Behind the Fragile Enterprise: Community-based Timber Utilization in Southern Philippines

Juan M. Pulhin and Mark Anthony M. Ramirez

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ITTO, Forest Trends, RECOFTC, RRI
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# Abbreviations

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<th>Definition</th>
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<tr>
<td>AAC</td>
<td>Annual Allowable Cut</td>
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<td>ANR</td>
<td>Assisted Natural Regeneration</td>
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<td>BOD</td>
<td>Board of Directors</td>
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<td>CBFM</td>
<td>Community-based Forest Management</td>
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<td>CBFMA</td>
<td>Community-based Forest Management Agreement</td>
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<td>CBTE</td>
<td>Community-based Timber Enterprise</td>
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<td>CDA</td>
<td>Cooperative Development Authority</td>
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<td>CENRO</td>
<td>Community Environment and Natural Resources Office</td>
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<td>CLO</td>
<td>Certificate of Lumber Origin</td>
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<td>CRMF</td>
<td>Community Resource Management Framework</td>
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<tr>
<td>DAI</td>
<td>Development Alternatives Incorporated</td>
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<td>DAO</td>
<td>Department Administrative Order</td>
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<td>dbh</td>
<td>Diameter at Breast Height</td>
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<td>DENR</td>
<td>Department of Environment and Natural Resources</td>
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<tr>
<td>ECC</td>
<td>Environmental Compliance Certificate</td>
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<td>EO</td>
<td>Executive Order</td>
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<tr>
<td>FLIAPPAP</td>
<td>Fisherfolk Livelihood and Inland Aquaculture Project for Poverty Alleviation Program</td>
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<td>FMB</td>
<td>Forest Management Bureau</td>
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<td>FWP</td>
<td>Five-year Work Plan</td>
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<td>GA</td>
<td>General Assembly</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>GNP</td>
<td>Gross National Product</td>
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<td>GVA</td>
<td>Gross Value Added</td>
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<td>IEC</td>
<td>Information, Education, Communication</td>
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<tr>
<td>IRR</td>
<td>Implementing Rules and Regulations</td>
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<td>ITTO</td>
<td>International Tropical Timber Organization</td>
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<td>LGU</td>
<td>Local Government Unit</td>
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<td>MATIMCO</td>
<td>Mandaue Timber Corporation</td>
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<td>NPPFRDC</td>
<td>Ngan, Panansalan, Pagsabangan Forest Resources Development Cooperative</td>
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<td>NRMP</td>
<td>Natural Resources Management Programme</td>
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<tr>
<td>PENRO</td>
<td>Provincial Natural Resources Office</td>
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<tr>
<td>PhP</td>
<td>Philippine Peso (US$ 1 = PhP 56)</td>
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<td>PO</td>
<td>People’s Organization</td>
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<tr>
<td>RUP</td>
<td>Resource Use Permit</td>
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<tr>
<td>TESDA</td>
<td>Technical Education and Skills Development Authority</td>
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<tr>
<td>TLA</td>
<td>Timber License Agreement</td>
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<tr>
<td>USAID</td>
<td>United States Agency for International Development</td>
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<td>VALMA</td>
<td>Valderrama Lumber Manufacturers Company Incorporated</td>
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Summary

The shift in the Philippine Government’s forest management approach from corporate-controlled timber industry to community-based forest management (CBFM) has led to the emergence of many community-based timber enterprises (CBTE). One of these is the Ngan, Panansalan, Pagsabangan Forest Resources Development Cooperative (NPPFRDC) located in Compostela, Compostela Valley in Southern Philippines. The enterprise has a number of interesting features. Firstly, it was one of the earlier government experiments to facilitate a smooth transition from corporate timber enterprise to community-based approach in order to achieve the goals of sustainable forestry and social justice. Secondly, whilst the timber harvesting enterprise is managed by technically competent professionals (mostly former employees of the logging company that operated in the area from 1969 to 1994), major policy decisions rest with the Cooperative’s General Assembly and Board of Directors with representation from the Mandaya-Mansaka tribal group. As such, the enterprise’s organizational setup allows it to function as a business entity while satisfying the requirements of being a cooperative. Lastly, it is the only CBFM area in the country that was granted timber certification by SmartWood, having satisfied its criteria for a sustainably managed forest land in the year 2000.

The main conclusions from the case study are:

(i) The combined impacts of unstable and restrictive forest policy, weak institutional support from government and limited alternative sources of local livelihoods diminishes the potential economic returns and other positive contributions of the CBTE. They also create an uncertain future for this relatively fragile enterprise.

(ii) The series of national cancellations of Resource Use Permits (RUPs) by three Secretaries of the Department of Environment and Natural Resources (DENR) have not only adversely affected the operation of and benefits from the enterprise but they also run counter to the principles of SmartWood Certification which was initiated by the government itself.

(iii) In the absence of supporting policy and appropriate institutional support from government, timber certification has proved to be simply an additional cost to the enterprise since there are no market mechanisms in place that result in any benefits from having received accreditation status.

