

Report of a side event for
The seventh session of the United Nations Forum on Forests (UNFF)



Small forestry enterprises: Drivers of sustainable development?



Convened by IIED and RRI at the United Nations Building, New York
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1. Introduction:

This side event on small forestry enterprises on April 23rd in New York at the UN Forum on Forests laid out a challenge to forest decision makers. It described how small and medium forest enterprises (SMFEs) are the norm in the forest sector - typically comprising the majority of forest enterprises in developing countries. It noted how SMFEs are an important provider of employment and other livelihood benefits, especially in the rapidly expanding areas of forest owned or managed by communities. But their potential contribution to poverty reduction and ecological integrity is often overlooked.

Policy processes like national forest programmes, and indeed the UNFF's own multi-year programme of work, find them hard to deal with. Business support measures like resource access, credit and training, and market mechanisms like certification are often dominated by larger, better-connected forest industries, to the detriment of SMFEs. In other words, if we are looking for poverty reduction and sustainable livelihoods from forests we need to turn many ideas about sustainable forest management on their head and think again.

The side event explored what can be done to reconnect SMFEs to policy processes, business support structures and markets. James Mayers of the International Institute for Environment and Development (IIED) chaired the event with Duncan Macqueen of IIED and Andy White of the Rights and Resources Initiative (RRI) setting the scene internationally on SMFEs and calling on all to "allow them to exist, allow them to compete". Practical case studies were presented from Guyana by Janette Bulkan of Yale University, from South Africa by Steven Ngubane of Forestry South Africa, and from Guatemala by Luis Barrera Garavito of PINFOR.

2. Doing more to help SMFEs and their associations - Duncan Macqueen, IIED

Small and medium forest enterprises (SMFEs) are significant

Some rough extrapolations suggest that:

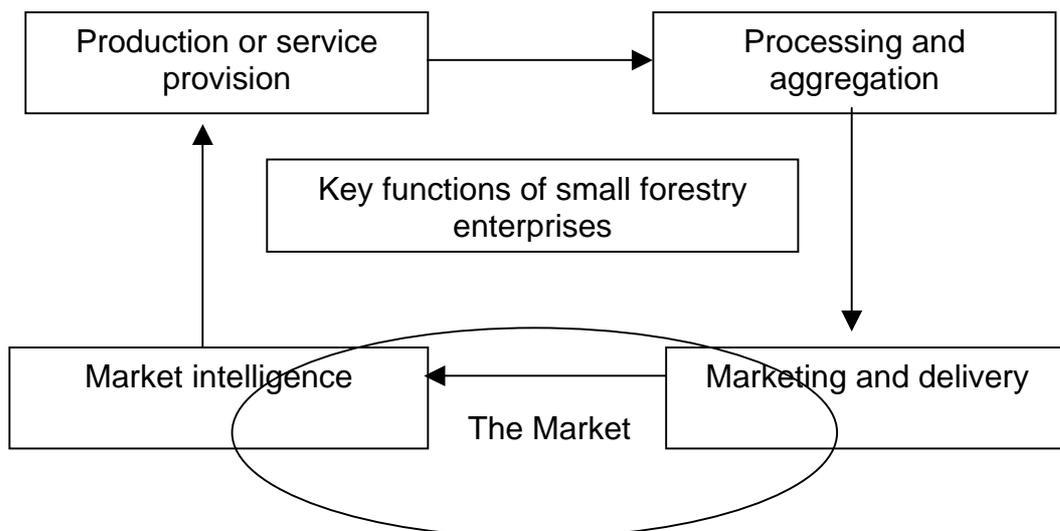
- 80-90% of forest enterprises are SMFEs in developing countries
- > 50% of forest sector employment is generated by SMFEs
- > 20 million people are formally employed by SMFEs (140 million informal)
- > US\$130 billion/year of gross value added is produced by SMFEs worldwide

There are obviously many types of small forestry enterprises – e.g. Independent rural producers, partners to large industry, primary and secondary processors and service providers. Each have their own challenges and dynamics

