Targeting Natural Resource Corruption

Welcome! We will begin shortly.

This is a Zoom webinar. All participant videos are off and lines are muted, but please feel free to introduce yourself in the chat.

This event is made possible by the generous support of the American people through the United States Agency for International Development (USAID). The contents are the responsibility of the Targeting Natural Resource Corruption project and do not necessarily reflect the views of USAID, the United States Government, or individual TNRC consortium members.

TNRC Learning Series

Commodity supply chain traceability initiatives and their anti-corruption potential

Achiba Gargule
U4 Anti-Corruption Resource Center, Chr. Michelsen Institute

David Gehl
Environmental Investigation Agency

Jason Grant
World Wildlife Fund

Aled Williams
U4 Anti-Corruption Resource Center, Chr. Michelsen Institute (Moderator)

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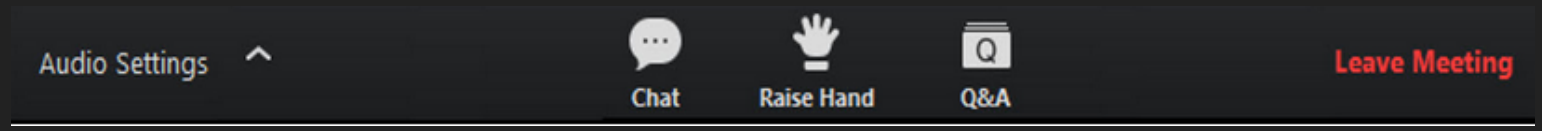
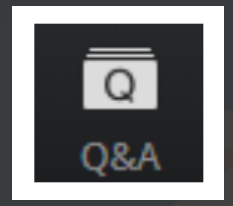
Get Engaged



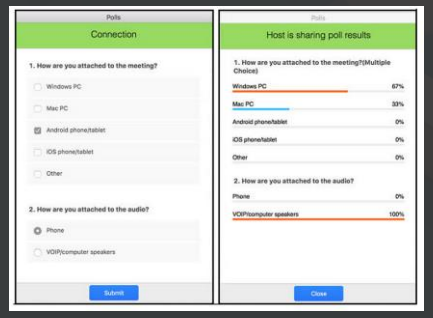


1. Pose questions at any time by clicking on the “Q&A” icon

1 *“Like” questions to “upvote” them for the moderator and/or answer from your experience*

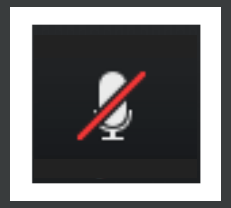
2. Exchange thoughts with other participants via chat

Introduce yourself and share your own insights and ideas in the chat window



3. Respond to polls as they are launched

Make your selections and remember to click “submit”!



4. All participants are muted

Given high attendance in this webinar, all lines will remain muted

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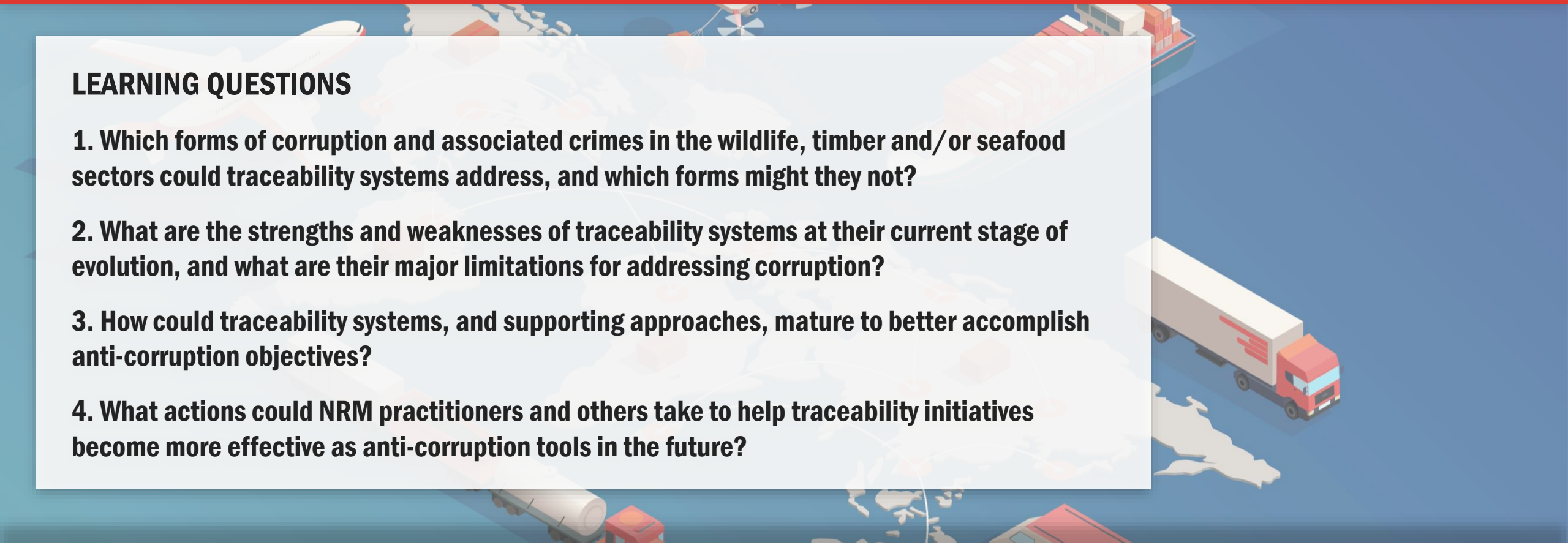

LEARNING QUESTIONS

1. Which forms of corruption and associated crimes in the wildlife, timber and/or seafood sectors could traceability systems address, and which forms might they not?

2. What are the strengths and weaknesses of traceability systems at their current stage of evolution, and what are their major limitations for addressing corruption?

3. How could traceability systems, and supporting approaches, mature to better accomplish anti-corruption objectives?

4. What actions could NRM practitioners and others take to help traceability initiatives become more effective as anti-corruption tools in the future?

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Achiba Gargule
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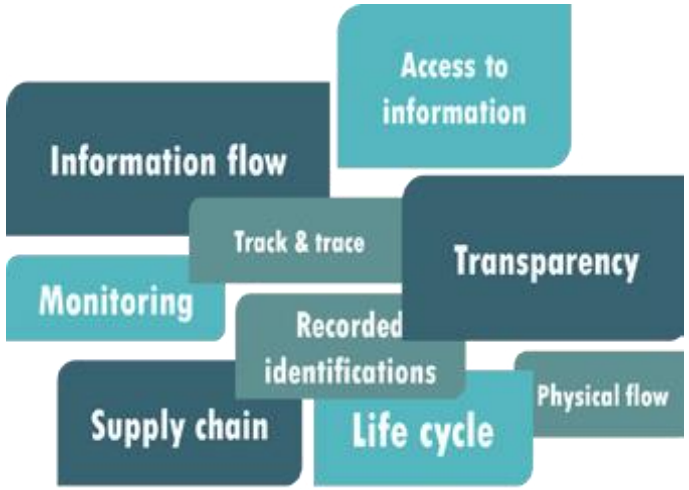
Targeting Natural Resource Corruption



What is traceability? And why is it important ?

