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SUPPORTING FOREST TENURE, POLICY AND MARKET REFORMS

# How to increase forests' contribution to economic development: small is big!

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International Community Forestry Workshop  
Pokhara, Nepal, September 16, 2009



## Structure of Presentation



1. Tenure and market trends are changing the shape of the forest economy
2. What has been the performance of our conventional approach?
3. What are we learning about the current and potential contribution of community and SMEs?
4. What is different about community-based enterprises?
5. What needs to be done to increase their contribution?



# How is the world changing and how does this affect economic models?

- Governance: Democratization and decentralization in parallel to a greater recognition of community tenure over forests (ownership and administration)
- Activism: Social movements and reformers promote tenure transition to community and local forest tenure
- New Conservation models: Peopled visions of forest and biodiversity conservation -still problematic
- Supply and demand shifts: Global changes in demand, markets and trade create new opportunities
- New interest in forests: Global attention to MDGs and recently climate change (REDD) and biofuels and global land grab put forests back on the agenda-- for good and for bad



# Forest History Through Last Century into this One

- Forest state owned and enterprises state led
- Production forests allocated to commercial actors- export focus and large scale of industry
- Resource sector expected to fuel the industrialization and economic diversification and then become a sunset industry
- Political history of country shapes how this model has played out (land revolutions in Mexico and China)
- Of higher income countries only Canada, Russia dominated by state-owned forest concessions
- Laws and regulations still holdover from earlier economic model



# A need to understand history and the whole picture

- Myth that development is best served by large scale industry shapes policies in many countries
  - even where there has been a transition to more local rights and management
- Limited understanding of forest history in those countries that carried out their reforms years ago--where they came from and how they reached where they are at present
- Limited knowledge of the reality of the forest economy:
  - fragmented data on timber and non-timber, preconception of competitive options, poor information on domestic and regional trade or value of environmental and social services



# What does the formal forest economy contribute?

## What has Big Industry and Export Led Model contributed to the Forest Economy, MDGs, Growth ?

- Poverty density and incidence remains extremely high in forest areas, including in and around concessions
- The timber exporters in Africa in the aggregate score lower on a range of economic growth and governance indicators than non-exporter low and middle income countries:
  - GDP per capita growth, rule of law, corruption, political stability*
- Concessions have not performed as promised either in generation of expected revenues or in employment and local development benefits
- Export model leading less and less to value addition: more of timber from Africa is exported as raw material, as logs or with minimal processing.
- Most domestic wood supply comes from informal (not officially permitted) sources, not from the industrial scale concessions

# Transitions in Global Wood Industry

1. Large industry (of north) is going south and east
  1. Demand: going East (and in domestic markets of middle income countries)
  2. 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
2. Growing consumer preference for social/env standards (in “north”)
  - Good for “north”, preference for small, local, niches (in North),
  - Driving wedge between “formal” and “informal” sectors (in South)
3. Expansion of human rights, conflicts, increased value of “land” in South, - more opportunity for small scale producers and threat