SMFEs benefit the poor

- Small forestry enterprises have some advantages – basic needs are met within communities; wealth accrues locally; local creativity is empowered; local environmental accountability is strengthened; cultural markets / identity are preserved.
- But small forestry enterprises also have some disadvantages... - lack of economic and political power, market information, collateral and capital, technology, business know-how, stability.
- Benefits in terms of poverty reduction depend on enterprise type. For example, mutual democratic forms may offer greater local benefits than private profit-driven forms. But where distress diversification makes small forestry enterprises options of last resort poverty reduction is likely to be minimal.

SMFE market access requires structure



SMFE associations provide that structure

Thousands of forest associations help SMFEs with...

- *Production*
 - securing resource access (e.g. Uganda Wood Farmers)
 - reducing transaction costs such as transport (e.g. Sakhokuhle)
- *Processing and Aggregation*
 - ensuring volumes match demand and quality standards are met (e.g. FORCERT)
- *Marketing*
 - building image by sharing certification and fair trade costs (e.g. Kenya Coast Farm Forestry)
- *Market intelligence*
 - finding out what buyers want (e.g. Rajasthan Handicraft producers - seminars on trends in home furnishing)

What do we need more of?

- Removing barriers to legal operation by small forestry enterprises – e.g. to land and resources, business registration, credit, policy fora.
- Linking, documenting and promoting those enterprises that exist – e.g. strengthening associations, marketing councils (FPCG) and trade fairs
- Making good information available – e.g. Essential Oil Association of India's 'Indian Perfumer' plus workshops and seminar series on market trends
- Financing – e.g. the One Community One Product (OVOP) credit and marketing facility, Malawi
- Consumer mechanisms that distinguish and reward small forestry enterprises – e.g. procurement policies, FSC-community labels or fair trade timber

If serious about poverty, SMFEs should be in the UNFF's non-legally binding instrument on forests!

3. The large and growing role of SMFEs - Andy White, Rob Kozak, & Megan Liddle, RRI

Why is the role of SMFEs "growing"?

- In "north" – SMFEs are already dominant, but growing because of increased market "space"
- In "south" – SMFEs are often marginal or illegal, but there is increasing political space for formal legal operation
- But...much more to do, both in the "north" and the "south" to increase their contributions to rural development, economic growth, and conservation

What is the forest industry?

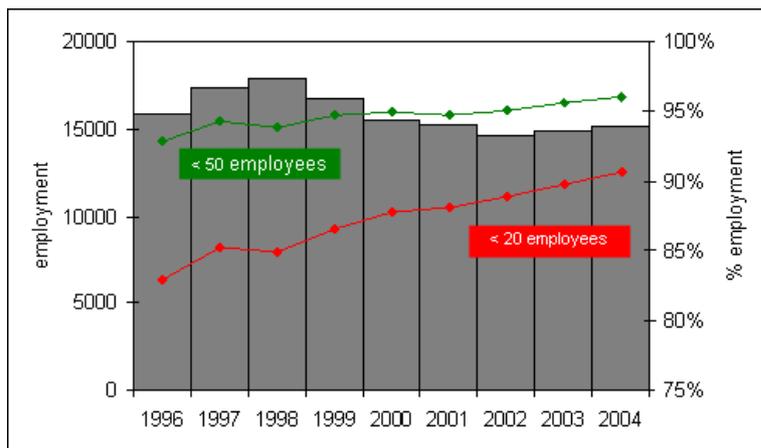
- Wood or Non-Wood?
- Non-wood products are greater than wood (in-terms of economic activity) in many countries in the world; and the value of non-wood products is approaching that of timber in international trade

