illegal timber products (Global Witness, September 2002). This permits the routine transfer of illegal logs and military equipment through Liberian ports. Purchasing false end-user certificates from the governments of neighboring country such as the Ivory Coast, Niger and Burkina Faso permits routine smuggling of weapons into Liberia. Vessels owned by the OTC, which oversees one of Liberia's largest timber concessions, are identified in a series of UN reports as a key means of shipping weapons to Taylor's government. In recent months reports have linked Taylor to smuggling hundreds of tons of military equipment into the country in violation of UN sanctions. Forged documents listed the cargo as drilling and technical equipment. In reality, the cargo was composed of rifles, grenades, missile launchers, machine guns, and spare parts for military vehicles. The military equipment was shipped from Yugoslavia (*Associated Press*, October 2002).

Belgian Links to Illicit Finance. Liberia maintains close relations with the Belgian diamond market. A World Bank study estimated that Sierra Leone in 1999 exported $138 million worth of diamonds; the overwhelming majority of the stones transited through Liberia to European markets. According to trade records, Liberia has exported more than 200 years' worth of its own national capacity (*Associated Press Worldstream*, February 2002). Belgium also routinely permits the presence of a number of arms dealers linked with the Liberian arms trade. In an effort to curtail the growing illicit arms trade in Belgium, Belgian police arrested Kenyan businessman Sanjivan Ruprah, a close associate of Viktor Bout, in early February 2001 on charges of criminal association and holding a false passport. Officials said Ruprah was being investigated on money laundering allegations. The arrest of arms-smuggler Ruprah in Belgium highlights links between Liberia and European financial institutions. As a result of recent developments, Belgium is under increasing pressure to take a less cavalier approach to accepting deposits from known arms traffickers. While there is a clear trend toward compliance, Belgian institutions are determined to maintain a competitive edge in a region that hosts a number of jurisdictions with questionable due diligence programs, namely Switzerland and Liechtenstein. As a result, abuse of Belgian financial institutions by arms traders linked with Liberia will likely continue for the foreseeable future.

Ukrainian Actors and Financial Institutions. Reports linked Ukrainian mobster Leonid Minin to millions of dollars in payments to Taylor for forest concessions. Through Minin, Taylor obtained aircraft that transported arms and diamonds to regional and global financial centers (*Africa News*, February 2001). Minin is currently charged with weapons trafficking to Liberia. Police reports detail his oversight of the shipment of a hundred tons of weapons, spare parts, ammunition and explosives to the Revolutionary United Front (insurgent group that has prosecuted a ten-year-long civil war in neighboring Sierra Leone). Minin was also charged with using false end-user certificates. According to Ukrainian documents, the weapons had been sold under the terms of a contract with the Ukrainian state-owned arms exporting company Ukrspetseksport. The state-owned firm was contracted through a front company established by Menin. Payments for the military equipment were made through offshore financial centers via offshore banks. Minin also routinely shipped illegal logs through concessions granted by Taylor (*ibid.*). The timber

was transported on trucks owned by the notorious mob-boss Valery Cherny, which indicates the level of cooperation between Russian and Ukrainian criminal networks in Liberia (*Africa News*, January 2001). Deposits totaling millions of dollar garnered by Minin through illicit activities in Liberia have been located in a number of European countries, including Belgium and Switzerland.

The Cypriot Offshore Zone. The financial streams flowing between Taylor and arms merchants from the Russian Federation, Ukraine and Yugoslavia most likely transit through Cypriot financial institutions. Cyprus's role here is hardly surprising. The Russian linkage with Cyprus has become a close one with joint business ventures in both Russia and Cyprus, as many as 35,000 Russians living in Cyprus, and a dual taxation treaty between the two countries signed in late 1998. Slobodon Milosovic established the Yugoslav-Cypriot connection and laundered millions of dollars through the Cypriot offshore zone. Additionally, Ukrainian banks also maintain correspondent relationships with the Cypriot offshore zone. The link with the arms trafficking trade arises because Cyprus offers an appropriate enabling framework. The Cypriot offshore zone provides nominee ownership and conceals the beneficial owner of offshore firms. Internet banking links provide easy access to Cypriot financial institutions. Trust companies do not require any type of registration or disclosure of information to the authorities, so long as the seller and beneficiaries are non-resident and at least one of the trustees, often an associate of arms dealers, resides in Cyprus.

South African Arms and Diamond Merchants. Several UN reports have detailed links between Taylor and South African arms and diamond merchants. Sophisticated transportation facilities in South Africa make the jurisdiction an ideal transit point for arms traffickers, and the financial infrastructure in South Africa permits easy access to global financial markets. In recent years, Russian organized crime networks established a presence in South Africa to engage in diamond and arms trafficking (*Africa News*, December 2001). Money-transmitters are a favorite choice of diamond and arms traffickers in South Africa. The immense amount of illicit funds transferred through wire services resulted in a number of recent crackdowns. For instance, in October 2001, South Africa's Reserve Bank suspended 130 local branches of Western Union, following undercover sting operations that revealed some operators' willingness to breach South African foreign exchange regulations while transferring funds to foreign destinations. About US $10 million per month was moved through this mechanism (*ibid.*).