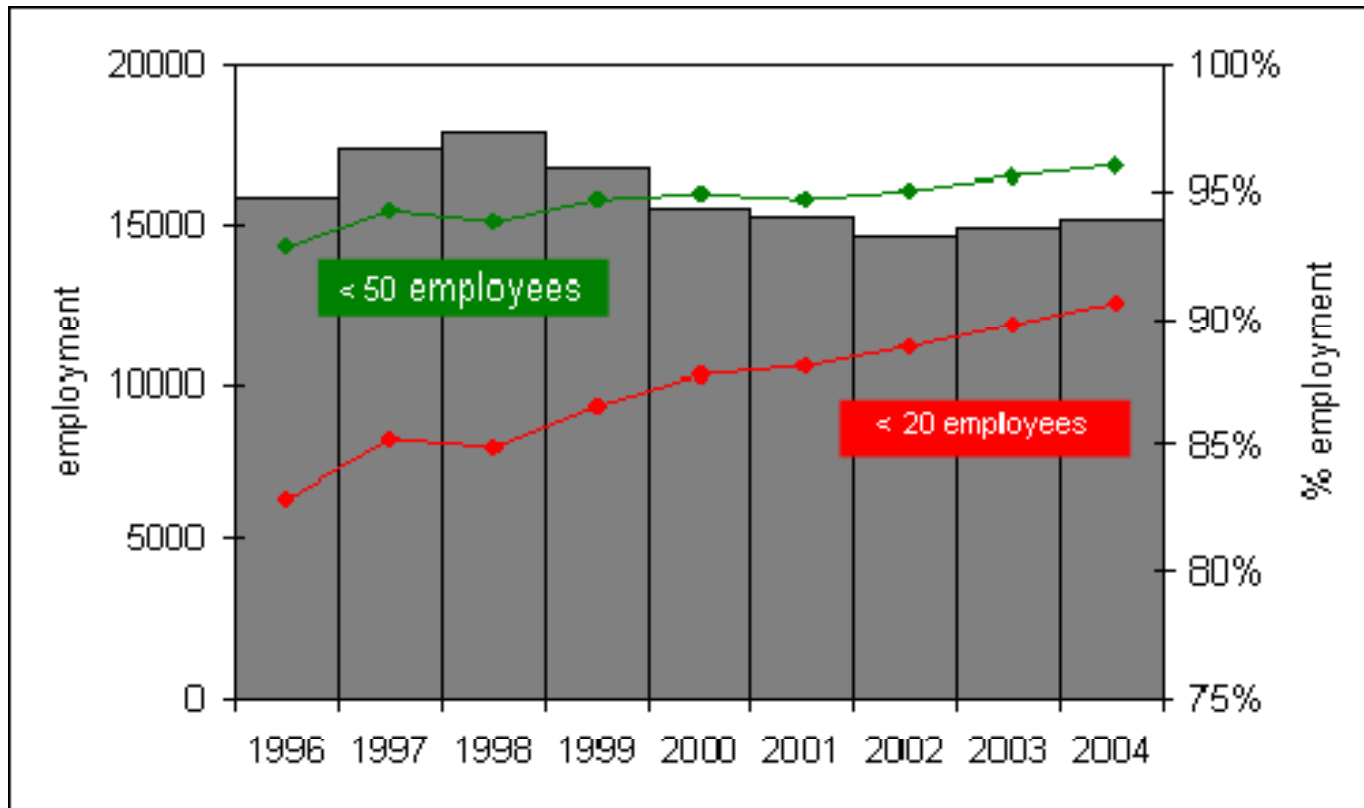
# Small scale is getting bigger

There needs to be a change in the perception of what is the forest economy





# Small is Big in the in the “North” (1)



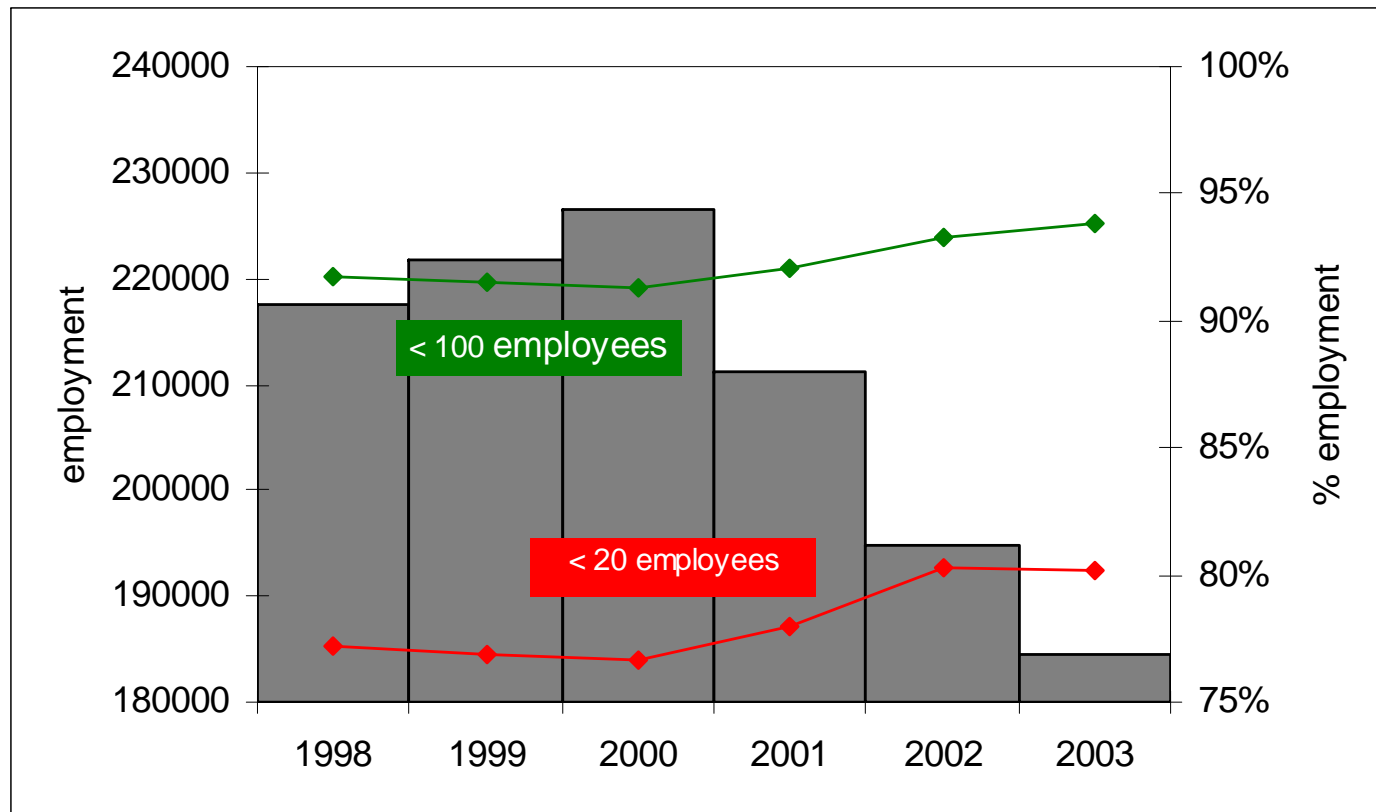
## Swedish sawmilling sector

Total employment and proportion of employment attributed to firms with fewer than 20 and 50 employees

90% of forest enterprises in European Union are SMEs

Source: Kozak 2007. Data from Eurostat, 2007.

## Small is Big 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.



## Small is Big: Experience in the Developing World

Source: Macqueen and Mayers, forthcoming.

	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%

- 50% or more of forestry-related employment related to SMFEs
- employment to approximately 20 million people
- 8 million directly employed from forestry and wood-processing alone

