

Action Plan to Combat Illegal Activities in Forest and Wood Processing Sectors in Bosnia and Herzegovina

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Introduction

Recent developments

The fall of the communist regimes in Central and Eastern Europe exposed the governance structures to a situation they had not been built for. To respond to new demands, reforms were initiated and implemented with considerable success but in most countries the transition period was characterized by some degree of instability. Among many challenges, the governments had trouble coping with the rise of illegal activities paralleling the new freedoms. The ex-Yugoslav republics including Bosnia and Herzegovina faced an exceptionally difficult situation as the change of regime was followed by a period of war in 1992-1995.

The forest sector in Bosnia and Herzegovina was not spared from this development; illegal logging was rampant during and immediately after the war. After the conflict, control mechanisms were restored and protection of forests against theft became more effective. However, the weakness of legal structures, troubled economy and low living standards gave rise to another type of illegality involving corruption of public officials. In the forest sector, corruption has been associated mainly with timber sales from public forest enterprises.

While the extent of illegal activities in the forest sector is not precisely known, there is a consensus among stakeholders that the problem warrants special attention. To recognize the seriousness of the issue and to manifest its commitment to address it, the entity Governments of Bosnia and Herzegovina has formulated an Action Plan to combat Illegal Activities in Forest and Wood Processing Sectors. The Plan will be implemented in accordance with a fixed time schedule and progress will be monitored in collaboration with all relevant stakeholders. The timeframe will be agreed in a state level stakeholder workshop to be held in March 2006.

Scope

The Action Plan aims to combat all types of illegal activities in the forest sector including theft and corruption-related crime. In terms of causing damage and financial losses, the latter type appears more serious. It may involve, *inter alia*, circumvention of forest management regulations, manipulation of timber data and accounts of public forest enterprises. To secure a clear and sharp focus, the Action Plan is for now confined to combating illegalities associated with management of state forests and public forest enterprises.

Strategy

The Action Plan consists of two main lines of action: (i) improvement of external control, and (ii) internal development of public forest enterprises. The notion

underpinning this approach is that illegal activities cannot be fully eliminated relying only on regulation; lasting results can be achieved only if the enterprises themselves demonstrate a will to pursue this goal. Another key strategy is to increase the cost of illegal activities through improved control and provide incentives for legal suppliers (e.g. by improving market access through certification)

It is also recognized that the combat against illicit activities is not an isolated activity. Instead, it will be coordinated with broader forest sector policies and more general pursuits to improve governance. For example, expanded use of competitive bidding would increase transparency of timber sales but this is contingent on a decision to expose the remaining state-owned wood processing industries to competition or, ultimately, to privatize them. Establishment of centralized management structures facilitates control of illegal activities but it can also be seen to parallel efforts to improve management efficiency. Effectiveness of law enforcement in the forest sector would benefit from reforms in the police force and strengthening of the judiciary.

The Action Plan has been formulated to accommodate the difference in conditions in the two entities of Bosnia and Herzegovina, the Federation of Bosnia and Herzegovina and Republika Srpska. Distinction at entity level is necessary, as the authority to manage natural resources is vested in the entity level. The need to differentiate between approaches comes mainly from differences in administrative structures, regulations for timber sales and measures already undertaken by the entity governments.

Implementation of Action Plan

Activity	Responsibility for Implementation	Timeframe
<u>External Control</u>		
<p>(i) Define the institutional structure for control functions in forest sector</p> <p><i>In Federation of B&H:</i> <u>Option 1:</u> Implement the proposal to dismantle Cantonal Forest Inspection Service and transfer all inspection staff and associated resources to Forest Inspection Service (FIS) at entity level; <u>Option 2:</u> Implement the proposal to establish General Inspection Service at entity level incorporating all inspection services; establish a separate unit for natural resources; <u>Option 3:</u> Maintain the current structure with Cantonal Inspection Services;</p> <p><i>In Republika Srpska:</i> <u>Option 1:</u> Keep FIS under Ministry of Agriculture, Forestry and Water Management; <u>Option 2:</u> Establish General Inspection Service at entity level incorporating all inspection services; establish separate unit for natural resources;</p>	Entity Governments	June 2006
<p>(ii) Clarify the responsibilities of FISs and other inspection services (e.g. Market and Finance Inspection) in both entities to eliminate gaps and overlap in controlling timber supply and timber processing;</p>	Entity Governments	June 2006
<p>(iii) Increase staff, staff training and other resources available to FISs in both entities to match their mandate and responsibilities;</p>	Proposals to be submitted by MAWMF/MAFWM	December 2005