UAE Financial Institutions. The United Arab Emirates (UAE) house the Middle East's most sophisticated financial services sector, which is intensely competitive and lightly regulated. In the last half of the 1990's, the UAE became an increasingly common location for Liberian money laundering. As with Cyprus, the UAE is a favorite destination for arms merchants (*Journal of Financial Management & Analysis*, January 2000/June 2001). Russian arms merchant Viktor Bout has used Sharjah, in the UAE, as his home. Bout has been directly implicated in black market weapons sales to Liberia. A UN report asserts that false end user certificates were delivered from the UAE to provide a veneer of legality for Bout's illicit arms sales,. Moreover, Bout's illicit arms shipments were expedited from the UAE through his UAE-based air transport company, Air Cess, whose operations would clearly require financing through the UAE (*Cox News Service*, July 2001).

The UAE has no foreign exchange controls and no corporate or income taxes. Few suspicious transaction reports have ever been filed by local financial institutions, and except in cases involving massive frauds, essentially no cases have been investigated, let alone prosecuted (*Financial News*, September 2001). Islamic banks, once a conservative mechanism for relative low-cost entry into the international financial system, are now rapidly expanding. Notably, some Islamic banks still take the position that the only appropriate banking regulations are those set forth within the Islamic Sharia law, which by definition cannot include those recently imposed by non-Islamic regulatory bodies.

Conclusion

In recent years, Taylor has transformed Liberia into "a criminal state" through a series of businesses of dubious legality. Furthermore, the looting of government treasuries has involved funds or resources residing Liberia being moved to other jurisdictions through the world's major international banks. In Liberia, the grand-scale theft of diamonds and timber has clearly facilitated armed conflict throughout the region (Liberia, Sierra Leone, Guinea, quite possibly the Ivory Coast). In the near-term, extensive pressure must be placed on financial safe havens utilized by Taylor, his cronies, and arms merchants that continue to move military equipment into the region. The UN expert commission has uncovered a number of individuals who profit from the civil conflict in the region. Closer examination of Taylor's financial streams could provide a means of limiting his influence over armed combatants in the Mano River area, and bring an end to a criminal empire that has successfully stripped natural resources from a number of West African states.

15. Type of political regime in conflict timber country.

The current regime in Liberia can be characterized as a militarized political machine. It continues a long tradition of autocracy that dates back to the state-building efforts of 19th century repatriated American freed slaves. (Sawyer, 1992).[124]

Beginning in 1822 the American Colonization Society (ACS) helped repatriate small numbers of freed American slaves to Liberia. The ACS was founded in 1816 by American political and religious leaders with the intention of solving the problem of freed blacks. Such individuals were perceived in the pre-Civil War, pre-emancipation United States as setting a bad example for the enslaved Blacks in the society. The solution to the problem was seen to lie in encouraging such individuals to return to Africa.

These freed slave settlers, usually committed Christians, proselytized among, fought, traded, and collaborated with members of the numerous indigenous groups that occupied the Liberian coastal regions and interior. Each of the settlements established during the course of the 19th Century by the Americo-Liberian repatriates came to be dominated by a small group of merchants, linked with the core group of traders who anchored settler society. This latter group was based in the capital, Monrovia. To facilitate trade and to stave off colonization by the British and French in the aftermath of the 1885 Conference of Berlin, the Americo-Liberian traders established networks of clients, some of whom functioned simultaneously as chiefs in their indigenous societies. Traders' clients helped them get access to trade goods (palm oil, palm kernels, camwood [which, when processed, produced a blue dye]), as well as economic opportunities generated through village-level and plantation agriculture in the interior (respectively, coffee and sugar). Through control over land, indigenous labor (Liebenow, 1969: p.94), and trade monopolies, the most successful traders gradually came to exercise unchallengeable control over all of Liberian society. Following independence in 1847, those who occupied the presidency of the republic continued to consolidate executive control in Liberia.

Leaders of the Americo-Liberian colony sought to establish control over the indigenous groups that inhabited the Liberian hinterland and, simultaneously, to dominate coastwise trade passing through the country's main ports and the Trans-Atlantic trade originating in those shipping centers. Initially, in the

[124] Except as otherwise noted, this section draws heavily on Amos Sawyer's book, *The Emergence of Autocracy in Liberia: Tragedy and Challenge*. Sawyer served as Interim President of Liberia during the Interim Government of National Unity, following the 1989-1990 civil war. He holds a Ph.D. in political science from Northwestern University, and also has a long career as an academic both in Liberia and in the US. His combination of practical and analytic experience with politics in Liberia makes him an unusually keen observer of events in that country. Specific citations are noted as appropriate.

early 19th century and with support of the American federal government, settler colonies laid claim, through purchase or conquest, to land immediately adjacent to the coast. They then successfully established trade monopolies in those areas, and pushed their advantage further inland, in order to build up a network of clients among the leaders of traditional societies who could funnel products from the interior to their trading stations. Presidents of the Liberian Republic, exclusively recruited from the Americo-Liberian settler class and typically individuals who had made their mark as successful traders, built up the politico-economic influence necessary to win the presidency. All succeeded within the constraints of the country's domestic social, political and economic systems and its evolving international position.

Over the course of the 19th Century, the Liberian government found that it much easier to tax trade through the country's main ports than to collect hut taxes from residents and members of indigenous societies in the hinterland, with whom the settlers were frequently at war. This taxation strategy liberated the government and its officials from any meaningful dependence on the country's citizens. Indeed, as the Americo-Liberian repatriated slaves sought to expand inland their footholds along the Liberian coast in order to develop for themselves a larger role in internal and coastwise trade, they in turn consolidated a colonial relationship with groups in the interior (Liebenow, 1969: p. xvii-xviii).