In Region XI where NPPFRDC is located, there are currently 40 CBTEs managing a total area of about 58,000 ha of forest lands. A combination of external and internal factors renders most of these enterprises fragile. To transform them into more robust and sustainable enterprises, the people’s organizations involved in their management need greater control over decision-making relevant to their operations. This necessitates the democratization of forest policy-making process and the genuine devolution of forest management in favor of local communities. Appropriate institutional support systems, including marketing assistance, should also be provided to CBTEs to enable them to function as economically viable enterprises and to achieve real livelihoods benefits.
1. Introduction

From timber licenses to community-based forest management

Forests were widely touted as the national economic lifeline of the Philippines, especially during the logging boom of the 1960s and 1970s. By 1967, about US$ 212 million worth of logs and lumber were being exported comprising 32% of the ten principal exports of the country and by 1973, this had risen to US$ 333 million accounting for 24% of the principal exports. However, the contribution of the forestry sector to the national economy was short-lived. In 1986, widespread forest depletion forced the country to ban the export of logs from natural forest (DENR, 1990). As a result, the gross value added (GVA) of forestry to the gross domestic product (GDP) declined, falling from 2.44% of the GNP in 1977 to 0.04% in 2002 (DENR-FMB, 2003).

The traditional mode of timber utilization in the country has been through Timber License Agreements (TLAs) issued by government to the well-endowed business sector. Despite the initial contribution of this approach to the national economy, it failed for three main reasons. First, it hindered the promotion of social justice, as the big-time logging concessionaires controlled access to and benefits from forest utilization at the expense of millions of forest-dependent communities. Second, it did not provide sustainable livelihoods to improve the socio-economic welfare of the majority of the upland communities. And third, it was unable to address the persistent deterioration of the quantity and quality of the country’s forest resources.

As a result, the Philippine Government initiated a new approach to forest land management which involved the upland communities, recognizing their capacity to manage and develop the country’s forest resources in a sustainable manner, including the regulation of timber harvesting for commercial purposes. In 1995, it issued Executive Order (EO) 263, formally adopting community-based forest management (CBFM) as the main national strategy to ensure the development of the country’s forest resources. The following year, the Department of Environment and Natural Resources (DENR) released the implementing rules and regulations (IRR) of EO No. 263 by virtue of Department Administrative Order (DAO) 96-29. These rules covered, amongst other things, awarding of RUP to people’s organizations (POs) with associated responsibilities for protecting and rehabilitating their forests. This paved the way for the birth of community-based timber enterprises (CBTEs) in the Philippines.

Consistent with the 1987 Philippine Constitution, the DENR cancelled erring TLAs and no longer renewed those that had expired, thus paving the way for the eventual takeover of the TLA areas by local communities. The number of TLAs dropped from 422 (covering 10.3 million ha) in 1973 to 16 (accounting 662,000 ha) by 2003, with no possibility of extension. At the same time, there has been a corresponding increase in the area under CBFM. By 2003, the DENR had registered 5,503 sites with an aggregate area of 6 million ha being managed by some 2,877 POs (DENR-FMB 2003; Figure 1). This means that the majority of former TLA areas are now under the CBFM program, which provides part of the annual wood demand of the country.

Whilst the Philippines was formerly regarded as a primary source of timber in the region, it is now a net importer of wood because its remaining forests cannot adequately fulfill the increasing consumer demand. Given this situation, CBTEs are now expected to meet some of this market demand for timber.

There are two types of CBTEs in the Philippines. The first consists of those whose timber is sourced from former TLA areas with adequately stocked residual forests plus established plantations capable of providing good-quality wood. The second is composed of CBTEs whose timber is obtained from former grasslands and logged-over areas that have been converted into forest plantations whose stock has now reached rotation age. This consists of fast-growing species, such as gmelina (Gmelina arborea) and falcatta (Albizia falcatoria), which have a wide variety of uses, including the manufacture of furniture.
These two types of CBTEs differ in the level of management skills required, wood products produced, and marketing strategies needed. However, they both experience the same externalities. Unlike a TLA, which is operated by a company, almost all the country’s CBTEs are handled by POs or cooperatives that do not usually have sufficient capital and equipment to run their enterprise efficiently. Only a handful of them have mini-sawmills that can provide important value-addition to their products. Moreover, the calculation of the Annual Allowable Cut (AAC) imposed by government on CBTEs is based on a break-even volume which barely provides POs with enough funds for forest rehabilitation and livelihood generation. CBTEs also have a characteristic marketing problem whereby they have to seek viable markets without much government assistance whilst at the same time having to compete with wood imports and illegally sourced logs that are priced much lower than their own products. On top of this, the government has set up an elaborate regulatory system that entails further transaction costs for the POs, derailing the CBTEs’ efficient operation and reducing their economic benefits in terms of income and investment opportunities.

CBTEs have also had to contend with an unstable policy environment characterized by numerous national RUP cancellations and suspensions owing to the DENR’s response to allegations of illegal logging in CBFM areas and highly publicized environmental disasters. These tend to penalize even those POs with untarnished performance records. This contradicts the essence of CBFM which implies a relinquishing of such top-down controls and challenges the viability of CBTEs in bringing social justice and raising the socio-economic status of upland communities (Ramirez and Bautista, 2004).

Despite this negative backdrop, the POs are still optimistic that resource utilization with protection through the CBTEs is still the best option to save the remaining forest resources. Recently, the revised implementing rules and regulations of EO 263 (DAO 2004-29) has increased the length of the work plan from one to five years thus reducing transaction costs for POs. This has contributed to lifting the spirits of the CBTEs which have been somewhat depressed after their experiences over the past decade.