Traceability is the ability to access any or all information about a product throughout its life cycle by using a system of recorded identifications.

Traceability also relates to the ability to **track and trace** along the supply chain.

Traceability is associated with some type of **quality assurance mechanism that imposes a set of standards and procedures** and specifies data to be recorded.

Traceability systems are intended to prevent the **laundering of unauthorized material.**

Traceability enables private sector actors to prove **responsible sourcing practices.**

Traceability information *may* provide **transparency** around associations among actors and between actors and places.

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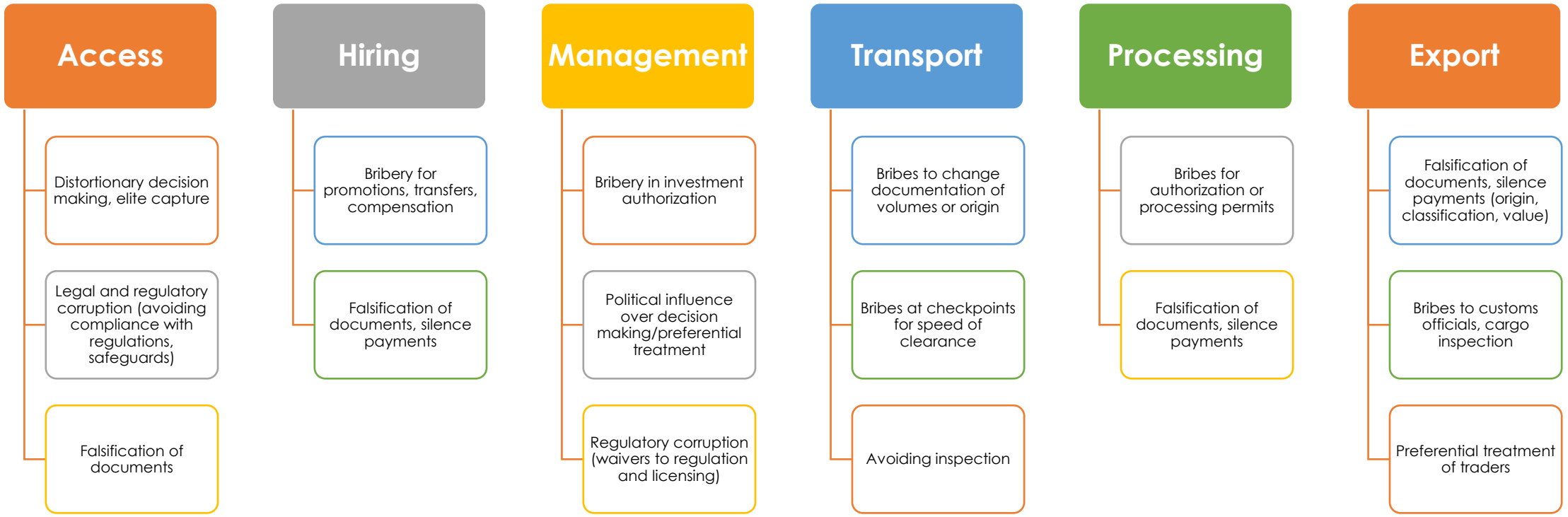
Traceability initiatives in source countries

Type	Sub-types/objectives	Examples	Actors involved
Mandatory traceability systems	Traceability imposed by law and legally required by governments in producer countries	CITIES, CCAMLR Catch Documentation Schemes	Governments, NGOs, private providers
Voluntary traceability systems	Sustainability scorecards of companies and governments, sector analyses and progress reports	SPOTT, WWF Palm oil Scorecard, WWF soy scorecard, Greenpeace Palm Oil scorecard, Forest 500, Supply Change, Behind the Brands	Mostly NGOs, private companies collaborating with NGOs
	Voluntary/Self-disclosure sustainability platforms	CDP, Global Reporting Initiative, Integrated reporting	
	Platforms linking individual downstream supply chain actors to conditions at production sites	Global Forest Watch, INPE, pastagem.org Kepo Hutan, SPOTT, One Map, OSAS, Produce and Protect, Landscape Accounting Framework, CIFOR Atlas, Environmental Justice Atlas, Land Matrix, Landmark, IAN Risk	NGOs, some private providers
	Platforms for which additional quality assurances can be provided to consumers (includes Trade data, Bills of Lading, customs data, public and private supply chain logistics data, chain-of custody certification)	Wilmar´s Open Palm, KnownSources, Trase, Geotraceability, Sourcemap, Provenance	Mostly private providers, some NGOs
	Territorial and jurisdictional mapping and regional scorecards of environmental and social impacts of commodity production, rights and ownership issues	Responsible Timber Exchange, BigChainTool, Starling, Global Forest Watch Commodities, Trase, Terras, PalmTrace, Agrotools	NGOs, private providers

How corruption can affect source country commodity supply chains



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Traceability: Anti-Corruption Potential

1. Traceability initiatives hold great **potential for improving transparency** along NRM supply chains by:
   - Facilitating the development of monitoring systems;
   - Allowing access to information;
   - Enabling NRM products to be traceable **by CSOs, the public, etc;**
   - Improving the reliability of sustainability claims.
2. Traceability **can complement existing anti-corruption initiatives** along supply chains, providing an opportunity to strengthen anti-corruption efforts.
3. Traceability initiatives have the potential to **unite multiple stakeholders** (business, government, civil society organizations) around a common goals and responsibilities e.g., anti-corruption.

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POLL

Do you work on a CSCTI?
If yes, do you think your CSCTI has AC potential?

a. Yes
b. No
c. Not sure

Practical challenges

- **Evidence of effectiveness lacking:** Many are recent, diverse in their scope. Timelines for implementation and level of transparency limits the availability of evidence on their outcomes, usefulness and scalability. Case of Cocoa in West Africa.
- **Traceability is not a substitute for effective NRM governance:** Effective traceability initiatives by private actors depend on public policies that can help overcome their unintended consequences (corruption, low and selective adoption etc.). Important role of CSOs to mediate the risks of private sector overreach when set against weak government institutions and regulations. Case of Dominican Republic Export Processing Zones.
- **Collaboration challenges:** Lack of common goals and responsibilities especially between public and private actors which is strongly related to the lack of benefits of traceability. Wohlrab et el. Multiple case studies.
- **Costs:** High financial costs and technical expertise in establishing and maintaining traceability systems. Limits the supervisory role of developing country public sector personnel.