Eventually social mechanisms came into being that permitted integration of selected members of Liberian indigenous societies into the Americo-Liberian settler elite. But by and large the two societies continued to exist as two separate entities, with the latter dominating the former, and the political class dominating business, voluntary and indigenous associations through a variety of mechanisms that allowed them to preserve the political status quo to their benefit. As Liebenow notes:

> *The system permits the political leadership to control the economy to its personal advantage through its manipulation of tariffs, the granting of franchises and subsidies, and the letting of contracts. (p. 91)*

Little changed in this regard over the course of the 20th Century. After World War II, the Liberian Government continued to avoid the need to tax residents by collecting royalties from the foreign companies to which successive presidents awarded mining and plantation concessions (among the latter, particularly Firestone's rubber plantations outside Monrovia) (Liebenow, 1969: p. 95). These regular royalty payments amounted to predictable, reliable sources of income and enabled the executive to emancipate itself still further from budgetary control by the legislature. These politico-economic arrangements opened the possibility for the office of the Liberian executive to exercise greater autonomy and consolidated an institutional framework within which a succession of executives developed and perfected a system of autocratic governance in Liberia. The flow of "marine payments" coming from ship owners who operated under the Liberian flag of convenience (to extract the maximum economic benefit from their operations at the expense of crews), further insulated the presidency from dependence on Liberian citizens and politicians.

Nearly a century and a half after independence, in 1980, Samuel Doe, an indigenous Liberian and sergeant in the Liberian army, finally disrupted Americo-Liberian control by assassinating President Tolbert, a settler descendant, and taking over the presidency. Power had by then been so centralized in Liberian society that coup members, having eliminated a large number of Americo-Liberian leaders, could replace them as rulers of the society by simply taking over pre-existing institutions and political arrangements. Through overt use of violence, the coup group decimated other leadership groups and consolidated a temporary hold on the society.

16. Types of conflicts (e.g., rebellions, insurgencies, state-driven, etc.).

In 1989, Charles Taylor—now the country's president—was imprisoned in America on criminal charges. He escaped detention and managed to return to his home country at the head of a small military force. That force eventually defeated the Doe junta and, despite efforts of an interim, transitional government designed to create conditions for fair elections and legitimization of a new, democratic, civilian government, Taylor managed through the electoral process to establish himself as president of the country.

Since his election, Taylor has taken over Liberian society through a strategy based primarily on repression. He has pursued a policy of capturing and converting natural resources found in Liberia. This primarily involves his authorizing the harvest of tropical hardwoods that constitute the last vestiges of a tropical rainforest that formerly covered a belt running some 200 miles inland from the Atlantic Coast between Sierra Leone and Cameroon (Sawyer, 1992: p. 43-44). President Taylor has also presided over the ongoing pillaging of Liberia's remaining rainforests through the agency of domestic and foreign logging concerns (e.g., the Oriental Timber Company) to which he has granted concessions and practical *carte blanche* to use armed force to discourage or suppress any resistance to their logging activities. Many of the logging firms operating in Liberia employ militias comprising ex-combatants. Poorly paid, these soldiers often engage in both looting and in human rights abuses in areas adjacent to the companies' logging camps (Global Witness, 2001: p. 10).

Continuing a long tradition of conflict among various groups in the Liberian interior and with those in neighboring states, particularly Sierra Leone, Taylor has also used his armed forces to establish temporary control over the diamond-rich areas of eastern Sierra Leone. His followers have captured the artisan output of gem and industrial diamonds from this region; proceeds of sales of those diamonds into international markets financed purchase of small arms from several different suppliers, as noted above. In addition, timber companies operating in Liberia have exchanged weapons for logs, typically using the same freighters to deliver arms and export logs. These weapons shipments enabled Taylor to arm insurgent groups in Sierra Leone and Guinea and to destabilize these states (both already teetering, by many accounts, on the brink of failure).

17. Configuration of military forces.

Recent reports indicate that ongoing fighting in Liberia continues to threaten stability of the Mano River Union countries (Guinea, Liberia and Sierra Leone). Unverified reports signal that the Liberian armed forces have beefed up their own military with mercenary fighters recruited primarily from the RUF, a Sierra Leonean rebel group. Unsubstantiated estimates place the number of expatriate fighters at somewhere between 1,200 and 1,500.

18. Political and economic impacts generated by conflict timber activities in Liberia.

Nearly a half million people currently reside as international refugees in Guinea and Sierra Leone. Additional individuals have sought refuge in the Ivory Coast. Many others have the status of internally displaced persons within Liberia and Sierra Leone. Insecurity, collapsed economies, and widespread human rights atrocities have engendered a major humanitarian crisis in the region. Fighting in Northern Lofa County on the border with Sierra Leone between the Armed Forces of Liberia and the Liberians United for Reconciliation and Democracy has hindered efforts of relief agencies to reach at-risk populations.

A UN panel of experts has just accused the Liberian government of violating UN Security Council sanctions. These violations include recent importation of arms and munitions into Liberia, international

travel by key Liberian government officials and sympathizing businessmen, and trade in illicit diamonds acquired from Sierra Leone.

Conclusion

Charles Taylor's governance strategy in Liberia constitutes one of the most flagrant examples of conflict timber. Fighting in the Mano River Region states (Liberia, Sierra Leone and Guinea) has been initiated and sustained with support (arms, munitions, salaries, etc.) that Taylor provides, either directly or through logging concessions let to firms with highly questionable records concerning human rights. Taylors' initiatives to prolong fighting in Sierra Leone, to initiate conflicts in Guinea, and, quite possibly, to involve his troops in the civil war in neighboring Ivory Coast all evidence a long-term strategy based on violence and state destabilization.