2. Overview of the case study

In December 2004, a catastrophic landslide in Quezon Province took hundreds of lives. The logging industry was blamed for the disaster through its deforestation and unsustainable logging practices. As a result, and with mounting calls from civil society to implement a total log ban, the DENR was forced to limit logging activities to Regions XI and XIII. Pressure to meet the wood demand for the entire country is now placed on the CBTEs in the provinces bordering these two regions. The Ngan, Panansalan, Pagsabangan Forest Resources Development Cooperative (NPPFRDC) is one of the 40 CBTEs in Region XI that together manage about 58,000 ha of forest (DENR Region XI, 2004). Of these, NPPFRDC is the only wood producer in the country that has been certified by SmartWood. Because of this unique situation, it was selected as a case study to provide some key insights into the fragile nature of these CBTEs.

Field data-gathering was undertaken in June 2005. This involved focus group discussions, key informant interviews, secondary data collection and site reconnaissance. Key informants came from different stakeholder groups, such as the local DENR, local government units (LGUs), logging workers, indigenous people, and members and non-members of the cooperative.

History of the enterprise

The NPPFRDC manages an area that used to form part of a TLA area of Valderrama Lumber Manufacturers Company, Incorporated (VALMA), comprising 26,000 ha. The idea of forming a cooperative was introduced by the DENR, for fear that without organizing the community, the area

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1 SmartWood is an internationally recognized standard-setting body that accredits and monitors forest products coming from sustainably managed forest. The NPPFRDC was the first PO to be certified in the ASEAN Region in November 2000.
would become open access following the end of the TLA in 1994. The chair of the NPPFRDC’s board of directors, who is a former VALMA employee, recalls,

“No one from our ranks expected that the TLA of VALMA would not be renewed. That was why when its timber license expired on 31 December 1994 after twenty-five years of operation, we were left with no means of livelihood. Some of us resorted to kaingin making [shifting cultivation in upland areas], and unauthorized gathering of timber and other non-timber forest products just to survive.”

To avoid adverse consequences on the forest resources, a corporate-cooperative venture as a replacement for the TLA was proposed by the DENR, through the USAID-funded Natural Resources Management Program (NRMP) which is implemented by Development Alternatives Incorporated (DAI). A cooperative structure was suggested for managing the forest and in 1995 this idea was presented by DAI to the local governments covering the ex-VALMA concession area. At that time, however, there was no available tenure instrument to support this initiative, except the Community Forestry Program, which later became the Community-based Forestry Program. Initially, members of the Mandaya-Mansaka tribe inhabiting the area did not agree to the idea, thinking that they would lose access to their landholdings. But after a series of consultations with the DENR-NRMP and information, education, communication (IEC) campaigns, they eventually conceded.

The NPPFRDC was formed and registered with the Cooperative Development Authority (CDA) on 15 September 1996 with members coming from the three barangays of Ngan, Panansalan and Pagsabangan. It was awarded CBFMA No. 11 on 4 December 1996, giving them the rights and responsibilities to manage and protect 14,800 ha of forest land located in the towns of Compostela and New Bataan in Compostela Valley Province in Southern Philippines (Figure 2).

The people
In 2004, the CBFM area of the NPPFRDC had a total population of 8,259 (approximately 2 persons per ha). Of these, only 324 individuals (or 4% of the total population) are actually members of the NPPFRDC. When combined with their associated household members, this gives a total of 1,051 people (or 13% of the total population) who are actually dependent on the activities of the cooperative. NPPFRDC members come from both the indigenous Mansakaya-Mandaya tribe (40%) and more recent migrants to the area (constituting 60%) (Table 1).

Table 1: Population of the CBFM site of the NPPFRDC

<table>
<thead>
<tr>
<th>Groups</th>
<th>No. of NPPFRDC members (%)</th>
<th>No. of NPPFRDC-dependent family members (%)</th>
<th>Total population</th>
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<tbody>
<tr>
<td>Migrants</td>
<td>196 (60%)</td>
<td>670 (11%)</td>
<td>6,064 (73%)</td>
</tr>
<tr>
<td>Mandaya-Mansaka (tribal)</td>
<td>128 (40%)</td>
<td>381 (17%)</td>
<td>2,195 (27%)</td>
</tr>
<tr>
<td>TOTAL</td>
<td>324</td>
<td>1,051</td>
<td>8,259</td>
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The forest
The NPPFRDC belongs to the first type of CBTE, with both natural forest and established plantations as its sources of timber. A Community Resource Management Framework (CRMF) developed by the PO is the basis of its forest management activities for 25 years. This was affirmed by the DENR in 1997 and was revised by the PO in December 2004 in compliance with DAO 2004-29. Under this CRMF, 535 ha (5%) out of the 11,113 ha of production forest, with an estimated timber volume of 21,400 m³, will be harvested over the next five years. In addition, 12,465 m³ of timber from 277 ha of forest plantation will be utilized during the same period.

Around 73% of the total CBFM area is still covered with trees. This includes the residual (or production) forest and mossy forest (protection area). Residual forest is further categorized according to whether it is adequately or inadequately stocked. Mature trees suitable for cutting are only found in the adequately stocked forest where there is an abundance of hardwood trees with dbh of 30 cm or greater.
Although the CBTE has a target volume for harvesting naturally-grown species each year based on its Five-year Work Plan (FWP), it still has to comply with the AAC approved by the DENR. This tends to be subject to existing socio-political conditions and is usually lower than the volume proposed by the CBTE in its FWP. This is the figure indicated on the RUP issued by the DENR for the cooperative to proceed with its operation. By contrast, for harvest of plantation species, the DENR usually provides the volume requested by the NPPFRDC.