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Jason Grant
Manager, Corporate Engagement, *Forests, World Wildlife Fund*

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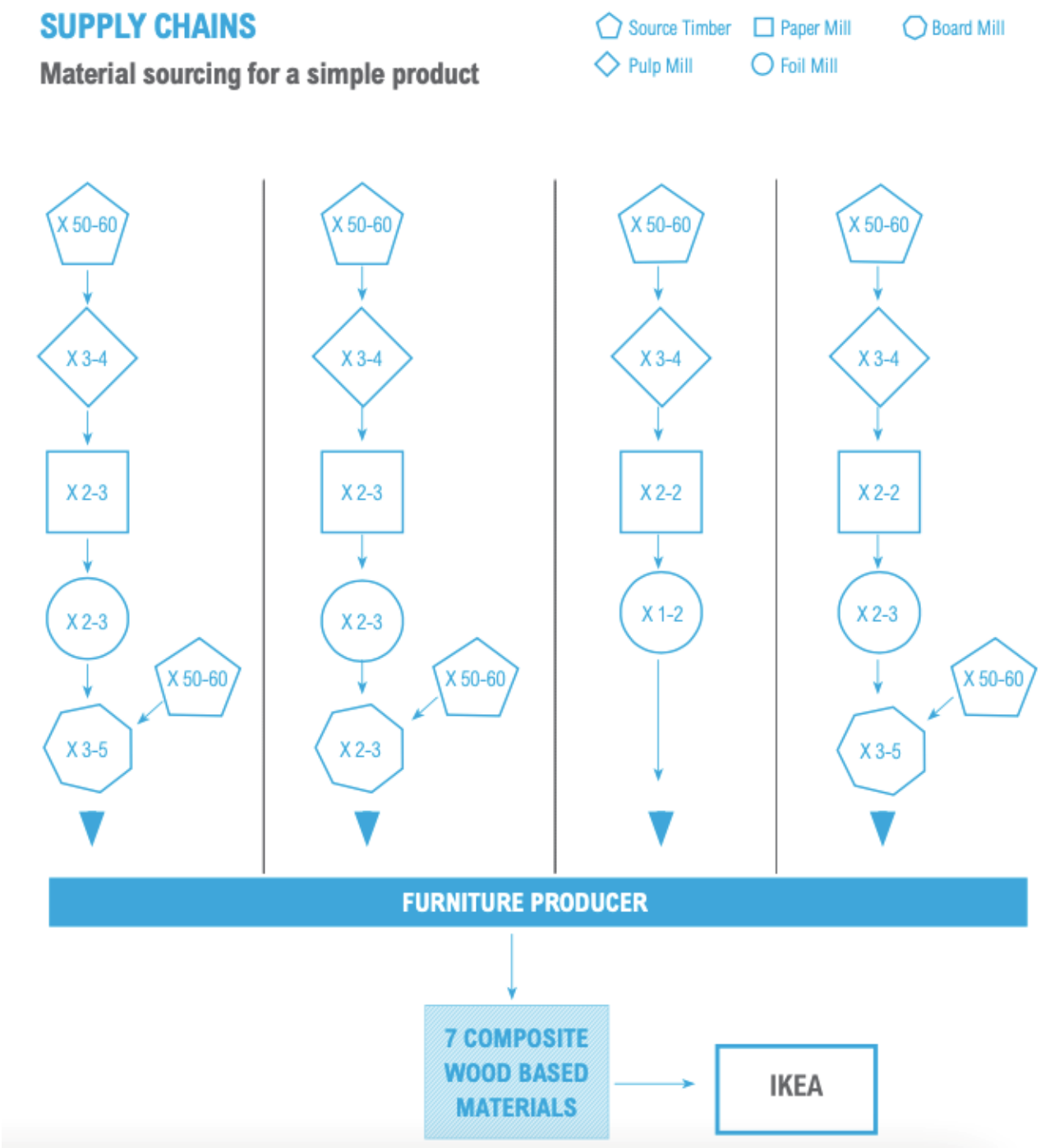
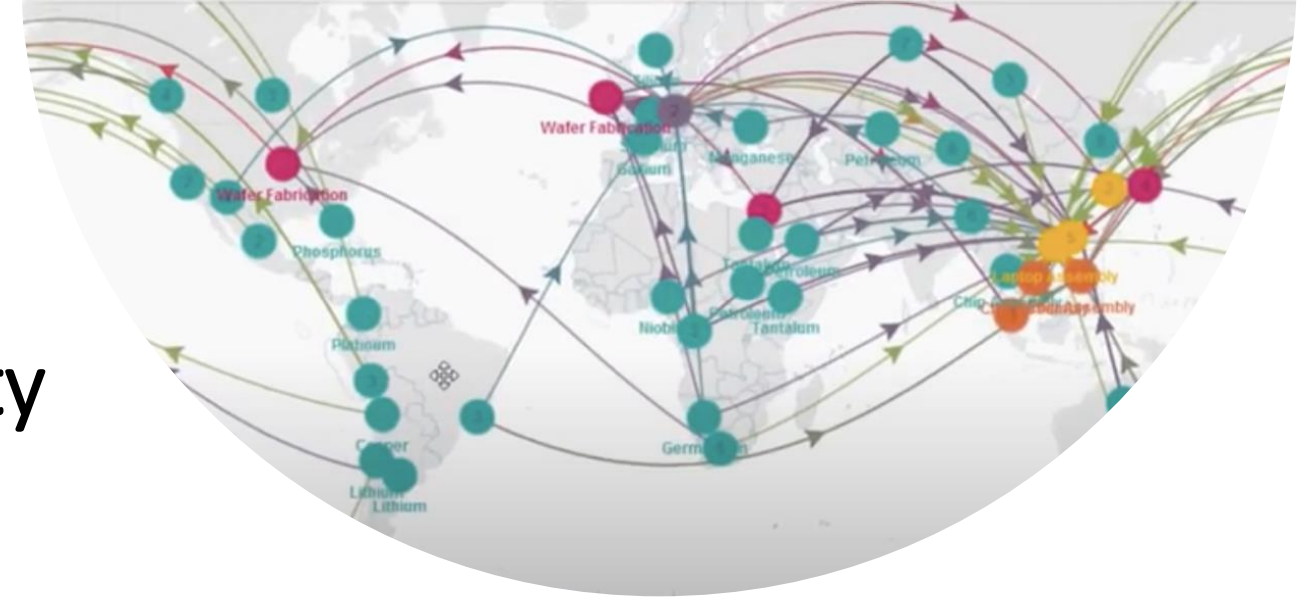
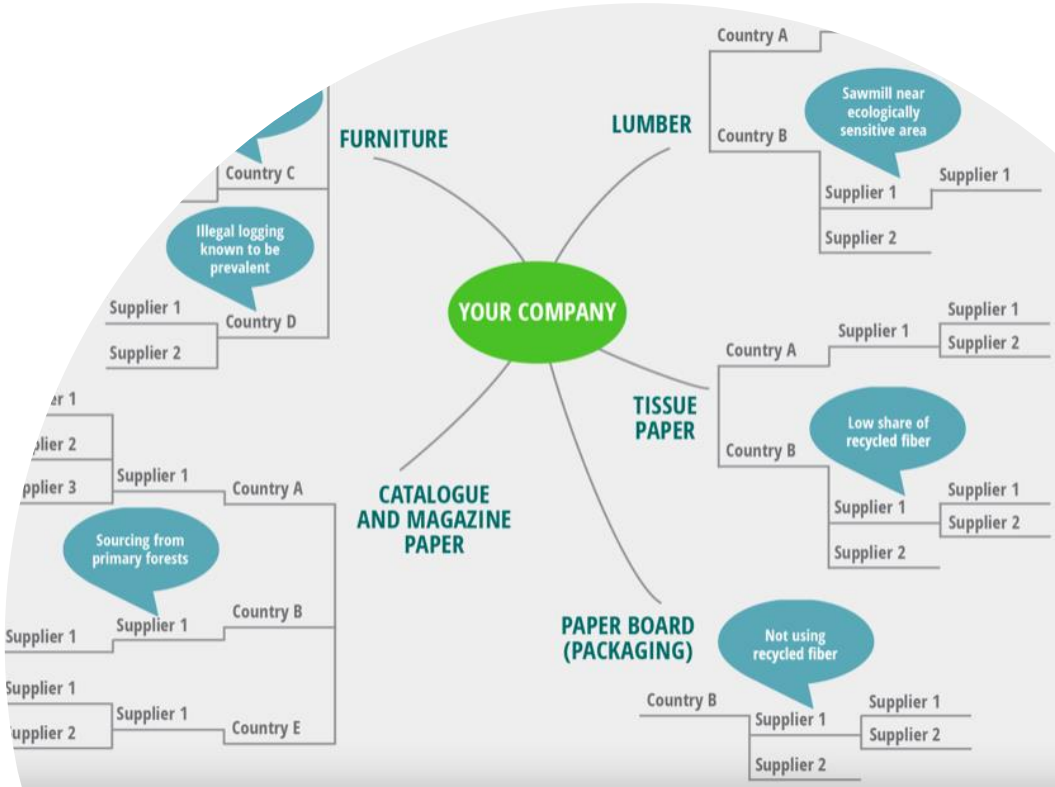
Traceability in the timber sector is <u>hard</u> to do