UN sanctions have had a positive impact in restricting cash flows into the country, and so into the national treasury (perhaps better described as the "presidential coffer"). But links with offshore banking centers in several countries have enabled Taylor to convert timber and other natural resources into funds and so acquire the wherewithal to continue financing insurgencies and wars that have sown destruction throughout the Atlantic region of West Africa. The refugee problems alone, while not of the scale found in Central found in central Africa, are pervasive and weigh heavily on the economies, the forest resources, and the environments of the countries most directly affected (Liberia, Sierra Leone, Guinea and Ivory Coast).

19. Interesting, significant, anomalous points concerning Liberia.

Not applicable.

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Sierra Leone Case Study

Sierra Leone: Development Background

Sierra Leone is a small West African nation (71,740 km²) with a population estimated at about 5.6 million. It is bordered on the north and east by Guinea, on the southeast by Liberia and on the southwest and west by the Atlantic Ocean. About 75% of the population practice subsistence agriculture as a livelihood. Agriculture accounts for 43% of the gross domestic product (GDP), with industry at 27% and services at 30%. Sierra Leone is rich with mineral resources that include diamonds, titanium ore, bauxite, iron ore and gold. It is a former British Colony.

Sierra Leone has been embroiled until recently in a brutal ten-year-long civil war. During that time, approximately two million Sierra Leoneans were displaced, some internally and others to camps in neighboring Liberia and Guinea. Sierra Leone is listed as one of the poorest nations in the world, despite possessing a wealth of mineral resources. Since the end of the civil war, Sierra Leone has made progress toward social and economic recovery. During the recent Consultative Group meetings on Sierra Leone held in Paris, a number of positive developments were noted. Sierra Leone was commended for a successful record of economic performance during the past two years, which is largely attributed to the government's strict fiscal discipline and implementation of its structural reform agenda. It was noted, however, that for development to continue Sierra Leone must actively support the successful completion of disarmament, the demobilization and reintegration program, rebuilding of the country's army and police force, and effective management of the Truth and Reconciliation Commission and Special Court.

Sierra Leone is now focusing on addressing major development challenges, particularly inclusion, good governance, decentralization, equity, and sustainable growth. In addition, the government plans to improve on basic education and primary health care. To spur economic growth, the Sierra Leone government highlighted five areas of focus:

- Developing the private sector;
- Stimulating agriculture;
- Reviving the mining industry;
- Improving infrastructure; and
- Building human capital with community-driven programs in education, health, and HIV/AIDS prevention and awareness.

Gem-quality diamonds were discovered in Sierra Leone in 1930. The civil war has led to a proliferation of illegal diamond mining and smuggling, depriving Sierra Leone of at least $600 million a year in foreign exchange. Apparently, most diamonds are being smuggled to Liberia in a trade promoted by Liberia's warlord president, Charles Taylor. Sierra Leone produced 2.5 million carats of diamonds a year prior to the outbreak of civil war in 1992, but by 2001 production had fallen to an estimated at 375,000

carats. This would suggest that Taylor's agents in Liberia were siphoning off in excess of two million carats of diamonds a year from the country's economy—assuming crude production held up during the war.

Sierra Leone: Forest Resources

Sierra Leone has a long rainy season, running from May to November. Annual precipitation ranges from 2,000 millimeters (6.5 feet) in the north to more than 5,000 millimeters (16.4 feet) along the coast. Temperatures vary between 22°C at night and 35°C during the day. The high rainfall renders soils subject to erosion, especially on hillsides.

The four main physical regions are coastal plains, interior plains, plateau, and hills and mountains. The interior plains cover 43% of land area and rise to 200 meters in the east. An abrupt escarpment then runs from the northwest to the southeast, giving rise to the eastern plateau (300-600 meters), covering 22% of the country. The plateau is topped by Mount Bintumani, which is 1,945 meters (6,381 feet) tall.

The three main vegetation zones are coastal mangroves, evergreen high forest in the east, and drier guinea savanna in the north and northwest. Sierra Leone is moderately forested with 18% forest cover. A further 70% of the country is classified as "other wooded" land. Sierra Leone's closed forests comprise both evergreen and semi-deciduous rainforests, swamp forests, mangrove forests, and significant areas of secondary forest and regenerating forests that were once cultivated. Much of Sierra Leone's rainforests have been cleared, with only remnant areas in the south and east. The Gola Forest in the southeast is the largest remaining tract of rainforest. Closed forest, which once covered 60% of the country, now only survives as remnants over about 5% of the total area. Shifting cultivation, timber exploitation, and cattle grazing have modified vegetation to a large extent.

Ten rivers drain from the northern uplands to the extensive mangrove swamps along the coast. Wetlands include mangrove swamps, freshwater swamp, and forest. The mangroves form 4.5% of total forest area in the country. Mangrove and swamp forests are suffering from deforestation through fuel wood collection and from conversion for rice production. (Laumans, 1996)

The Landscape of Sierra Leone	Area
Closed high forest	257,400
Secondary forest	205,600
Forest regrowth	3,909,300
Savanna woodland	540,500
Mixed tree savanna	703,500
Lophira tree savanna	83,200
Coastal woodland	50,400
Coastal tree savanna	11,700
Upland grassland	148,800
Montane grassland	2,900
Rock outcrop	60,300
Mangrove	156,500
Fringing swamp forest	25,500
Raphia swamp forest	35,000
Swamp and riverain grassland	138,600
Swamp cultivation	218,200
Upland crops	645,200
Oil palm plantations	7,200
Rubber plantation	1,700
Ex-mangrove swamp	28,900
TOTAL	**7,230,400**

Deforestation rates average 2.9% per year over the last quarter century. This figure derives from a linear extrapolation of the change between 1975 and 1986, projected up to 2000. The 1991-1999 civil war precluded repetition of the last forest inventory, conducted in 1986. Were more complete information on forest change in Sierra Leone available it might reveal that the effective deforestation rate is in fact lower than this projection.