- Wood product – Employment figures for this sub-sector suggest that 30 of 47 million jobs are “informal” (ILO 2002), and that the majority of the 17 million “formal” jobs are in small enterprises;
- Wood – Production figures for this sub-sector suggest that ~ 3.5 – 4 billion m3 of wood harvested annually
 - More than ½ is fuel, household, local use/markets
 - More than 50% of IRW supply in US, China, N. EU is from small, private, (family, community) forests
- Wood – Processing statistics suggest that the vast majority are “small” – for example, in the EU, ~ 90% of firms have 20 employees or less; In the US it is also ~ 90%

Transitions in Global Wood Industry

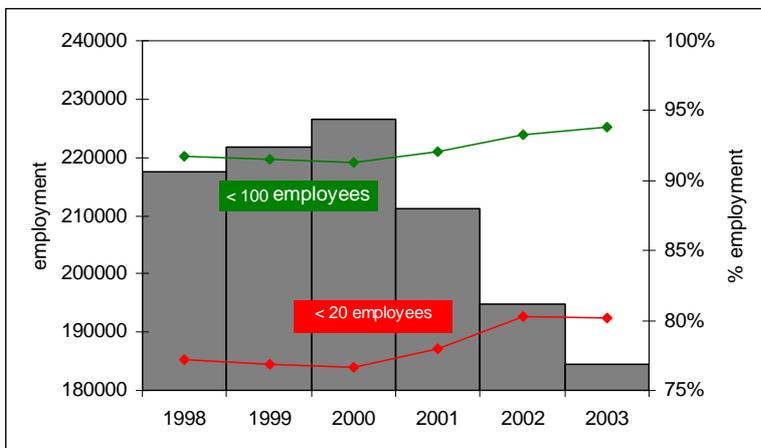
- Large industry (of north) is going south and east
 - Demand: going East (and in domestic markets of middle income countries)
 - Investment:
 - In forests - going South, to plantations
 - In processing – going East
 - Increased competition, consolidation, closure of large industry in “north” AND, lots of “niches” left when the big guys leave
- Growing consumer preference for social and environmental standards (in “north”)
 - Good for “north”, preference for small, local, niches (in North),
 - Driving wedge between “formal” and “informal” sectors (in South)
- Expansion of human rights, conflicts, increased value of “land” in South, - more opportunity for small scale producers

Growing space for SMFEs: Experience in the “North” (1)



Swedish sawmilling sector: Total employment and proportion of employment attributed to firms with fewer than 20 and 50 employees. Source: Kozak 2007. Data from Eurostat, 2007.

Growing Space for SMFEs: Experience in the “North” (2)



United States wood household furniture sector: Total employment and proportion of employment attributed to firms with fewer than 20 and 100 employees. Source: Kozak 2007. Data from the US Census Bureau, 2007.

Growing Space for SMFEs: Experience in the Developing World

	Brazil	China	Guyana	India	South Africa	Uganda
Number of SMFEs as a proportion of total forest enterprises	98.2-98.9%	87.0%	93.0%	87.0-98.0%	33.0-95.0%	-
Number of SMFE employees as a proportion of total forestry employment	49.5-70.4%	50.0%	75.0%	97.1%	25.0%	60.0%
SMFE revenues as a proportion of total forestry revenues	75.0%	43.0%	50.0%	82.0%	3.0%	60.0%

Some key findings on the characteristics and significance of SMFEs. Source: Macqueen and Mayers, forthcoming.

What Can Governments Do?

1. Allow them to exist (legally)
2. Allow them to compete (against the big guys)

By:

1. Addressing tenure insecurity and lack of access
 - primarily a constraint in developing countries, yet, continued issue in much of "north"
2. Reducing, removing, policy and regulatory barriers (and associated corruption) in:
 - Forest Management Plans, permits
 - Taxation (counterproductive taxes imposed on low-end of the value chain)
 - Hidden and direct subsidies for plantations and industry
3. Help build SMFE capacity
 - Provide access to market information, credit and finance, business development assistance
 - Promote cross-learning

4. Fitting forest industries to social conditions and forest resources in Guyana - Janette Bulkan, Yale University & Moore Fellow