Two types of traceability systems: #1

- "Voluntary" or "commercial," e.g., Sourcemap, Global Traceability, Xylene
  - Used mostly by big companies at the end of supply chains to fulfill sustainability commitments, manage risk, comply w/ law
  - Discovery process to generate supply chain maps
  - Once all suppliers are on platform, transactions can be recorded and tracked



Two types of traceability systems: #2

- “Mandatory” or “government,” e.g., Indonesia, Brazil, Ghana, Liberia, Cameroon, Central African Republic, Romania, etc. to support law enforcement, revenue collection
- Incorporate a variety of datasets along supply chain:
  - Forest inventories
  - Timber harvest
  - Log transport
  - Primary manufacturing
  - Subsequent transport, secondary manufacturing, export (sometimes)

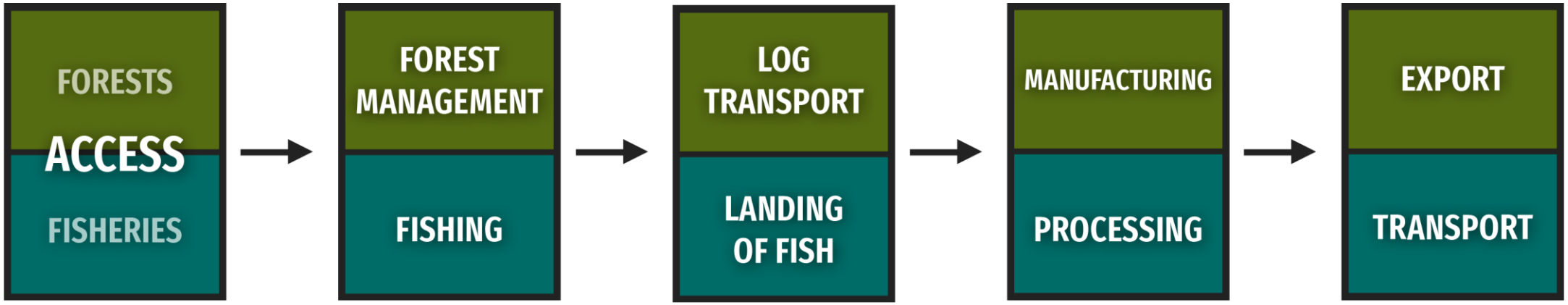
How they work

- **Both types of system…**
  - …collect and store data on the what (e.g., species & volume), when, who and to whom
  - …seek to verify the logical flow of timber products / ensure that volume does not increase at any stage
  - …are intended to detect anomalies through reconciliation at successive points in a supply chain

- **Voluntary systems…**
  - …start tracking data at the primary manufacturing level and end at user

- **Mandatory systems…**
  - …begin at the timber harvest level, often with application of paint, bar codes or tags, and end at border

How traceability systems could deter crime & corruption



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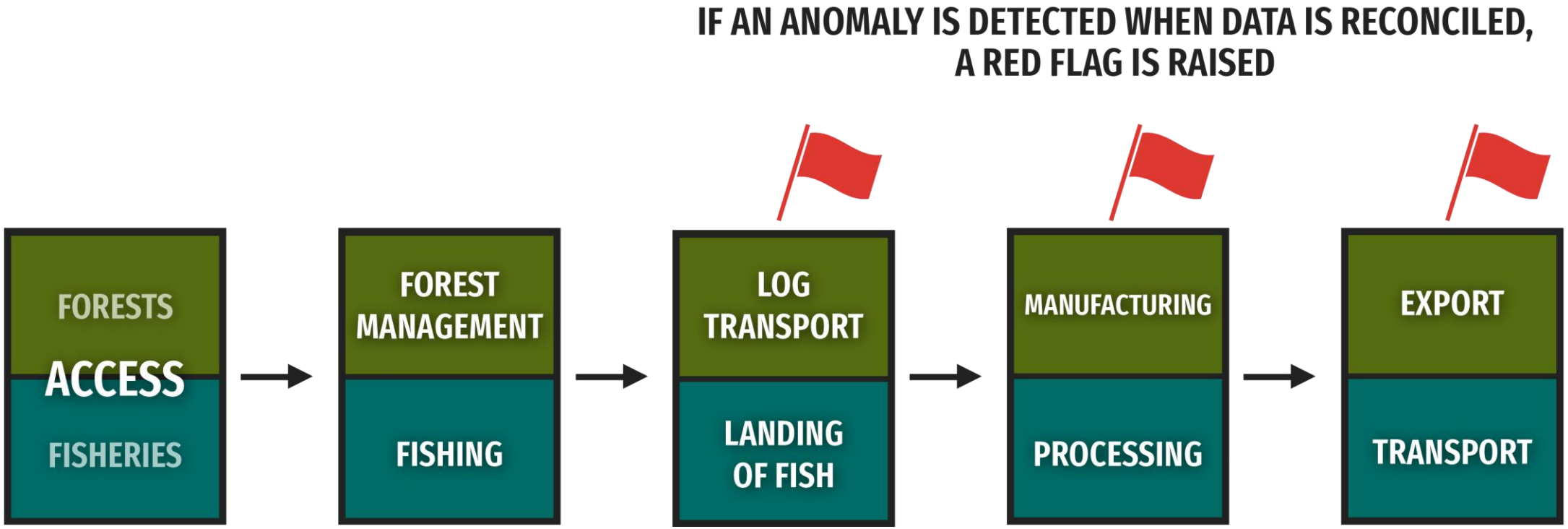
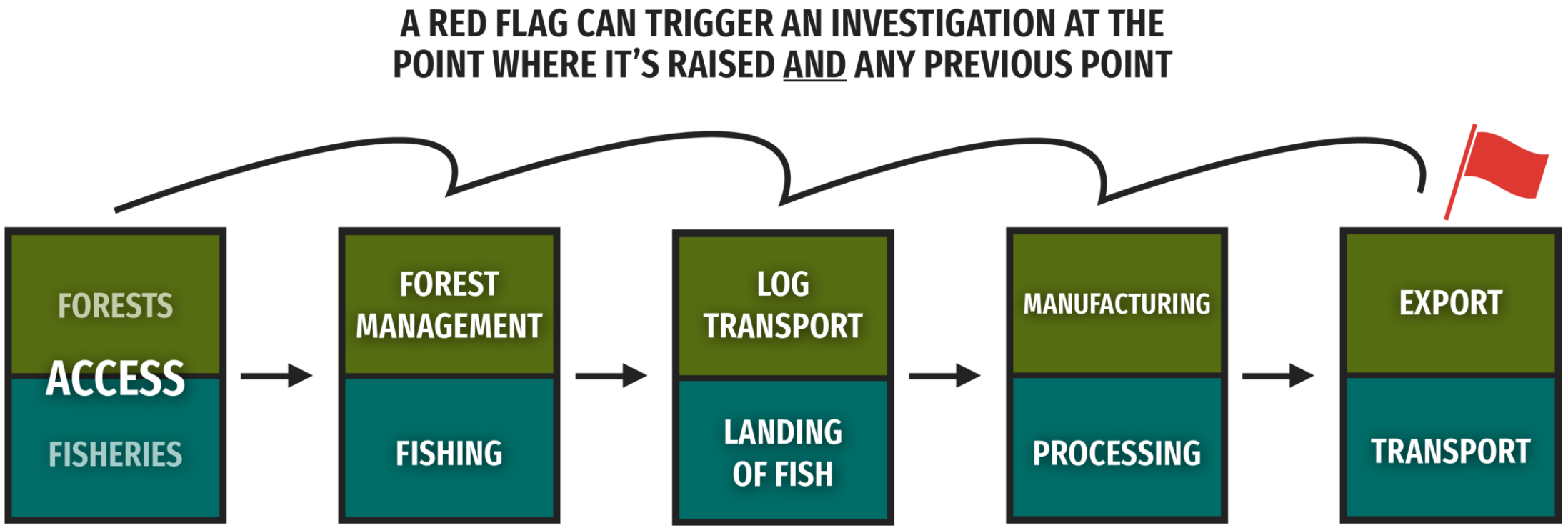
How traceability systems could deter crime & corruption