Sierra Leone has one national park, Outamba-Kilimi, and a handful of game and forest reserves. Around 5% of Sierra Leone's forests lie in protected areas.

1. Identify forests being managed primarily to generate revenues for fueling conflict.

None identified. Timber is not listed as a natural resource that contributes significantly to the national economy. Nor is there any direct mention that timber funds conflict. Timber figures as important only in the context of domestic and local economies.

2. Identify forests that harbor rebels, insurgents, or government-sponsored security units whose presence is the primary factor driving forest management decision making.

The Revolutionary Armed Forces (RUF) have used forested areas along Sierra Leone's borders with Liberia and Guinea as bases. Villagers fleeing rebels and government sponsored armed groups also use forests as refuge areas. Information could not be found concerning forests (if any) affected by ongoing refugee problems (e.g., the 40,000 Liberians in Sierra Leone), or mining operations.

3. Identify forests where violent conflict occurs over forest resources that does not necessarily relate to a larger conflict issue and where local conflict ties more directly into local-level community access/user rights issues.

No information available on this issue (if it exists).

4. Are there forests where several or all of these conditions exist?

Apparently not.

5. Types of communities living in or near these forests, or dependent on them either for specific products or for seasonal support.

Two types of communities locate near forested areas. The majority of these consist of subsistence farmers. Their land use practices in relation to the forests involve, in some cases, shifting cultivation. However, transient artisan mining communities often come into conflict with the agricultural communities over the environmental degradation the former cause. Artisan mining usually pollutes local water sources, exacerbates soil erosion, and promotes conditions that can negatively affect community health.

6. Extent of harvesting, types of timber harvested, off-take rates.

Limited information suggests that locals harvest coastal mangroves essentially for local fuel and construction wood. Information was unavailable on timber off-take rates. Wood exports account for only $1.5 million per year, mostly in the form of wood pulp. Timber exports are minimal (or not accounted for). National annual wood production rates are pegged at over 5.5 million cubic meters (m^3), with over 95% of this allocated to domestic fuel wood consumption. Valuable timbers exploited include the mahoganies (Khaya *spp*. and Entandophragma *spp*.).

Several sources mention historical logging operations, but again provide only limited information. It is also noted that most of Sierra Leon has been deforested at one time or another through shifting cultivation and to a lesser extent logging. But there are no figures or locations to support this.

7. Conditions under which timber is harvested and transported.

Again, limited information exists. It appears most timber is harvested using traditional methods (pit sawing) and transported by road.

8. Verified, estimated, "guesstimated" environmental impacts and damage.

Very limited information. Several sources mention "forest degradation" from logging, but provide no specific data.

9. Who is logging conflict timber, and how is that timber being converted into cash? Any pre-export processing, export routes, probable most important buyers/markets for conflict timber in each case, other associated conflict commodities?

Not applicable.

10. Country forestry sector policy—which actors influence policy setting (only domestic, or external as well)? Degree of concern for sustainable forestry incorporated in policy? Organizational structures to implement policy?

Forest policy has not been revised for some time. Sierra Leone has conducted a national environmental action plan process that suggests updating forest policy. Sierra Leone plans to move ahead with this initiative. Historically, forest policy was laid out in the Five-year National Development Plan, 1970-1974, and in the National Policy of 1976. Provisions of these policy statements cover acquisition, management, and protection of a forest estate; promotion of forest research as the basis for efficient management; utilization of the forest estate without impairing its protective function; and preservation and conservation of wildlife resources. Unfortunately, the Forestry Division has been unable to meet its obligations under these policies, has not acquired additional land, and has been unable to adequately protect the forest estate.

The Forestry Act No. 7 of 1 July 1988 replaces earlier legislation, and makes provision for the creation of the following categories: classified forest, meaning national production forest, national protection forest or community forest; and protected areas. The Act emphasizes sustained forestry management; provides for the establishment of a Reforestation Fund; sets out the duties and responsibilities of the Minister, Chief Conservator and forestry officers; and outlines offences, enforcement, and accompanying penalties. Other legislation relevant to forestry, wildlife, and the environment includes the Fisheries Act as amended and the State Lands Conservation Act.

The Ministry of Agriculture, Natural Resources and Forestry (MANRF) was formed in 1984 by the merger and reorganization of the Ministry of Agriculture and Forestry, and the Ministry of Natural Resources. The Forestry Division is currently domiciled in MANRF and is responsible for administering the Forestry Act of 1988 and for managing the forest estate. The Wildlife Conservation Branch within Forestry Division administers the Wild Life Conservation Act (1972), manages the national parks and wildlife sector reserves, and is responsible for the conservation of flora and fauna throughout the country.

In summary, it appears that although forest policy is outdated, forest legislation does include provisions for sustainable forest management and the promotion of community forests. But it is also clear that at this time the institutional capacity to enact this legislation is weak.