Summary

- From the late 1960s in Guyana - large scale forest industries were considered by the FAO to be the 'best bet'
- The resultant reality was under-investment and nil marketing
- Technological innovations now allow economic in-forest primary processing
- But social problems have developed around small-scale logging
- Weak national forest services continue to back large industry and undertake weak marketing
- Entrenched traditions of illegality have developed

Guyana's 'poor' forest resources

- Guyana hosts some of the world's most ancient and infertile soils in the Guiana Shield
- It comprises one of the 4 largest un-fragmented blocks of 'frontier forest' in the world
- It has low stocking of relatively small and slow growing trees
- Low average logging intensities (5-30 m³/ha) tend to be concentrated in groves of commercial stems
- Strategies derived from large FAO reconnaissance and inventory studies in the late 1960s continue to guide forest management practices

History

- In 1960s, heavy logging equipment needed heavy lifting capacity & strong all-weather roads. This implied large capital investments, high cash flows – and therefore large concessions. It assumed sound & reliable commercial banks and a stable political climate

- By 1980s: under-investment and nil marketing had resulted from state mis-management (in Guyana), and civil war (in Suriname) – with a loss of skilled management, high inflation, adverse exchange rates. There grew a tradition of elite domination of forest concessions; with an inequitable land share system and profits invested outside sector. Inter-family rivalry meant that there was no joint marketing and little quality control. By the late 1980s: multilateral banks insisted on market liberalisation as condition for new loans - but provided little or no training on negotiation of inward investment
- By 1990s: new logging equipment allows low cost, in-forest processing. Chainsaws are being used for tree felling across all concession sizes and operations. Portable high-strain narrow-kerf bandmills allow in-forest processing of defect-free cants. Recovery of timber is doubled when compared with the old sash gang saws. These cants need lighter trucks, and can therefore cope with smaller roads

Forest allocation in Guyana

- Concessions now cover half of 13 million ha of State Production Forests
- 83 percent of State Production Forests are under large-scale concessions (>8,000 ha)
- The scene is dominated by 4 Asian companies who control >50% of State Production Forests - and 70 % of large concessions. In total, there were 38 large-scale concessions by 2005 controlled by > 14 companies
- The 17 Small Loggers Associations control only 2.5% of SFPs

Critical issues

- Large-scale concessions are logging faster than regeneration rates – this is against national policy
- Marketing is weak and/or captured – for example, the Forest Products Marketing Council of Guyana (established in 2006) is dominated by log-exporting Trans National Corporations – operating a virtual revolving door policy for employees of the largest Asian logging company
- Access for SMFEs is inequitable – they only have access to 20 percent of State Production Forests (much of which is worked over) – even though the 224 small-scale concessions employ 75 % of forestry workers (15,000 total) and are the main suppliers of lumber nationally. In contrast, Barama Co., the largest Asian company, controls > 33 % State Productions Forests and employs mostly Asian forest workers

Realities within the small-scale forest sector

- 17 Logging associations have been allocated worked-over forests
- They are subject to same forest access charges as pristine forest
- Indebted associations quickly fall prey to Asian loggers / log traders
- Illegal logging has become equated with small-scale sector
- Small-scale sector is visible – while the large-scale sector is invisible – because of the different timber transport routes used. For example, lumber moves along road network / logs move along river and sea networks (less surveillance)
- State cronyism protects large-scale sector and forest stations penalise small-scale sector

Reality check 1 - low social cohesion and lack of business skills in the small-scale forest sector

- The legacy of siege economies,
- The high cost of working capital,
- The lack of elementary business skills,
- The low cost of entry into logging,
- Distrust and lack of co-operation....
- All lead to dog-eat-dog scramble to sell small quantities of logs and lumber

Reality check 2 - few skills exist in the small scale forest sector to market Guyana's timbers