Income from these logging activities will be used to support forest resource development and protection projects of the PO, including agroforestry, assisted natural regeneration (ANR), reforestation, timber stand improvement, and the establishment of checkpoints, as well as to generate livelihood benefits for the members. The development of additional agroforestry areas and tree plantations is expected to reduce the pressure on natural grown trees as the main sources of timber, improve forest cover, and prevent the occurrence of erosion and flash floods.

3. The community-based timber enterprise

Organization, management, and governance
The NPPFRDC organizational set-up allows the PO to function as a business entity while satisfying the requirements of being a cooperative (Figure 3). It consists of the General Assembly (GA), which is the highest governing body of the PO. The GA meets every second Sunday of February to disseminate information and assess accomplishments made in the previous year. The cooperative shoulders the cost of transportation, meals and boarding allowance, if necessary, to ensure the attendance of all members in the GA, especially those from remote areas (Ramirez and Bautista, 2004).

The GA elects the Board of Directors (BOD), which acts as the policymaking body of the PO. The BOD meets every month to discuss policy adjustments and concerns related to forest conservation and protection. It calls special meetings if there are any pressing issues that have to be decided on. If the BOD fails to come to an agreement on certain issues, the matter is turned over to the GA for judgment.

Members of the BOD have a two-year term. To guarantee the continuity of projects and policies, only half of them are replaced during elections while the remaining half are retained and are replaced in the next year’s elections. Initially, the BOD was composed of 15 members (five from each barangay), but this was recently reduced to nine to save on honoraria. A secretary and a treasurer assist them in their functions. Four BOD committees have also been formed to oversee the education, finance, livelihood, and marketing components of the PO, each committee being headed by a BOD member.

At present, three of the nine BOD members are women who are active in meetings and other project activities. Six members, including the BOD chair, are Mandaya and it is a rule of the cooperative to elect a Mandaya to the chairpersonship to ensure that the interests of the majority are protected. The BOD appoints a general manager to supervise the business enterprise. In particular, the general manager oversees the enterprise development, processing, sales, timber, and forestry departments.

Membership in the PO involves a fee of PhP 300 and a capital build-up of PhP 2,000, to be paid in installments. Active members are entitled to the loan program of the cooperative and can vote during the annual general assembly.

Given the nature of its operations, the NPPFRDC has had to deal with certain groups to avoid delays in transporting their logs. The NPPFRDC BOD chairperson, referring to the military and the New People’s Army – a rebel group that considers the CBFM area as its base, explains,

“There are several groups claiming to have stakes in the area. While some are in conflict with each another, we manage to deal with them in any way possible.”

The NPPFRDC also engages with the local government of Compostela, whose mayor is very supportive of the enterprise. For the past seven years, the LGU has participated in the deliberation of
the cooperative’s work plans and has even provided livelihood assistance in the form of tilapia fingerlings for the NPPFRDC’s fishpond and seedlings for its agroforestry projects. As mandated by law, forest charges paid by the NPPFRDC should revert back to the local government, but according to the mayor, this has not been observed since 1998.

Another active partnership of the cooperative is that with the Community Environment and Natural Resources Office (CENRO). They have developed a symbiotic relationship in terms of protecting the area against illegal loggers, log smugglers and timber poachers. There are even occasions on which the CENRO borrows the cooperative’s truck and haulers to transport confiscated logs.

The CBTE’s relationship with log buyers is particularly important. So far, the NPPFRDC has managed to maintain its regular clients who appear to be satisfied with the arrangements in place. A representative of Wood Masters Incorporated informed us that,

“With NPPFRDC, you can be assured of your investment because of the quality of wood produced by the cooperative.”

To ensure smooth transactions, the NPPFRDC only approves its buyers after making a thorough check of their records and it also requires any prospective buyer to submit a letter of intent to the PO indicating the volume, type of finished product, specifications and suggested price. The BOD then considers this to determine whether the buyer satisfies its requirements and whether the PO can supply the requested products. In some instances, the NPPFRDC would ask the buyers if they are interested to participate in the “Big Brothers Program” promoted by the DENR. Under this program, the buyer funds the establishment of a tree plantation and consequently gains the right to buy the trees in the future. At present, the NPPFRDC has this type of arrangement with Li Chiang Corporation and Wood Masters Incorporated, with 20 ha and 40 ha of plantation respectively.

Workers employed by the cooperative include both migrants and natives from the Mandaya-Mansaka tribe who inhabits the three barangays. Workers can be either members or non-members of the cooperative although members are given priority for employment during logging operations. During regular logging operations, the cooperative employs around 130 workers to process logs and oversee daily operations, and 90% of them are NPPFRDC members.

4. Economics of the enterprise

Timber harvesting and sawmilling
The NPPFRDC general manager describes how the general process of the enterprise works:

“To distribute the employment benefits of the enterprise, we decided to create two separate but complementary production areas. One is the harvesting activity, which is done in the cutting area and supervised by financiers or contractors, and the other is the processing of logs into lumber, which is done in the sawmill.”

This means that management staff are mainly responsible for overseeing the day-to-day activities of the CBTE, including inventory, auditing and accounting of products, and the accomplishments of the two production areas.