11. Importance of timber in the national economy, and contribution of conflict timber proceeds to financing violence (e.g., if other conflict commodities involved, rough comparative importance of each).

Neither timber nor forest industries in general were mentioned in Sierra Leon's most recent post-conflict national development agenda, "Strategies for Growth and Poverty Reduction." The current 10-year plan suggests that Sierra Leone's planners do not view forestry as having any potential to contribute to poverty reduction. This could be a significant oversight.

As indicated earlier, wood exports (mainly in the form of pulp) represent about two percent of all export earnings. Domestically, wood plays a critical role as the major fuel source in most households. This has a significant impact on the national economy.

12. *Genesis* for the conflict: greed or grievance?

Not applicable.

By comparison, protagonists—principally the Liberian-backed RUF and the government of Sierra Leone tried to capture control of several of the country's valuable minerals (particularly diamonds and gold). These conflicts fueled the 1990s civil war in Sierra Leone. The Liberian effort to foster destabilization in Sierra Leone (as in Guinea) seems driven in part by greed, but as much by Liberian President Charles Taylor's efforts to establish himself as the preeminent warlord in the Mano River Union group of countries (Liberia, Sierra Leone, and Guinea). It would appear that Taylor is seeking a similar outcome in the Ivory Coast, where Liberian soldiers and proxy forces currently appear to provide support to the Muslim rebels who now control the northern half of that country.

13. Uses to which proceeds from conflict timber sales are being allocated.

Illicit Arms Trafficking Markets. Several former Soviet states, including Belarus, Kazakhstan, and Ukraine, frequently figure in arms transactions with Sierra Leone. For example, an accomplice of Victor Bout, a Russian citizen named Oleg Grigorovich Orlov, is accused of smuggling of military equipment, including two Mi-8T helicopters, into Sierra Leone. Financing for this equipment moved through companies in Cyprus, including Dunford-Avia Progress Ltd., EMM Arab System Ltd., and firms in Singapore, namely the Euroasian Financial Industry Group. State agencies in Eastern Europe have also been linked to arms shipments to Sierra Leone. In most instances, the arms are transhipped to Liberia. For instance, two state companies—Ukraine's Progress and Belarus' Belarusintorg—allegedly delivered weapons through the Cypriot-Panamanian company Global Technologies International Inc. The transaction was part of a deal between a Gibraltar-based company representing Burkina Faso's Ministry of Defense, and the Ukrainian state-owned company Ukrspetsexport. A false end-user certificate certified that Burkina Faso would be the final destination of the cargo. The military equipment arrived in Liberia aboard a BAC-111 owned by Leonid Minin, an arms merchant and a close associate of Liberian President Charles Taylor.

14. Commercial/bank routes through which sales transactions and placement of proceeds occur.

Sierra Leone, a war-torn country with endemic corruption and weak government capacity, has few barriers to prevent the extraction of conflict commodities or combat illicit finance schemes. Diamond

smuggling, conflict timber schemes, and arms trafficking have long provided sources of illicit funds for Sierra Leone. Efforts by authorities in Sierra Leone to combat these kinds of crimes have been modest. The country's anti-money laundering efforts are correspondingly weak, fragmented, and do little to deter or detect money laundering.

Illicit finance methods in use in Sierra Leone reflect relatively standard mechanisms to launder funds through cross-border trade. The poverty of the country, the importance of the shadow economy, predominance of cash-based transactions, porous borders, and close proximity to jurisdictions that lack rudimentary anti-money laundering controls (particularly Liberia) provide abundant channels for laundering assets linked to the conflict commodity trade.

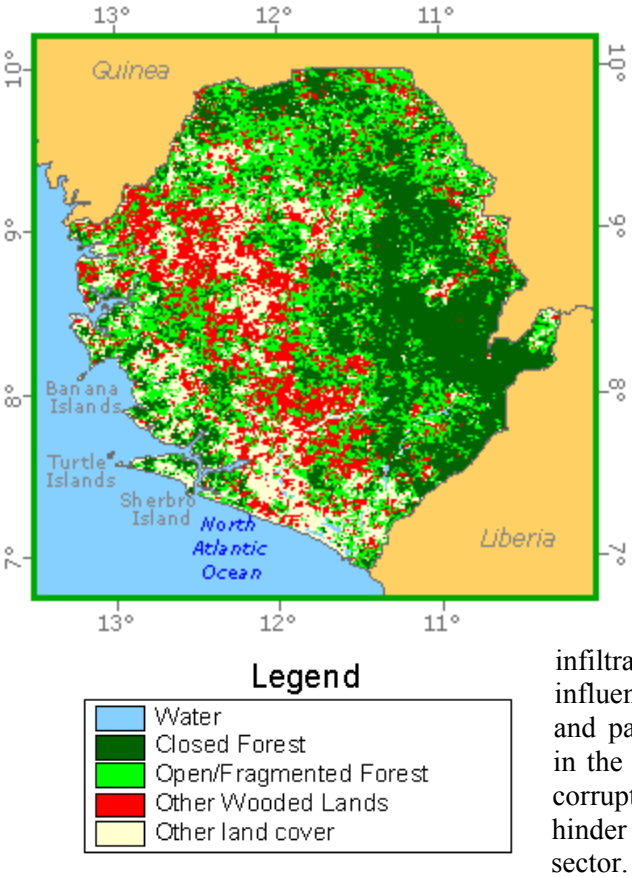
Factors Facilitating Illicit Finance Linked to Conflict Commodity Groups