Yet, these numbers are hard to track and many countries don't even bother – a large number of SMFE's are "informal" or "illegal" components of developing economies



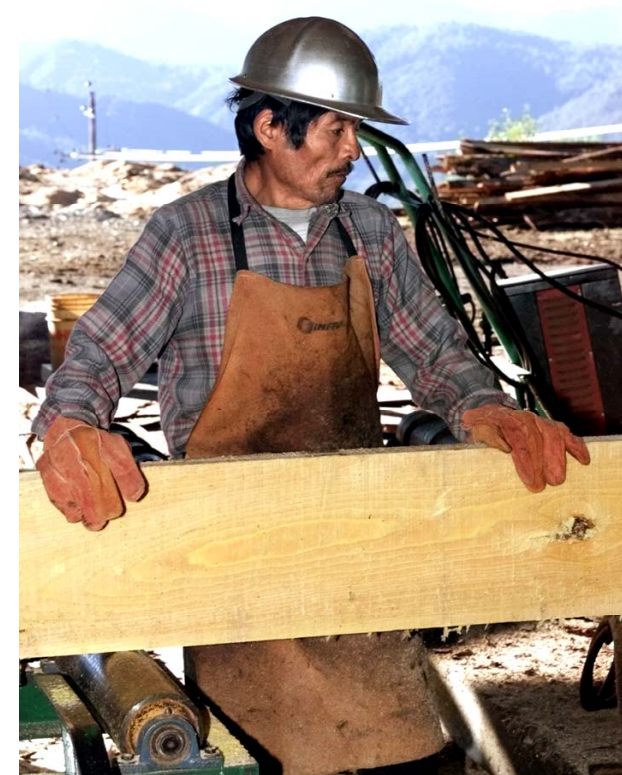
# Contribution of community-based forest enterprises where these have emerged

- If we look at a subset of SMEs
- Successful CFEs are a different kind of business: revenues are invested not only in maximizing profits but in social infrastructure, conserving high conservation value forests, and generating social and human capital for community development and well-being.
- Only a limited number of tropical countries where conditions put in place for the emergence and growth of community-based forest enterprises (CFEs) - Mexico, Guatemala, Nepal, Tanzania,
- Nonetheless where CFEs have emerged in a limited no. of countries have contributed significantly to local incomes, and multiplier effects and innovative economic models
- Regulatory burdens can prevent CFEs from growing or becoming competitive