Immediately after the affirmation of the RUP and issuance of the Notice to Proceed by the CENRO (Figure 4), the management prepares for the harvesting activity (Figure 5). The management does not actually supervise the harvesting – this is the role of DENR, and the actual work is done by a contractor (usually a PO member) who has enough capital to finance a cutting operation.

The contractor forms a cutting team composed of chainsaw operators, helpers, haulers, loaders and supervisors, who need not necessarily be members of the PO but are usually local to the cutting area. Workers are paid on a volume basis or “per-board-foot” scheme. Each type of work has a
corresponding per-board-foot salary based on the NPPFRDC policy. For instance, a chainsaw operator receives PhP 0.50 per board foot of timber cut. The cooperative simply buys the timber at the delivery or pickup price it agreed previously with the contractor.

This system has a number of benefits as pointed out by a female BOD member and financier:

“What makes this production area possible is that contractors can apply for loans in the cooperative so that they can finance the cutting operation, of course, with the corresponding interest. In this way, we can create employment for our constituents, especially those coming from faraway barangays like Pagsabangan and Panansalan, who are mostly Mandaya.”

The logs harvested in the cutting area are then transported to the cooperative’s mini-sawmill in Barangay Ngan, where the NPPFRDC office is also located. With regular log inputs, the sawmill can employ up to 21 workers per shift on a two-shifts-per-day rotation. Workers are paid on an output basis. Most of the sawmill workers, as well as the management staff, live close to the sawmill in Barangay Ngan.

**Forest development and livelihoods**

The PO has identified and delineated areas for forest development particularly for agroforestry, reforestation, timber stand improvement, rattan plantation, and tree plantation establishment and maintenance. It has also established a central nursery for the production of forest and fruit tree seedlings. Of its reforestation target of 125 ha between 1998 and 2004, it had achieved 67 ha (54%) by May 2004. However, as noted by the NPPFRDC, planting seedlings would be useless without funds for maintenance, therefore availability of such funds is critical. Recent data show, nonetheless, that the PO has achieved 88% of the rehabilitation targets for 2004 (CENRO-Monkayo, 2005).

In the early years following its inception, the NPPFRDC began several livelihoods initiatives including:

(i) Operating a consumer store (from 1997) with an initial capital of US$ 3,570. Members and non-members (haulers and cutters) can buy items from the store on credit, and pay for these through salary deduction.

(ii) Swine production (from 2000) with an initial capital of US$ 3,750 taken from the development fund of a congressman.

(iii) Tilapia raising (again from 2000) using the proceeds of timber utilization as well as funds from the Fisherfolk Livelihood and Inland Aquaculture Project for Poverty Alleviation Program (FLIAPPAP) of the Provincial Agriculture Office.

(iv) Duck raising. Members attended training with the Technical Education and Skills Development Authority (TESDA).

(v) Others such as meat processing, poultry production and tailoring.

However, it has been forced to stop these activities since the cooperative was unable to generate enough funds to pay for the high cost of feed and salaries – especially during periods when the RUP was suspended.

Without adequate protection of the forest, particularly from man-made hazards, the whole project would be difficult to sustain. Therefore, NPPFRDC employs its own forest guards. In 2004, it deployed eight forest guards in the three barangays, and pays them each US$ 0.005 per-board-foot produced in the sawmill. More recently, the number has been reduced to four (equivalent to one guard for 3,700 ha), given the on-and-off nature of the logging operations. Despite the danger of their job,
e.g. death threats, the guards work mainly on a voluntary basis. As pointed out by the head of the forest protection unit:

“We are doing our best to secure the CBFM area from illegal loggers and poachers even without compensation. We only have one shotgun against the sophisticated firearms of illegal smugglers, but still, we do our job regardless of the danger because we know that once resources are depleted, there is no other recourse but to stop the operation permanently.”

Sending text messages through the cellular phone has become a popular means of disseminating reliable information in the field, although since only the chief of the forest protection unit has a cellular phone issued by the cooperative, other staff have to use their personal phones and forest guards claim that they voluntarily shoulder the cellular phone expenses. Whilst this has proved to be an effective medium for monitoring activities in the forest, cellular phones have also been used by illegal loggers to threaten forest guards. For example, the head of the forest protection unit recently received a threatening text message after the unit apprehended a truckload of illegally cut logs.

Certification and profitability
During its eight-year operation from 1997 to 2004, the NPPFRDC CBTE has harvested 8,609 m$^3$ of natural grown timber which resulted in about US$ 125,000 being remitted to the national government for forest charges. The resulting lumber was sold to different local buyers in Luzon and Mindanao including the Wood Masters in Montalban, Rizal; Song Tiong Trading in Cebu; and Mandaue Timber Corporation (MATIMCO) in Mindanao. However, had it not been for the various RUP suspensions ordered by the DENR, the total volume harvested (and sold) would have been much higher.

As pointed out by the BOD chairperson:

“Each suspension was followed by a downgrade of AAC against the approved volume by the DENR, which affects our production output. This, in turn, limits our capacity to implement forest development targets and generate livelihood projects. In short, less volume means less benefit to the environment and the people.”

The CBTE has to compete extensively with wood imports and products that have been illegally sourced. Since these command a much lower market price, the legally and sustainably harvested produce from NPPFRDC can be difficult to market. Unfortunately, certification of the CBTE (by SmartWood in 2000) has had little impact on this and has come with additional costs of certification.\(^2\) As a result, there have been no apparent economic benefits from SmartWood’s accreditation and in October 2004, the cooperative was forced to terminate its accreditation. In a letter to SmartWood, the BOD chairperson wrote that although the certification had improved their sustainable forest management practices the cooperative could not afford the funding needed to continue with the necessary certification audits (NPPFRDC, 2004a).