Liberian Links to Illicit Finance Schemes. Large numbers of Liberian actors, almost all proxies of Liberian President Charles Taylor, operate in Sierra Leone and play major roles in illicit finance schemes. The Liberians play major roles in the magnitude and variety of these schemes. They have maintained sophisticated trafficking routes in Sierra Leone to transport diamonds abroad and routinely use the proceeds to purchase weapons (*The Christian Science Monitor*, 2002). Close associates of Taylor, who established their headquarters in Kono, oversee the network, and take advantage of Sierra Leone's weak administration and porous borders to transfer illicit assets into Liberia (*Africa News*, 2001). In fact, few illicit finance schemes or transfers of conflict commodities take place without the knowledge and involvement of Liberian agents living in Kono. This is true of all exports, especially diamonds and timber products. Once the illicit assets are transferred to Liberia, private banks, offshore financial institutions, and poorly policed air facilities are used to transfer the monies to neighboring, regional, and international financial centers. Especially troubling are the Liberian banks that maintain wire transfer services with jurisdictions routinely used by arms merchants, including Belgium, Kazakhstan, South Africa, Ukraine, and the United Arab Emirates. Funds transferred abroad from Sierra Leone through Liberian financial institutions are largely untraceable.

Bulk Diamond and Cash Smuggling. Groups linked to the conflict timber trade in Sierra Leone routinely exchange timber products for diamonds and cash. The diamonds and bulk cash are routinely used to purchase rice and other foodstuffs, medical supplies, and military equipment from high-ranking officials in Sierra Leone, mid-level Guinean military officers, and associates of Liberian President Charles Taylor. Trafficking routes established by the former Sierra Leonean military officer, Fodey Sankoh, through his RUF remain the primary means of smuggling diamonds out of Sierra Leone. Trusted couriers routinely transport the diamonds to safe houses in Liberia, where they are exchanged for cash, usually US dollars (Report Pursuant to UN Resolution 1306, 2000). These exchanges routinely involve diamond dealers from Belgium and, increasingly, India.

Front Companies. Individuals linked to the conflict timber trade in Sierra Leone routinely establish front companies in neighboring states to launder illicit funds, and provide a means for the reinvestment of such funds in seemingly legitimate enterprises. Front companies linked to the conflict commodity trade in Sierra Leone conceal illicit assets by falsifying invoices, end-user certificates, and contracts, or by using over- and under-invoicing schemes. An especially intimate Liberian connection exists with these deceptive financial transactions. A front company incorporated in Liberia can locate its executive offices in another country to facilitate concealing the names of corporate officers or shareholders. Paper trails uncovered by United Nations experts investigating the illicit diamond trade identified numerous shell companies in Liberia that oversee the transfer of illegal assets from Sierra Leone. These shell companies routinely forward correspondence to unregulated financial institutions, such as the International Bank of Liberia, Ltd., and Liberian government agencies, including the Liberian International Ship and Corporate Registry, which oversees the Liberian maritime registry. The shell companies do not maintain a physical

presence in Liberia. When the 2000 United Nations panel team conducted physical checks in Monrovia, they concluded "that there were no such companies, and no such addresses." (Report Pursuant to UN Resolution 1306, 2000)



A Nascent Banking System. Following cessation of the civil war, Sierra Leone is seeking to modernize its banks, investing in technology applications for payment and credit services, and information management. In consequence, transactions through the traditional banking sector have increased. To date, however, the modernization process has not been accompanied by the introduction of commensurate safeguards against money laundering through the banking system. Imposing safeguards against fraud and money laundering will not be easy and will, furthermore, require a transformation of the culture within the banking industry. Implementation of a comprehensive anti-money laundering regime would depend upon even broader changes in compliance cultures within Sierra Leone's financial institutions. Continued strengthening of banking supervision will be important to protect Sierra Leone banks from further infiltration by traffickers and money launderers, and limit the influence of traffickers, guerrillas, and their civil sector allies and partners. However, fundamental failures of supervision in the areas of safety and soundness, including toleration of corrupt behavior, weak internal controls, and poor auditing hinder efforts to assure oversight of Sierra Leone's financial sector.

Alternative Remittance Systems and Unlicensed Money Transmitters. Sierra Leone has an extensive alternative remittance and underground banking system. Given the low per capita GDP in Sierra Leone, these remittances bulk large. This system is particularly attractive to many Sierra Leoneans given the inadequacies and inefficiencies of the formal banking sector (Report Pursuant to UN Resolution 1306, 2000). The alternative remittance system incorporates no controls that would prevent its easy exploitation for money laundering. A further concern is the large number of unlicensed money transmitters who act as brokers or agents for individual customers funneling illicit assets abroad.

Corruption. Endemic corruption facilitates illicit finance schemes in Sierra Leone. The high rate of corruption is not surprising. Law enforcement agencies are grossly understaffed, and salaries—ranging from $50 to $75 a month—are inadequate to maintain a minimum standard of living. Especially troubling is the high-level corruption in customs agencies, which oversee efforts to combat cross-border illicit finance schemes. Customs officials routinely take bribes to accept false flight plans and end-user certificates. Furthermore, customs officials at border crossings routinely permit passage of known money launderers. With the cessation of hostilities, prosecution of unjust enrichment cases and asset forfeitures associated with cases of serious public corruption will continue to be an important element of securing reform in Sierra Leone's financial sector.