		Approval by Entity Governments	March 2006
(iv)	Continue collaboration between FISs and EUFOR in both entities to carry out surveillance of wood transport and supply of timber to wood processing industries; improve coordination arrangements and develop control procedures further.	Proposal for improved collaboration to be submitted by EUFOR to FISs	March 2006
(v)	Collaborate with EUPM to link the on-going reorganization of police force to the combat against illegal activities in the forest and wood processing sectors;	Proposal for collaboration to be submitted to EUPM by MAWMF/MAFWM	June 2006
(vi)	Collaborate with EU-CAFAO to strengthen Customs Service with respect to detecting exports of illegal timber and reporting on timber exports and imports; Strengthen the state level phytosanitary inspection service under MAWMF/MAFWM tasked to control exports of wood and wood products;	Proposals to EU-CAFAO and BiH Government to be submitted by MAWMF/MAFWM;	June 2006
(vii)	Collaborate with any efforts to reform and strengthen the prosecution service, judiciary to ensure that combat against forest crime is duly considered in these activities ¹ ;	Proposal for collaboration to be submitted by MAWMF/MAFWM to respective Ministries of Justice	September 2006
(viii)	Conduct an independent assessment on the type and extent of illegal logging and exports of illegal timber; assess the amount of financial losses to government; combine the assessment with a financial audit	Formulation of proposal by MAWMF/MAFWM	December 2006

¹ *In Federation of B&H*: minor violations not to be transferred to prosecution process, introduction of fines to be issued by the police/FIS.

<p>(ix) Conduct an independent census and assessment of wood using companies</p>	<p>Formulation of proposal by</p> <p><i>In Republika Srpska:</i> Market Inspection Service under Ministry of Trade and Tourism</p> <p><i>In Federation of B&H:</i> Ministry of Energy, Mining and Industry?</p>	<p>December 2006</p>
<p>(x) Conduct an independent evaluation of the effectiveness of the control mechanism in the forest sector including the functioning of prosecution service and judiciary.</p>	<p><i>In Republika Srpska:</i> Supreme Auditors Office</p> <p><i>In Federation of B&H:</i> Tax Office with support from international community</p>	<p>In 2008</p>
<p><u>Internal Development of State Forest Enterprises</u></p>		
<p>(i) <i>In Republika Srpska:</i> Implement a reform strategy including proposals to reduce the number of Forest Management Units (FMUs) and centralize management structure to enable effective control over FMUs;</p>	<p>Srpske Sume</p>	<p>Underway</p>
<p>(ii) Dismiss, reshuffle and recruit new personnel as necessary to ensure that the Enterprises' management staff is competent and untainted by illegal activity;</p>	<p>Srpske Sume & Cantonal Forest Enterprises</p>	<p>Upon completion of financial audits</p>
<p>(iii) Apply centralized competitive bidding and other market-based pricing mechanisms to timber sales to all private enterprises; expand their use in sales to state-owned wood processing enterprises so that by end of 2008 at</p>	<p>Srpske Sume & Cantonal Forest Enterprises</p>	<p>Apply immediately</p> <p><i>In Federation of B&H:</i> process underway</p>