Since its establishment, the NPPFRDC has operated without external assistance. Out of the net profits from logging, 60% is ploughed back to forest development; 10% to the reserve fund; and 30% to livelihood activities (Figure 6). However, during the eight-year period since establishment, forest rehabilitation has received a little less than US$ 2,700 per year while livelihood generation netted US$ 1,320 per year – both small amounts when compared with the expenses of the cooperative in keeping up its obligations and responsibilities.

Figure 7 shows the effect on the cooperative’s profits as a result of the three RUP suspensions that have occurred since its establishment. In 2003 alone, it incurred a net loss of around US$ 42,800 – a huge sum that was badly needed by the cooperative (NPPFRDC, 2004b). When the net profits of the CBTE are compared with the forest charges that have been paid to the government, it appears that the

\(^2\) The accreditation fee and the direct and indirect costs of annual and random audits cost the PO around US$ 500 per year.
government has benefited more than NPPFRDC in terms of financial returns from the timber harvesting operations. As a result, the government has been able to achieve forest development and protection with only minimal costs to itself whilst the main costs have been borne by the local organization.

5. Impacts

Socio-economic impacts
Employment generation among the residents of the three barangays has been the most visible socio-economic impact of the CBTE. During regular logging operations, the cooperative can employ as many as 300 workers for a wide variety of jobs including haulers, chainsaw operators, helpers, supervisors, etc. The income gained from this work in the CBTE has enabled several residents to establish small businesses, such as sari-sari (variety) stores, or to operate public transport vehicles. In a survey conducted by the DENR Region XI in 2002, a growth in the number of sari-sari stores in the barangay was noted from 25 in 1996 to 60 in 2002. The same survey also found a 40% increase in the number of motorcycles-for-hire plying the area (from 24 in 1996 to 59 in 2002) indicating greater mobility of people and goods within and around the CBFM area. Improved road conditions due to regular maintenance by the NPPFRDC have also contributed to this.

The number of working animals, particularly carabaos (water buffalos) has also increased during the period since the cooperative was established. Carabaos are rented for hauling logs at piecework rates – again representing income earning opportunities for their owners. The DENR survey found that a main use of additional income from the CBTE was to support the education of children.

During the various suspensions of the RUP, the community experienced a negative impact which has been likened to a domino effect. Some workers sold their properties to meet household expenses in the absence of regular salaries, and significantly, children stopped attending school since their parents could not pay for their transport and food allowances. To avoid a total loss of income, some sawmill workers agreed to continue work on reduced pay (sometimes as little as 10% of the regular pay). The head of the NPPFRDC sawmill department attests to this:

“We decided to accept saw milling jobs...during suspensions and divide the profit among the workers, but on a very meager salary.”

Environmental impacts
Without the cooperative, many people informed us that forest resources within the CBFM area may have been significantly reduced due to illegal logging, swidden farming, and timber poaching.

Table 2 shows the changes that took place in the CBFM site between 2002 and 2005 (based on the Five-year Work Plan). This shows that adequately-stocked natural forest declined in area by about 6% with a corresponding increase in inadequately-stocked forest. This would seem to be a result of the PO’s selective extraction of natural grown trees but was also compensated for by increased areas of forest plantation and agroforestry. There was no change in the area of mossy forest (considered to be old-growth forest with highest biodiversity) and cultivated areas also declined.

As with other aspects of the enterprise, forest rehabilitation is affected by RUP suspensions because it is dependent on the income from logging. However, as a result of adjustments and voluntary inputs by members of NPPFRDC, backlogs in the planned progress of forest development have been avoided. In the CBFM area, application of soil and water conservation measures is reported to be limited mainly because the members lack knowledge of suitable technologies for land productivity. No farm management training has been carried out except for orientation on the impact of kaingin-making (upland shifting cultivation) in 2001. Although members are more inclined to practice logging than farming (since logging is more profitable), the cessation of logging at regular intervals due to the RUP suspensions means that individuals need to continue to farm as a safety net and income source for when no logging operations are taking place.
Table 2: Vegetative cover (ha) of the CBFM site based on the Annual Work Plan (2002-2004) and the Five-year Work Plan (2005)

<table>
<thead>
<tr>
<th>Vegetative cover</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residual forest:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adequately stocked</td>
<td>4,159</td>
<td>4,079</td>
<td>4,024</td>
<td>3,914</td>
</tr>
<tr>
<td>Inadequately stocked</td>
<td>6,954</td>
<td>7,034</td>
<td>7,089</td>
<td>7,199</td>
</tr>
<tr>
<td>Mossy forest</td>
<td>755</td>
<td>755</td>
<td>755</td>
<td>755</td>
</tr>
<tr>
<td>Grassland/brushland</td>
<td>580</td>
<td>535</td>
<td>499</td>
<td>408</td>
</tr>
<tr>
<td>Cultivated area</td>
<td>1,450</td>
<td>1,450</td>
<td>1,422</td>
<td>1,392</td>
</tr>
<tr>
<td>Waterways</td>
<td>345</td>
<td>345</td>
<td>345</td>
<td>345</td>
</tr>
<tr>
<td>Roadways</td>
<td>190</td>
<td>190</td>
<td>190</td>
<td>190</td>
</tr>
<tr>
<td>Forest plantations</td>
<td>330</td>
<td>375</td>
<td>411</td>
<td>501</td>
</tr>
<tr>
<td>Agroforestry/reforestation areas</td>
<td>37</td>
<td>37</td>
<td>65</td>
<td>96</td>
</tr>
<tr>
<td>TOTAL</td>
<td>14,880</td>
<td>14,800</td>
<td>14,800</td>
<td>14,800</td>
</tr>
</tbody>
</table>