Illicit Use of Airport Facilities. Regional air surveillance capacities in Sierra Leone are weak, and few states in the region have the resources or the infrastructure to tackle smuggling. Regional air surveillance

capacities are totally inadequate in detecting arms merchants supplying military equipment to the region. Illegal registration of aircraft, usually accomplished by paying off airport inspectors, has resulted in a vast number of aircraft flying simultaneously under the flags of several jurisdictions. For instance, arms merchant Viktor Bout own planes with registrations from Burkino Faso, Liberia, Kazakhstan, and the United Arab Emirates.

South African Links to Illicit Finance Schemes. Diamonds are routinely transported from Sierra Leone to Liberia, where transports carry the illegally obtained diamonds to South Africa. The diamonds are laundered through defunct South African mines, and Liberian officials exchange their diamonds for military equipment, including spare parts and light weaponry. In a prominent case that highlights the close connections between diamonds extracted from Sierra Leone and South African firms, media reports detail travel by several high-ranking RUF officials and their wives to South Africa in February 2000. South African businessman Raymond Kramer partially financed this trip in return for control of significant mineral resource transfers, including precious stones, shipped from Liberia.

T*he United Arab Emirates and Belgian Link to Illicit Finance Schemes*. In recent years, Dubai has significantly increased the amount of diamonds it imports from Africa. Belgian diamond brokers trade more than 90% of the raw diamonds extracted in various parts of the world and over 50% of the world's cut diamonds. Their complicity in these trading networks is especially troubling. Exports of diamonds from Dubai to Antwerp increased from US $4.2 million in 1998 to US $149.5 million in 2001. Connections between Dubai and Sierra Leone involve a number of companies owned by arms-trafficker Viktor Bout. Bout's network of more than 50 planes, registered in numerous jurisdictions, operate largely out of the United Arab Emirates. Bout's flight plans usually originate from Sharjah Airport, an airport of convenience for travel to Sierra Leone and Liberia. United Nations inspectors believe that Bout's network of planes and freight-forwarding companies is intimately involved in smuggling armaments into the region, and transferring bulk diamonds and cash from Sierra Leone to neighboring jurisdictions.

Near Term Indicators to Monitor Sierra Leone's Anti-money laundering Efforts

Because Sierra Leone has so little capacity to combat money laundering, almost any anti-money laundering initiative would help build capacity. Especially important actions would include:

- Introduction of new laws and regulations to provide a comprehensive legal basis to combat money laundering, including provisions for asset seizure and asset forfeiture, and some specificity to predicate offenses, including crimes related to the trafficking of conflict commodities;
- Creation of a working system for suspicious activity reporting. Sierra Leone needs a mechanism to receive suspicious transaction reports, backed by staff and information databases to process and assess those reports;
- Information and training for bank personnel to make them aware of suspicious transactions and suspicious transaction reporting obligations;
- Development of procedures for banking officials to report suspicious transactions to their superiors. This needs to be accompanied by the identification of officers within the banks responsible for compliance programs;
- Development of dedicated investigative units that specialize in financial crimes whether fraud or money laundering, that have a close relationship with the financial intelligence unit;
- Broader measures to strengthen the fight against corruption, to register and regulate the alternative remittance systems, and steps to monitor and regulate the informal commodities exchange; and

- Cooperation with donors to develop a comprehensive approach to combating money laundering that is realistic in view of resource constraints while also exploiting knowledge about best practices that has accumulated in many other jurisdictions.

Conclusion

In January 2002, after the formal conclusion of the United Nations supervised disarmament, the Sierra Leone government announced that the country's decade-long war was over. To achieve lasting peace, however, Sierra Leone must immediately establish an operational commission to assiduously police the extraction of natural resources. Such a body will only succeed, however, with additional assistance from high-ranking officials, including the passage of a comprehensive legal framework with a broader range of predicate offences, more vigorous efforts to ensure the compliance of financial institutions with regulatory measures, more effective law enforcement and prosecutions, and a systematic approach to strengthening international cooperation.

15. Type of political regime in conflict timber countries.

Sierra Leone's political regime has undergone a series of violent changes in independence in 1962. Domestic political interaction has run the gamut from freely contested parliamentary elections to a single party state, interspersed with a liberal sprinkling of attempted and successful military coups.

16. Types of conflicts (e.g., rebellions, insurgencies, state-driven, etc.).

Conflict in Sierra Leone took the form of a long-running domestic insurgency that pitted Foday Sankoh, an ex-army officer, against officials of the country's elected government. In his decade-long effort to destabilized Sierra Leone, Sankoh sought both riches and the wherewithal to pursue his military adventures. He was abetted in these efforts by Liberian President Charles Taylor, whose aspirations for a major political role for his country in the immediate neighborhood depended in part on a continuing flow of profits from conflict commodities acquired both within Liberia and in neighboring countries. Sierra Leone's rich deposits of gem-quality diamonds figured prominently in Taylor's plans, as they did in Sankoh's. As feasible, the two military leaders increased their profits by adding conflict timber.

17. Configuration of military forces.

The military forces involved in the long series of conflict in Sierra Leone involved GOSL forces, Sierra Leonean irregulars under Foday Sankoh supported by Liberian irregulars. As the conflict wore on, expeditionary forces were dispatched by both the United Nations and ECOMOG, with the latter consisting primarily of Nigeria military units. Despite many reverses, these long-running peace efforts finally led to reestablishment of a semblance of civil peace in Sierra Leone in early 2002.

18. Interesting, significant, anomalous points concerning Sierra Leone.

Not applicable.

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