- No skills or capital to address buoyant special markets for hard, heavy dark timbers (over 1000 species are underutilised)
- Logs are processed in China (where low cost skills do exist) into such items as heavy-duty flooring with a range of matches to particular uses
- Weak support for credit loans / training in business skills to make use of improved technologies that would allow higher rates of timber yield per ha
- Excellent technical prospects for niche processing in-country are undermined by traditions of illegal operations and corruption
- Laws & regulations are not applied equitably
- National Constitution and policies are not being implemented

Guyana needs to fit its scale of industry to its resource and social bases

- Current concession practices violate sustainable forest management principles
- Technological improvements in logging offer opportunities (and threats)
- Challenges exist but the current path (not based around small forestry enterprises) is leading to localized extinction of prime commercial species

5. Small forestry enterprises as a catalyst for local development – the South African Case – Steven Ngubane, Forestry South Africa.

The South African Forest sector



Mainly concentrated in the South and East of the country

1.37 million Ha of commercial forestry include corporate growers, private farmers, state land, emerging growers and forestry contractors. They supply timber for pulp and paper, sawmilling, wood chip, board products, treated poles, mining timbers and charcoal.

What are small forestry enterprises in South Africa?

- They include growers, processors and contracted service providers
- They include both group and individual ownership structures
- They are politically orientated toward previously disadvantaged peoples
- They are found predominantly in traditional authority areas

What do small forestry enterprises contribute to livelihoods?

- Constitute 3% (600K tons) of forestry industry production capacity mainly for pulp;
- Generate about R148 million (\$20 million) of rural communities' income and assets;
- Enhance diversification of businesses – emergence of secondary markets in rural communities;
- Skills and capacity enhancement for the rural based

Do small forestry enterprises make business sense?

- President Mbeki proclaimed SMMEs as being a critical vehicle for economic growth and development, and transformation in South Africa;
- There is a projected growth of 150 000 ha (10.5%) in Eastern Cape & Kwazulu Natal predominantly to come from small forestry enterprises;
- A substantial proportion of the planned economic transformations will benefit small forestry enterprises:
- Land reform will add \pm 30% of current forestry area to the small forestry enterprises asset base; and
- The Forest Charter, i.e. industry transformation framework, will enhance prospects for small forestry enterprises

Small forestry enterprise needs and or challenges in South Africa

- Strengthening SFE capacity;
- Cost of legislations & lack of incentives;
- Access to growth and development opportunities;
- Dispersed and uncoordinated strategic approaches – for example – small forest enterprises mainstreaming, skills development, assessing growth and development opportunities.

Implementing a coordinated policy and strategy initiative

- Seek to achieve following deliverables:
- Institutionalisation of a small forest enterprise support and development strategy (SFESDS) – that considers market issues, policy strategic issues and institutional issues together
- Host, &/ co-host, SFE business events;
- Inputs onto ongoing policy and planning processes, including NFP, Charter Process, PDGS and IDP.
- Assess, collate and design SFE business process, needs, supply, intervention, institutional arrangements, measures and others
- Outputs and interventions will be localised for realistic impacts, e.g. tailor made business information packs by province

Concluding remarks

- We need to share practical approaches about how to help small forestry enterprises, both at international and national levels;
- We need to place emphasis ultimately on designing practical tools; the “how” part of interactions;
- We need to pool and/or mobilise for much needed resources and support, e.g. UNFF decisions to support this SFE side event.

6. Programa de incentivos forestales (programme of forest incentives) –PINFOR in Guatemala - Luis Barrera Garavito of PINFOR

Context of the forest sector in Guatemala

- National territory - 1008,889 Km²
- Population - 12 millions
- Forest Cover - 39.9 %
- Tropical Forest - 35,938Km² (32.93%)
- Conifer Forest - 4,274 Km² (3.92%)
- Mixed Forest - 3,364 Km² (3.08%)

What is PINFOR?

- It is an economic instrument of the Forest Politics of Guatemala, whose objective is to prompt sustainable forest production in the country, through investment in the reforestation and management of natural forests.