The NPPFRDC supports the capability-building needs of its members for as long as funds permit. Since 1998, the members have attended a total of 35 training/seminars focusing on forest management, livelihood generation, and organizational management. This may explain why the cooperative is strong in technical and managerial skills, and why the increased income of its members is attributed more to logging than to farming.

6. The enabling environment

The regulatory environment
The main driving force behind the evolution of CBTEs in the Philippines has been the concept that if an upland community has security of tenure, it will be motivated to use the resources in its area, including timber, sustainably and with a corresponding obligation to protect and rehabilitate the forest. This formed the rationale for EO 263 issued in 1995 and the associated implementing rules (DAO 96-29) and led to a much more people-oriented and ecologically friendly policy than before.

Uptake by forest communities under these regulations has been good and an increasing number of community-based forest management agreements (CBFMAs) have been approved since 1995. POs such as the NPPFRDC have been in a strong position to use the wide-ranging skills they gained from their long engagement with TLA holders in the management of their own CBTE. However, even when available skills in forest management, harvesting and sawmilling are clearly high (as with NPPFRDC), this case study has shown that management skills alone are not enough for the CBTE to be successful. Consistent policy, commitment and technical support are critically needed from government in order to achieve the CBTE’s goals of sustainable forest management and livelihoods improvement. It is in this area where the sustainability of such a fragile enterprise is threatened.

Consistency of policy
Implementation of policy by government is inconsistent and sometimes contradictory. For example, once the approved Five-year Work Plan is in place, the POs still need to apply for an Environmental Compliance Certificate (ECC) before they can harvest timber even though DAO 2004-29 has affirmed that CRMF itself would serve as the ECC. Similarly, although approval of RUPs for natural grown species is supposedly under the authority of the CENRO, in practice, prior approval from the DENR Secretary is needed before the CENRO can issue the Notice to Proceed. This entails additional transaction costs for the CBTE because the PO has to follow up their approval at the Central DENR office to fast-track their RUP being issued.

Unlike a Republic Act that is legislated by Congress, EO 263 does not have sufficient powers to insulate itself from outside interests. Its stipulations can therefore be altered or overturned by a mere
order from the DENR Secretary – this is what has happened to affect CBTEs nationwide. The series of national suspensions of RUPs by three different DENR Secretaries have adversely affected the operations of and flow of benefits from the enterprise. This hinders the profitability and viability of the enterprise, the improvement of the welfare of its workers, and the associated and necessary forest protection and rehabilitation activities.

Another constraining policy, according to the PO, is the Department Memorandum Circular 2003-14, which declares a moratorium on the establishment of new wood-processing plants. This is unfavorable to the NPPFRDC, since it reduces their opportunity for adding value to the already low value products of the enterprise through better processing.

Even the CBFMA itself is not strictly enforced. In 2001, the NPPFRDC was accused by the DENR of recycling a Certificate of Origin. Although the PO denied this allegation, the DENR insisted on upholding its own findings and ordered the NPPFRDC to pay the corresponding forest charges for illegal shipment amounting to US$ 3,400. In this case the DENR acted as both prosecutor and judge with little opportunity for the PO to appeal. At the time, the cooperative argued for a third-party negotiator to settle the conflict (as stipulated as being a right of the PO in the CBFMA), but this right was ignored by the DENR.

**Opportunities from certification?**

Particularly unfortunate in this case has been the experience that decisions to issue blanket RUP suspensions affecting all CBTEs have been based solely on isolated incidents of infraction at particular CBFM sites or as a result of populist demand for a total log ban regardless of the acknowledged sustainability of individual enterprises. In the case of NPPFRDC, the accreditation that had been obtained for the enterprise from an internationally recognized certifier (that had the approval of the government) carried no weight at all in the event of the RUP suspension. In other words, both certified and non-certified enterprises were treated in exactly the same way – bringing into question the real benefits that the certification process had actually brought to the CBTE.

In addition, there is no government policy that requires buyers to procure wood products exclusively from certified wood producers, such as the NPPFRDC. Again this reduces the incentive for producers to achieve certified status. Moreover, given a reduced AAC, CBTEs cannot meet the quantity of wood products demanded by international buyers. In this case, timber certification, such as that of SmartWood, is regarded by the cooperative as an additional expense with no resulting benefits to the enterprise in terms of supporting policies and appropriate institutional and market mechanisms.

In summary, the combined impact of unstable and restrictive forest policies, weak institutional support from the government and limited livelihood alternatives for vulnerable people diminishes the economic returns and other potential positive contributions that CBTEs could make. This poses great uncertainties to the future of the enterprise and that of its members.