<p>least half of the supply originating from state forests is sold applying these methods; by end of 2009 this proportion shall increase to at least 70 per cent;</p>	<p>Srpske Sume & Cantonal Forest Enterprises</p>	<p>Apply immediately</p>
<p>(iv) Ensure strict adherence to regulations concerning public procurement except in selected cases where sufficient number of service providers cannot be identified with reasonable effort or quick action is necessary (e.g. engagement of sub-contractors for harvesting disease-infested areas);</p>	<p>Formulation of guidelines for exceptions by MAWMF/MAFWM in collaboration with Ministry of Justice</p>	<p>June 2006</p>
<p>(v) Limit opportunities for financial fraud by</p> <ul style="list-style-type: none"> a. Requiring collection of debts within reasonable timeframe and refusing new supplies; b. Stopping timber sales to unlicensed sawmills; c. Banning barter with commercial enterprises; 	<p>Srpske Sume & Cantonal Forest Enterprises</p>	<p>Apply immediately</p> <p>Already applied by Srpske Sume</p>
<p>(vi) Introduce principles of best practice Corporate Governance to management of State Forest Enterprises; develop management systems (including those ensuring legal liability of Directors), internal control mechanisms and procedures that promote sustainability of forest operations and transparency (e.g. application of standards for forest management and chain of custody, certification of these systems, accounting/recording, information management);</p>	<p>Srpske Sume & Cantonal Forest Enterprises</p>	<p>Start development process in mid-2006</p>

(vii)	Establish a system for producing and disseminating relevant information on forest management and timber sales (e.g. list of planned harvesting sites, list of clients and amounts purchased by them, detailed Annual Report etc.) in a form accessible to the public (e.g. on the Internet ²);	Srpske Sume & Cantonal Forest Enterprises	End of 2006
(viii)	Develop and institutionalize procedure for reviewing forest management in State Forest Enterprises in collaboration with stakeholders ³ ;	Srpske Sume & Cantonal Forest Enterprises	End of 2007
(ix)	Conduct an independent evaluation of the impact of internal development programmes in state forest enterprises .	<i>In Republika Srpska:</i> Supreme Auditors Office with support from international community <i>In Federation of B&H:</i> Tax Office with support from international community	End of 2008
<u>Parallel and Supporting Activities</u>			
(i)	Conduct National Forest Inventory	MAWMF/MAFWM	Preparatory process underway
(ii)	Formulate National Forest Programme (NFP); integrate “Action Plan for combating Illegal Activities in Forest and Wood Processing Sectors” as part of NFP;	MAWMF/MAFWM	End of 2008
(iii)	Promote forest certification;	National FSC body	Underway
(iv)	Close down wood processing enterprises operating without appropriate	<i>In Republika Srpska:</i> Market	Apply immediately

² Srpske Sume and some cantonal enterprises have already established an early version of such a website,

³ Required by existing legislation in Federation of B&H: Forest Law, article 29, section 4.5

licenses;	Inspection Service under Ministry of Trade and Tourism? <i>In Federation of B&H:</i> Ministry of Energy, Mining and Industry?	
(v) Fully apply liquidation and bankruptcy legislation to wood processing enterprises;	?	Apply immediately <i>In Republika Srpska:</i> process underway
(vi) Privatize remaining state-owned wood processing enterprises and furniture factories ⁴ ;	Entity Governments	
(vii) Implement the requirement for political parties to disclose their funding sources, to account for their costs and revenues and to be independently audited annually;	Entity Governments	Apply immediately
(viii) Ensure that Government officials and elected politicians disclose their assets and income sources ⁵ .	Entity Governments	Apply immediately
<u>Implementation Arrangements</u>		
(i) Assign responsibility for monitoring, coordinating and securing timely implementation of the Action Plan to the most appropriate body within the entity governments;	Entity Governments	March 2006

⁴Process underway in Republika Srpska

⁵*In Federation of B&H:* This is already applied at least to persons appointed to governmental bodies

(ii) Assign the State Ministry of Finance and Treasury the responsibility to mobilize international funding and other resources to support the implementation of the Action Plan.	BiH Government in collaboration with Entity Governments	March 2006
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