WWF

How traceability systems could deter crime & corruption



WWF

Limitations as anti-crime/corruption tools

- Key vulnerabilities
  - Voluntary systems – reliance on supply honesty + cover only subset of total supplier inputs / outputs
  - Mandatory systems – criminals may discover and exploit system flaws, corrupt officials may not act on information

- Forest certification schemes' CoC systems do not provide traceability

PEFC FSC

- When they fail, traceability systems cover for and *may even encourage* laundering

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Effectiveness as anti-crime/corruption tools

- Voluntary systems – relatively limited – threat of loss of business
- Mandatory systems – stronger provided there are effective investigations and law enforcement

[Ghana's Wood Tracking System] has reduced opportunities for corruption; all directors of the Forestry Commission and certain managers have supervisory access to the WTS database, which means they can identify the individuals responsible for red-flagged data, and all actions in the database are associated with a named individual, leaving an audit trail. This is backed up by the existence of penalties for staff who engage in misdemeanors. (Chatham House, 2020).

- Both can be strengthened w/ auditing & complementary technologies
  - Tagging
  - Virtual monitoring
  - Transparency systems
  - Timber testing

Take-aways & recommendations

- The two systems' information domains intersect but don't exchange data – *they should*
  - Linking traceability to transparency is critical
    - E.g., information on Ghana Wood Tracking System is made public through Ghana Timber Transparency Portal
    - Fora and/or standards to share & drive best practices would help
      - Efficacy will always be conditional upon the will and capacity of authorities to act upon information provided
      - Mandatory systems will always have more potential – illegal wood trade must be stemmed at the source

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David Gehl
Traceability and Technologies, *Environmental Investigation Agency*

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Traceability and transparency are essential

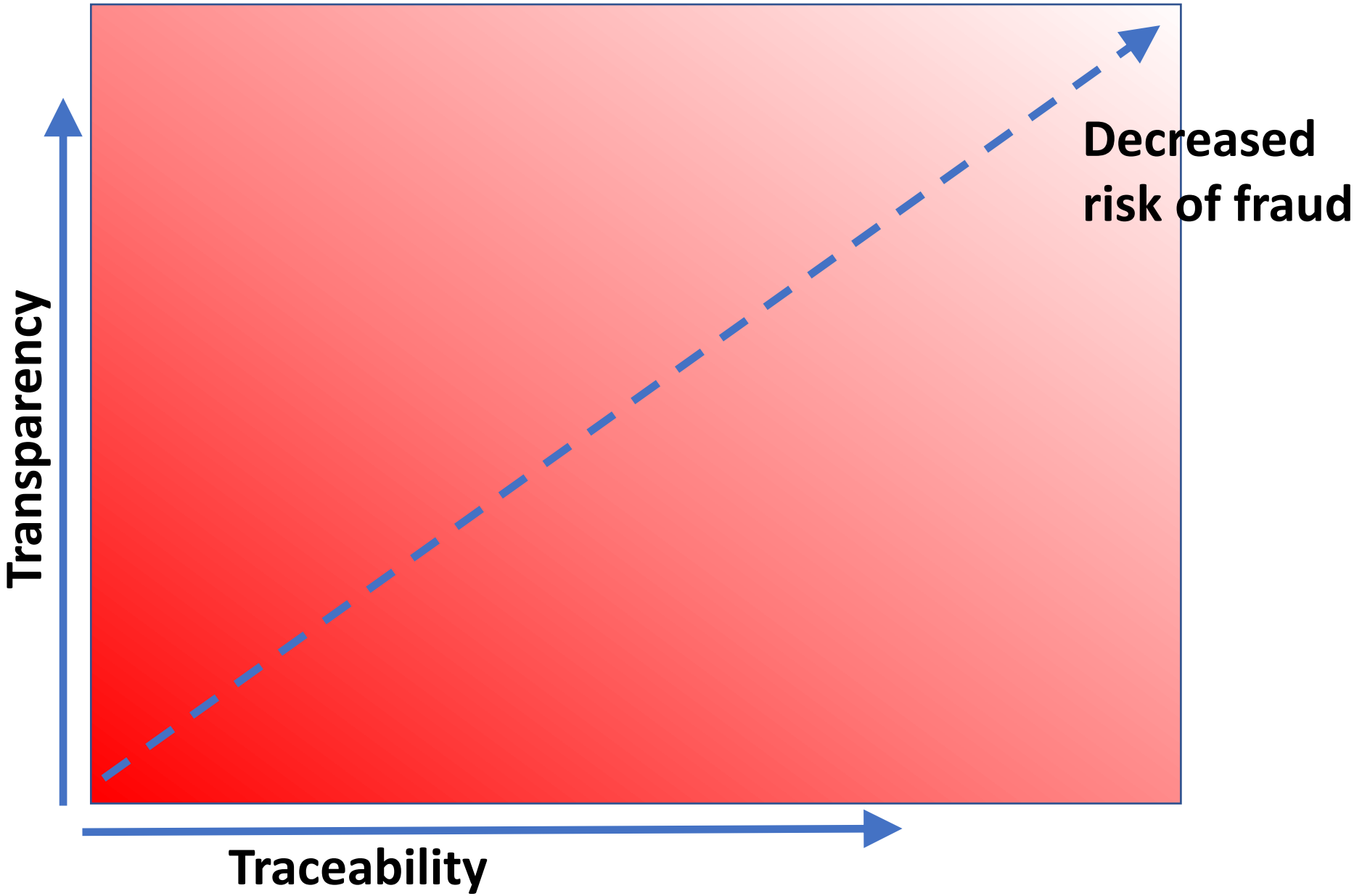
- Traceability and transparency need to be the starting point – you can't fight corruption effectively unless you have both