Objectives of PINFOR

- Improving sustainable forest management in natural forests.
- Re-establishing forests through forest plantations and/or natural regeneration.
- Generating a critical mass of production forests to develop the forest industry.
- Encouraging the maintenance and creation of forests for environmental services.

What are the incentives that PINFOR uses?

- They are cash payments that the State offers to forest land owners to undertake Reforestation and Natural Forest Management projects.
- Types of Projects
- Reforestation: Production of wood for the industry or other timber products and non timber forest products (resin, firewood, among others).
- Management of Natural Forests for: Timber Production, Protection and environmental services

Main achievements of the programme on the environmental side:

- 53,700 Ha of land outside forestry regenerated through plantations or natural regeneration.
- 134,165 hectares of natural forests converted to Sustainable Forest Management.
- Reduction of illegality.
- Contribution to the maintenance and improvement of watershed management.

Main achievements of the programme on the economic side

- 138,566 people have benefited.
- Employment in rural areas: In the 2,006, PINFOR generated 23,629 direct jobs.
- More than the 60% of the incentives offered (US\$81.5 millions) are invested in local labor.
- Promotion of producer organizations (small producers)

- Formation of 3 nucleus of forest production.

Multiple beneficiaries

- Individual users 1,167
- Companies 453
- Communities 8
- Committees 21
- Cooperatives 111
- Governmental organizations 8
- Associations 78
- Foundations 61
- City hall municipalities 196
- Total 2,103

Challenges of PINFOR

- Strengthening producer organizations.
- Improving land titling.
- Monitoring PINFOR to reduce abandonment of projects that have been started.
- Promoting private investment in the processing industries linked to PINFOR.
- Institutional strengthening
- Promoting research and technological innovation along the productive chain.
- Greater public and political awareness of the benefits of PINFOR.
- Attracting foreign direct investment.
- Avoiding politicization of the Program

7. Further information

IIED web-pages:

- Small-medium forestry enterprises http://www.iied.org/NR/forestry/projects/sm_med_enterprise.html
- Stronger by association <http://www.iied.org/NR/forestry/projects/associations.html>
- Exploring fair trade timber <http://www.iied.org/NR/forestry/projects/fairtradetimber.html>
- Forest governance learning group <http://www.iied.org/NR/forestry/projects/forest.html>

RRI web-pages:

- Note on the side-event: <http://rightsandresources.org/blog/2007/04/community-forestry-at-unff.html>>
- *Community Forest Management and Enterprises: Global Issues and Opportunities*. An international conference that will bring together about 250 leaders of forest communities, public forest agencies, industry and conservation groups to share experiences in community forest management and enterprise from around the world. The conference is organized by the International Tropical Timber Organization and the RRI in cooperation with IUCN - the World Conservation Union, and the Global Alliance of Community Forestry. It is hosted by the Government of Acre and the Government of Brazil through the newly created Brazilian Forest Agency. It will be held in Rio Branco, Acre State, Brazil, from July 16-21, 2007. It is open to all people interested in community-based approaches to forest management and forest enterprises. For more information, see <http://www.rightsandresources.org/> and <http://www.itto.or.jp/>

National Forest Service of Guatemala (Instituto Nacional de Bosques/INAB): <http://www.inab.gob.gt>
Forestry South Africa: <http://www.forestry.co.za/fsa/home.do>

A companion side-event was held at the same time as the IIED-RRI event: the **International Family Forestry Alliance** (IFFA <http://www.familyforestry.net/index.asp>) and the **Global Alliance of Community Forestry** (GACF <http://www.gacf-online.org/>) hosted an event titled "Family and Community Forestry: their contribution to sustainable forest management, development and well-being of local communities". GACF and IFFA are international networks of community and family forest owners, representing forest users from different parts of the world. Presenters and speakers included Tiina Vahanen of the FAO, Ghan Shyam Pandey of Nepal and the GACF, Bob Simpson of the International Family Forestry Alliance, Andy White of RRI, and Gunilla Reischl from the Swedish Institute of International Affairs. Please take a look at their websites for further information.