## Example of community enterprises in Mexico



- **12 M** people in forested areas
- **55%** in extreme poverty
- **43** indigenous groups (**5 M** people)



- Forestlands suitable for commercial forestry : **21.6 M ha**
- Forestlands under commercial production: **8.6 M ha**
- National timber production: **9.4 M m<sup>3</sup>**
- Contribution to the GNP: **1.83%**



## Profitability of Community Forests in Mexico

- Initial transfer of forests to indigenous communities and ejidos in Oaxaca caused production decline: enterprises quickly surpassed the old
- CFE vertically integrated mills: 10-20,000 m<sup>3</sup>/annum= US \$ 1.5-3 million in sales
- Mexico 1980s reforms enabled 1300 CFEs to emerge by 1995; now 2400
- Returns to tax revenues huge--improved management of 0.5 million has. returned US\$1 million more per year to State and 1000 new jobs
- Diversification of economy; Not just Timber but also NTFP and Services *bottled water; ornamental palm; dried and fresh mushrooms, eco tourism; ecosystem services; orchids; thatch; resins; breadfruit*



# SMEs and CFEs in Central and West Africa--big challenges

## SMEs and Community-based Forestry activities encouraged in limited areas and in limited models

- Not allowed in the State forests
- Tendency to promote artificial “modern” institutional underpinnings
- Promoted models delinked from agricultural and multiple-use forest reality
- Protected areas expansion encroaching on potential growth areas

## SMEs are in what is considered an “Informal” Sector

- Nonetheless, the main supplier of domestic and regional markets
- Employment extremely high in collection and processing
- Most illegal --”black market” pejorative also for small urban processors
- Women most active in NTFP related enterprises but even less recognition or support
- Domestic/regional trade in NTFP bushmeat high: extends to insects



- Bolivia:

- comprehensive reforms led to 1.1 million has. of CFE forests since 1999 from none; smallholder area increased 5x

- China

- 58% of forest area is owned by collectives and demonstrate that SMEs are fueling the rural economy and the overall economy
- clear evidence that they boost development and employment and basis for export economy

- Philippines:

- forest sector reform 10 years ago created new opportunities for community-based resource management



CFEs generate goods and services not provided by private entrepreneurs or industry.



1. Major **provider of products for domestic consumption** and sale
2. **Platform for social and democratic organization** for social infrastructure, employment and training, social security, other development
3. Major contributor to **fire control and watershed protection**
4. Promote **multiple, and resilient (uses of forest where women can be key actors** (diversify to water production, tourism, pasturage, honey, shea butter)
5. **Enterprises enable investment in conservation, e.g.,** Communities in Mexico invest US\$ 2/ ha/yr in conservation, vs. US\$1/ha invested NPA's by government.

# CFEs have competitive advantages where:

- **Products of high value** specific to their forests (Chinese bamboo, essential oils in Nepal, mahogany Guatemala, watershed and carbon services in Colombia)
- Combine sources of income in **diversified activities** (México: mushrooms, spring water; India: Pongamia)
- Advantages in **niche markets** where there is value added or a price premium (Nepal *loktar* paper; Gambian honey)
- Trade in domestic markets **where demand is high** (fuelwood in India or the Sahel)







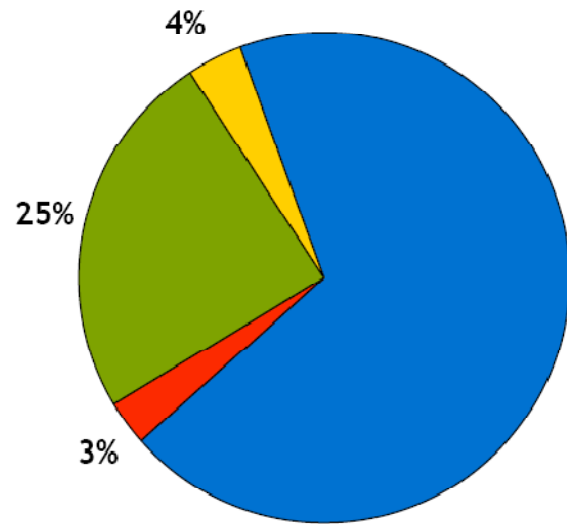
# So how can community forest enterprises be supported to meet their potential?