- Necessary pre-conditions to apply other standards: governance, corruption, forced labor, illegal timber, human rights, sustainability

- To conduct Due Diligence / Due Care on a supply chain, companies need to understand the **degree and effectiveness** of traceability and transparency present in a country

environmental investigation agency

Traceability + transparency = less fraud risk



Monitors are Essential

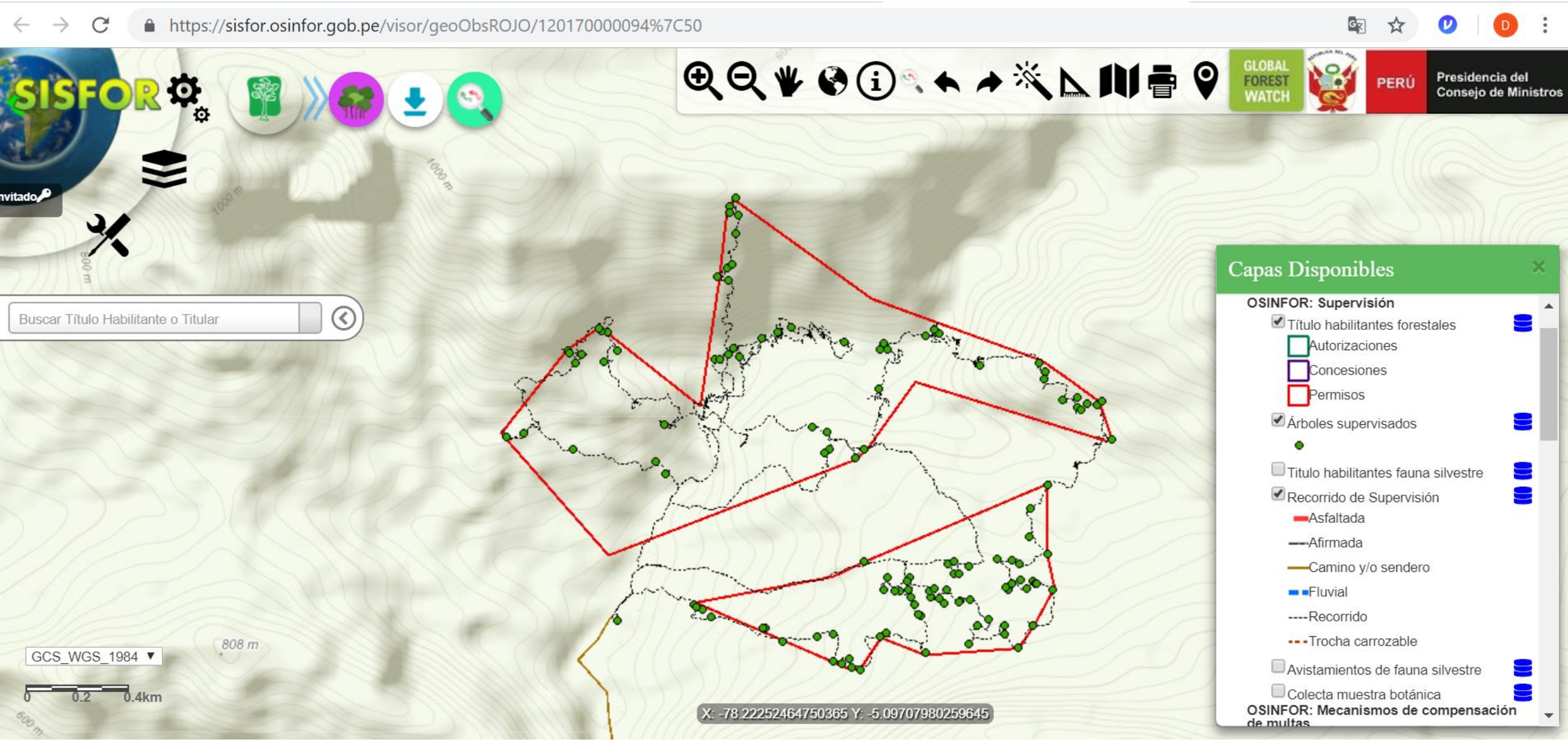
It’s not enough for this data to exist – it has to be used

All three types of monitors must be present:

- Independent **government** supervisors: e.g., OSINFOR in Peru
- **Civil society** – both official and unofficial Independent Monitors
- **Public**