**7. Ways forward**

The CBTEs are slowly becoming the main source of wood in the Philippines and this offers them significant potential. However, their future success lies in a stable policy environment that can transform them into more robust and sustainable ventures with a strong economic base. POs managing CBTEs need to have greater control over decision-making relevant to their operations to achieve this. This necessitates more sincere democratization of the forest policy making process and a genuine devolution of forest management to the local communities. In the light of the numerous national RUP suspensions, the POs should not only be consulted but also empowered to participate in crafting the policies affecting them. Issues such as the impact of suspension should be properly studied, debated, and mediated by various stakeholders before their implementation.

Appropriate institutional support systems, including marketing assistance are also needed by CBTEs. The recent creation of the “wood industry cluster” in the region is a good starting point for this. Within
this framework, the DENR together with some government agencies, such as the Department of Trade and Industry, and the National Economic and Development Authority will link the CBTEs directly to the wood market to address marketing problems. In this case, these agencies would be required to adopt a facilitating and enabling role rather than one of top-down control.

Regarding the institutionalization of the timber certification process, such as that by SmartWood and the ITTO Criteria and Indicators, it seems that the wood market needs to be regulated in a way that promotes certification and obliges purchasers to buy only from certified producers. Only by doing this can the proliferation of illegally sourced wood products be minimized if not immediately stopped. This would also have a significant effect on the costs and efforts (born by the CBTEs) on forest protection.

For the future, CBTEs cannot rely only on harvesting from natural forests. A shift from natural forest to established plantations is needed to preserve remaining residual and old-growth forests. Credit, tax incentives and other beneficial arrangements are needed to encourage this shift by CBTEs – an option for this would to investigate the possibility of joint management (and investment) between POs and the private sector. At the same time, pressure on existing forest resources can be reduced if greater emphasis is placed on the potential opportunities of agroforestry and utilization of NTFPs thus providing local people with much-needed income during unexpected slack periods. To promote these initiatives, the government’s role should again be an enabling one through information dissemination, training and extension.

The case of the NPPFRDC clearly shows that the very real potential for CBTEs in the Philippines has not been fully developed nor adequately supported. While the NPPFRDC has been effective in managing its forest by utilizing its skills and expertise in logging operations, and in distributing its limited benefits to its members, it normally has to bear the brunt of the costs resulting from policy shifts and the frequent public opposition to timber harvesting through its negative associations with unsustainable and illegal logging. As the BOD chair pointed out,

“We are surrounded by an abundance of rice, but we are not allowed to touch it, while others not from our place are getting the best out of it.”

If policies on CBTEs are not stabilized, the timber poachers and illegal loggers will continue to benefit from the trees in the CBFM area, at the expense of the community that has worked so hard to protect them.
8. Supporting charts and figures

Figure 1: Area coverage of TLAs and CBFM from 1973-2003 (ha)

![Graph showing area coverage of TLAs and CBFM from 1973-2003](image)

Figure 2: Location of the CBTE site

![Map of the CBTE site](image)
Figure 3: The NPPFRDC organizational structure
Figure 4: The Resource Use Permit process

**Deliberation on the CRMF and 5-Year Work Plan by the CBTE**
For natural grown species: CENRO & PENRO to affirm plan with prior approval of the Regional Executive Director
For Planted species: CENRO & PENRO to affirm plan

**Application for Environmental Compliance Certificate (ECC)**
Cost: US$ 70
Regional Environment Management Bureau to approve the application

**Issuance of Notice to Proceed**
For natural grown species: CENRO to issue notice to proceed but with prior approval of DENR Secretary
For Planted species: CENRO to issue notice to proceed after completion of requirements.
Figure 5: Flow chart showing different CBTE activities and inputs for timber harvesting and transport

- **Tree marking in cutting area**
  - Labour needed: Tree markers & supervisor (4-5 workers); job order
  - First activity after receiving notice to proceed
  - DENR supervises

- **Felling and bucking**
  - Labour needed: Chainsaw operators, helpers (5 workers)
  - DENR scales and assesses felled trees
  - BOD selects operator/financier

- **Hauling to log deck**
  - Labour needed: Haulers and carabos (number depending on the log volume)
  - DENR scales logs before hauling
  - DENR supervises

- **Transport to sawmill**
  - Labour needed: Haulers, loaders, supervisor
  - DENR supervises
  - Permit needed: certificate of Origin (CO) per designated volume from the CENRO
  - Cost: 4 checkpoints each costing US$ 3

- **Sawmilling**
  - Labour needed: supervisor, scaler, log decker, receiver, pusher, filler, grader
  - Type of finished product and specifications as approved by buyer
  - Cost: ECC for sawmill
  - Permit needed: Milling clearance from the CENRO

- **Transport of finished products**
  - Labour needed: haulers, loaders, supervisor (number depending on volume)
  - Permit needed: Certificate of Lumber Origin (CLO) per truckload from the CENRO.
  - Cost: US$ 7.5 per CLO
  - DENR puts marking hatchet and checks volume and species
  - Buyer pays for corresponding forest charges: PO remits these to CENRO
  - Cost: SOPs at checkpoints
Figure 6: Distribution of net profits between NPPFRDC activities

![Pie chart showing distribution of net profits between NPPFRDC activities: 60% Forest Development Activities, 30% Livelihoods Projects, 10% Reserved Fund.]

Figure 7: Annual NPPFRDC profits from logging as a result of national RUP suspensions (PhP)

![Line graph showing annual NPPFRDC profits from logging from 1997 to 2004, with profits ranging from positive and negative values. Significant peaks and troughs are marked with RUP Suspension dates.]
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