ITTO Study Finding 2007: In most tropical forest countries, the enabling conditions have not been put in place :

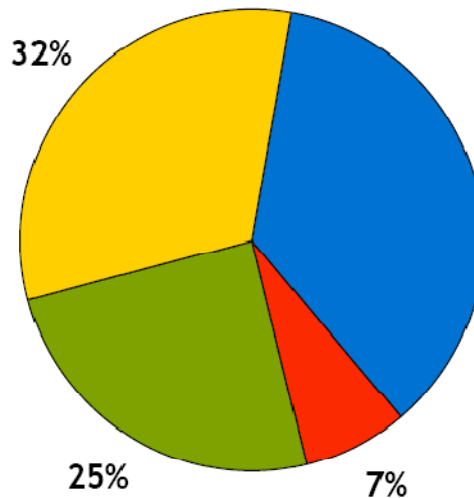
- to create clear and strong property rights,
- to allow “informal” enterprises a formal channel
- to rethink forest and enterprise regulations, or
- take advantage of existing community or collective institutions, existing enterprises, or markets

***TOO OFTEN GOVERNMENT IS PURSUING OWN BUREAUCRATIC INTEREST IN NAME OF “PUBLIC GOODS”***

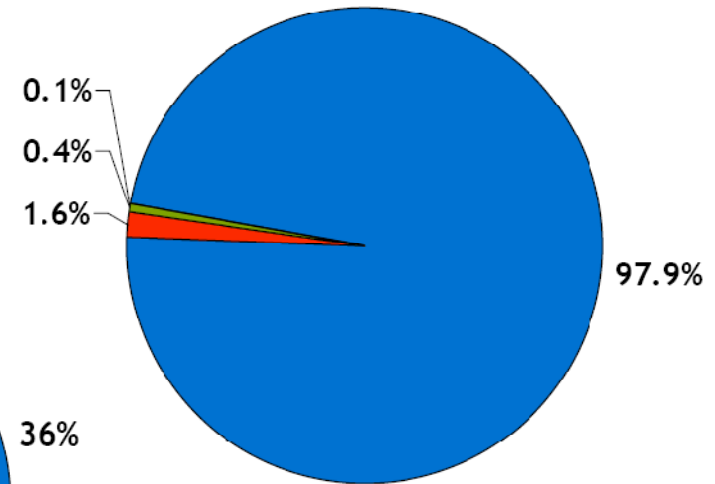
# Tenure transition has been faster in some regions



**Asia & Pacific**



**Latin America**



**Africa**

■ Public: Administered by government  
■ Owned by communities & indigenous peoples

■ Public: Designated for use by communities & indigenous peoples  
■ Owned by individuals & firms

# Regulatory barriers remain high

- **Requirements for and high cost of Forest Management Plans;**
- **Inflexible norms regarding allowable cut or management choices limit innovation**
- **Artificial limits on the size of the forest that can be managed**
- **Artificial regulations on the model of social organization or legal cooperative structure**
- **Delays in permits and procedures add costs (CITES, transport of products)**



# How to Move Forward

## RECOGNIZE THE POTENTIAL OF SMFES AND COMMUNITY BASED ENTERPRISES

- **Reflect SMFES in sectoral and national accounting**
- **Pay attention to domestic and regional markets and informal as well as formal economies and income streams**
- **Learn from the experience of other forested countries and about the transition**

## ELIMINATE or REDUCE BARRIERS

- **Lower or modify regulations that prevent the emergence of CFEs or limit their competitiveness, including taxation norms**
- **Secure tenure and access to forest resources**
- **Increase the participation of communities in the policy dialogue and in the development of standards for new markets like PES/MES, REDD, socially differentiated markets**

## MULTIPLE DEVELOPMENT ACTORS NEED TO SUPPORT CFES

- **Help build capacity of community-based forest enterprises and their associations**
- **Better market information, technical assistance**

# Questions for Discussion

- Why has there been such an over-regulation of the CFE and SME when it is a well-documented constraint?
- What can we learn from the history of forest tenure reform and SME emergence in developed countries with strong forest economies?
- How has the landscape management and agro-forestry approaches changed the understanding of "forest boundaries" and community forestry?
- How can we support CFEs and SMEs while avoiding the trap of "boutique" markets or "boutique" enterprises?
- How can we mobilize change and get all actors to support this different approach?



# Thank You



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