Monitors must be: **mandated, empowered,** and **defended**

Peru: OSINFOR



Brazil: limits of traceability in the absence of transparency and oversight

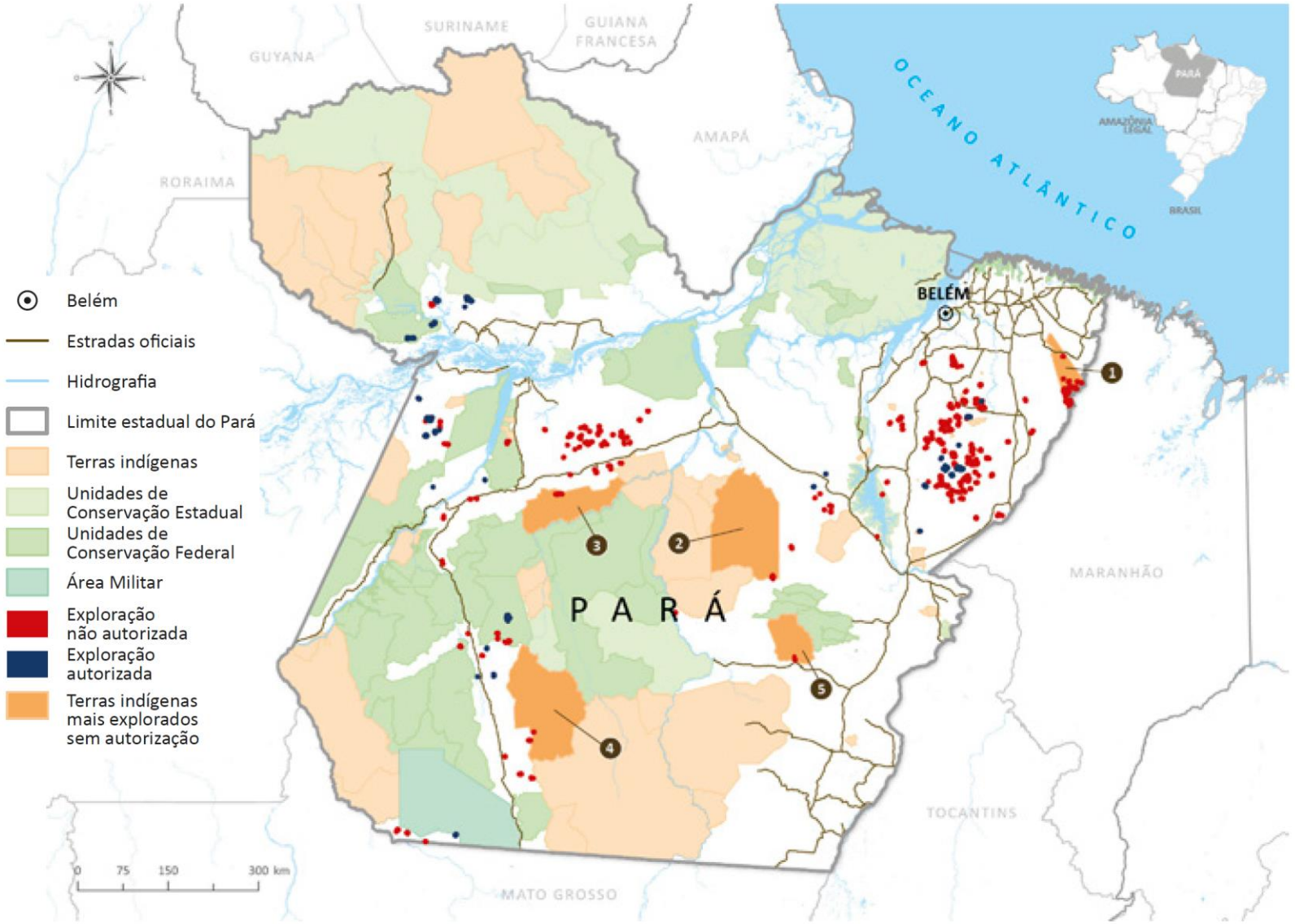
- Brazil – the largest direct trade flow of tropical timber into the US
- GP Brazil has traced ipe timber sold to the US and EU back to the forest, and found that over 70% was illegally sourced

Ipe decking

- Official timber traceability system - in theory, tracks wood from harvest to export
- Transparency was improving, but now in reverse
- Enforcement and oversight has decreased due to lack of funding or political will
- System being gamed in many ways:
  - **Falsifying inventories** of high value species to facilitate timber laundering – for example obtaining logging permits for areas where no logging occurs, or inflating inventories in areas where logging is occurring
  - **Canceling** electronic transport **permits after transport is complete** to regain timber credits
  - Providing **incorrect logging permit information** on transport permits following timber processing

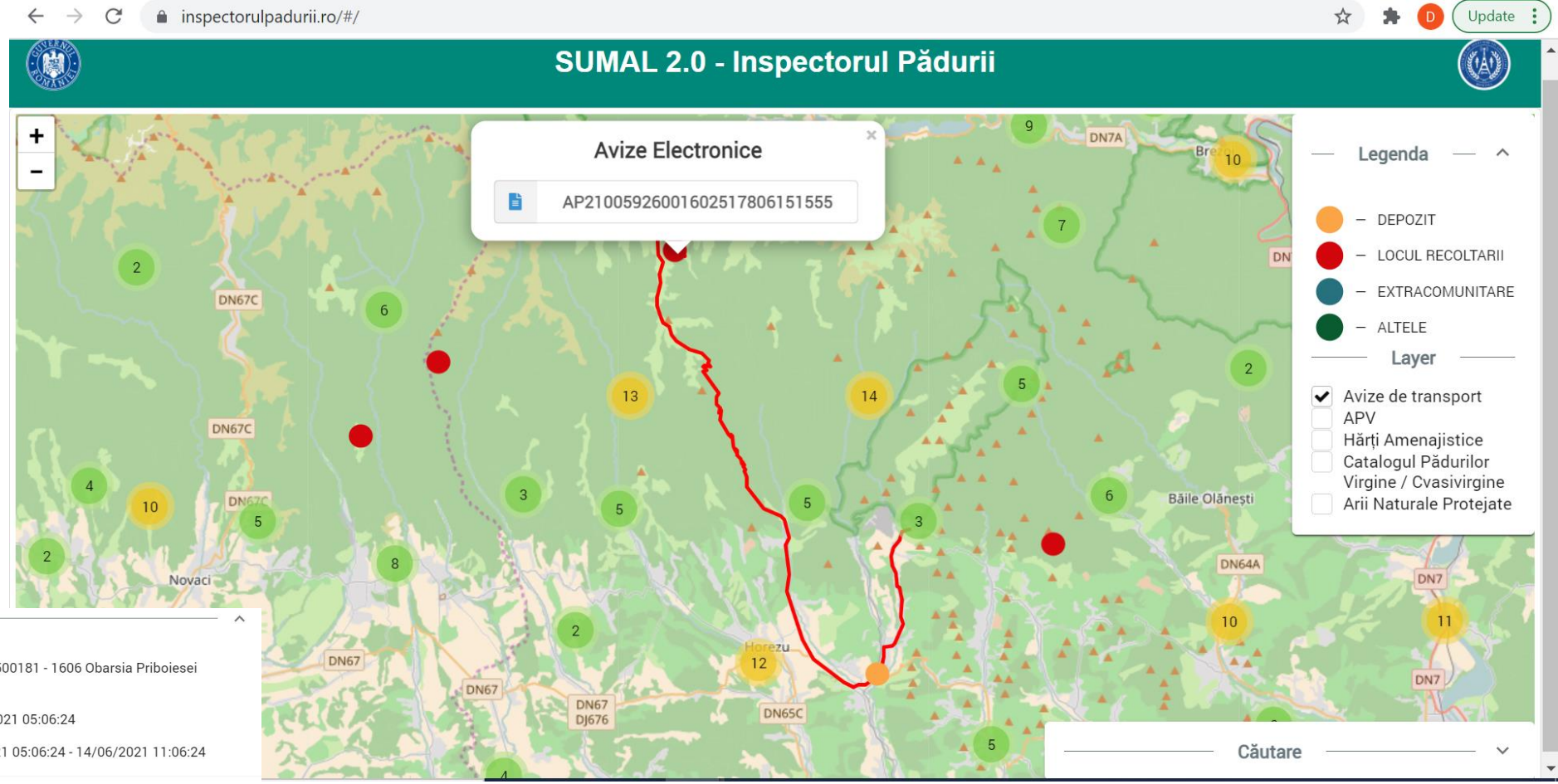
Ipe

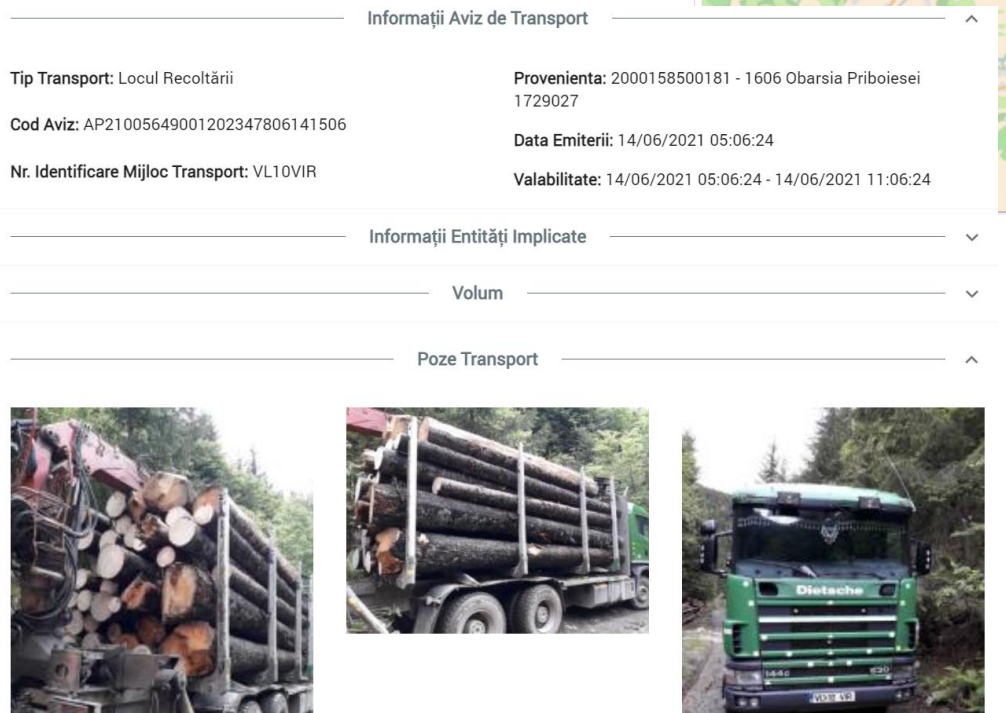
Brazil: Illegal logging in Indigenous Territories, 2017-2018 (3,104 ha)



From Imazon (2020), [Sistema de Monitoramento da Exploração Madeireira (Simex): Estado do Pará 2017-2018]

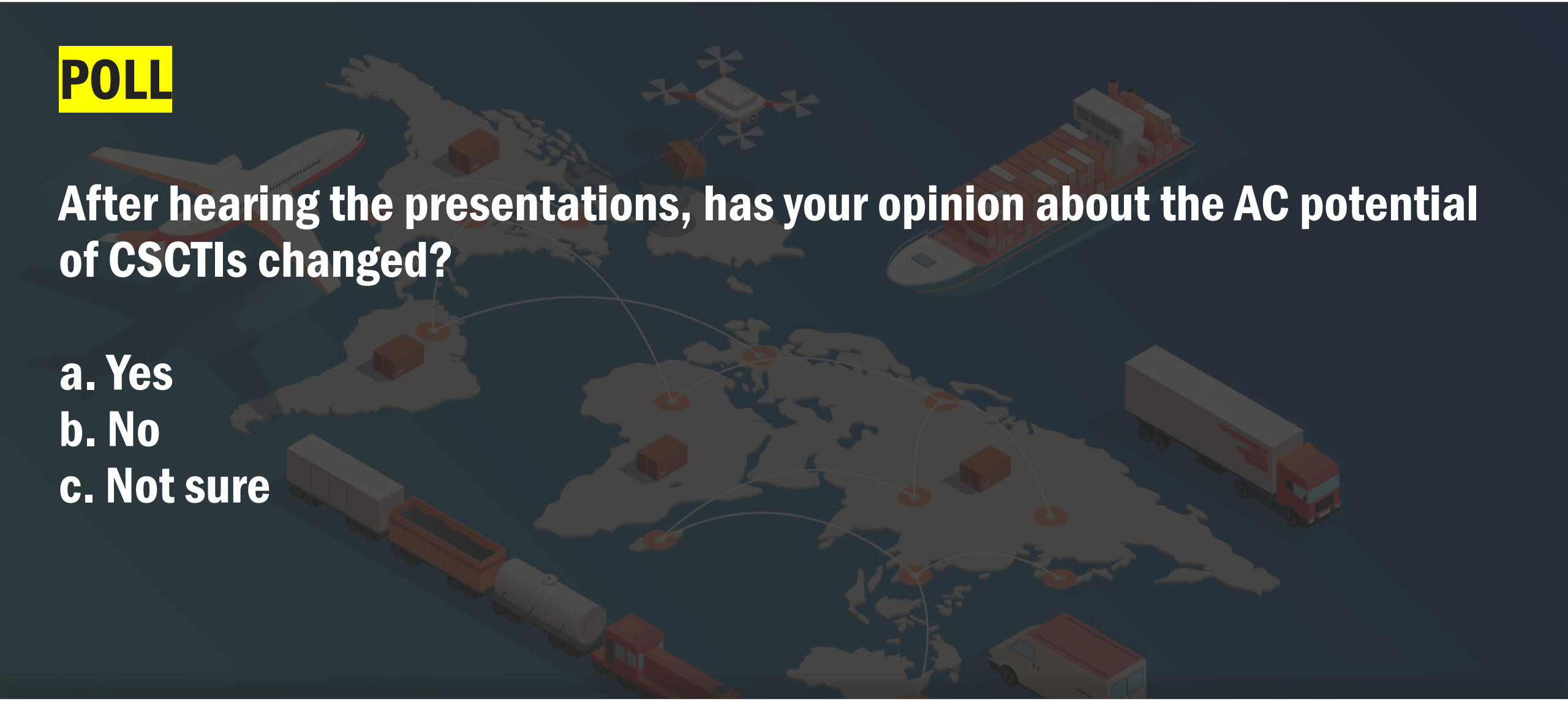
Romania: SUMAL and Forest Inspector





- Real-time, open access, easy to understand (if you read Romanian)
- New SUMAL 2.0 - more comprehensive, but transparency still falls short of national legal requirements

eia environmental investigation agency



POLL

After hearing the presentations, has your opinion about the AC potential of CSCTIs changed?

a. Yes
b. No
c. Not sure

Sources

1. Amengual, M., 2010. Complementary labor regulation: The uncoordinated combination of state and private regulators in the Dominican Republic. *World Development*, 38(3), pp.405-414.
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5. Norton, T., J. Beier, L. Shields, A. Househam, E. Bombis, and D. Liew. "A guide to traceability: A practical approach to advance sustainability in global supply chains." *The United Nations Global Compact and BSR Report* (2014).
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7. Wohlrab, Rebekka, Eric Knauss, Jan-Philipp Steghöfer, Salome Maro, Anthony Anjorin, and Patrizio Pelliccione. "Collaborative traceability management: a multiple case study from the perspectives of organization, process, and culture." *Requirements Engineering* 25, no. 1 (2020): 21-45.

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Targeting Natural Resource Corruption

Harnessing knowledge, generating evidence, and supporting innovative policy and practice for more effective anti-corruption programming

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