

FOREST COMPANY-COMMUNITY AGREEMENTS IN MEXICO: IDENTIFYING SUCCESSFUL MODELS

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PREFACE

In *A New Agenda for Forest Conservation and Poverty Reduction: Making Markets work for Low-Income Producers*, Forest Trends and CIFOR documented the dramatic changes in the forest sector and in the scope for creating market opportunities for low-income producers to manage their forest resources for livelihoods and conservation, as well as the shifts in the supply and demand for industrial forest products. At least a quarter of the forests in developing countries are now officially owned or administered by indigenous and other communities. Millions of smallholder farmers, especially those in forest-scarce but agriculturally less favored regions, are growing trees not only to recover local ecosystem services, but also to meet rapidly growing domestic demand for forest products. In some areas, forest and farm tree resources are the principal assets of the poor and the most proximate opportunity for poverty alleviation. Unfortunately, however, low-income producers presently benefit only marginally from commercial forestry activities. Forest markets pose formidable barriers to profitable participation by the rural poor. Government policies and regulations have not been adjusted to support the new opportunities for low-income producers and communities to compete in the marketplace with natural forest products or plantation wood. Many communities lack use rights over the forests they own or those assigned to them, and antiquated rules and regulations make the logistics and cost of forest management and use expensive. Current market trends, if unabated, will continue to deny these poor people opportunities to fully use their forest resources for their own development.

Local management of natural forests faces new challenges. Internationally, the pulp and paper industry and industry concentrated in low-value wood segments is consolidating rapidly and relying more on plantations, especially outgrower schemes in tropical countries with good growing conditions. Policies currently promoted by some environmental groups and industry lobbies would mean that in the near future most industrial wood could come from industrial plantations, effectively cutting off forest and farm communities from critical income opportunities. In an increasingly competitive marketplace, local producers of natural wood or farm plantations need access to sufficient capital, market contacts and information, and technology to capitalize on their forest assets—or lose the incentive to keep their forests or restore rural landscapes.

New solutions are appearing. An important opportunity has emerged within the private sector, whereby private companies have entered into new types of collaboration with communities and low-income producers for the supply of their raw material, and, in some cases, for finished products. International forest companies and financial investors are increasingly recognizing the high business and financial as well as environmental and political risks and costs associated with large-scale logging in natural forests and industrial plantations in many parts of the world (e.g., Barr 2002). They are engaging communities in natural forests and small plantation growers in a diversifying set of business arrangements around the supply of wood and wood products. In the best of cases, this collaboration provides communities and smallholders with market linkages and access to technology, capital and capacity-building. Companies gain flexibility in their business investments, and are able to support social and environmental as well as financial goals, while building long-term supply relationships.

This study is one of two Latin American studies investigating markets in Brazil and Mexico. It looks at the experience with community-company business collaboration in Mexico. It builds upon the path-breaking work and methodology of an international study by an International Institute for Environment and

Development research team, which documented 47 examples of community-company partnerships, most of them in the pulp and paper sector in Africa and Asia. By documenting business models and trends in the case of Mexico, it expands the existing knowledge base on community-company partnerships into Latin America. It helps the private sector identify long-term opportunities and potential benefits of engaging more with local forest producer organizations, and informs private sector actors and communities and smallholder producers of the emerging lessons, the criteria for building viable relationships to mutual benefit. It also identifies key issues that need to be addressed for these opportunities to have positive outcomes.

Many types of private sector actors are becoming engaged, including the forest industry, wholesalers, retailers, domestic banks, specialized venture capital firms, socially responsible investment funds, and insurance markets. There is a wide range of potential models for collaboration with small-scale producers; companies can choose those models that work well in their own setting. To be successful they will need to partner with institutions and individuals that have strong community organization and communication skills and are willing to respect the perspectives and positions of their local partners. Increasing collaboration provides scope to improve the rules of the game as well. Private industry can ally with community forest owners and small-scale private owners to lobby for reform of archaic forest laws and regulations, to secure tenure rights for potential local business partners, to promote lower-cost and more effective alternatives to improve environmental standards of forest management, and to encourage public investment for protection of natural forests and reforestation of treeless landscapes.

The case of Mexico is particularly interesting since 80% of the natural forests are owned by forest communities, many of them Indigenous Peoples with culturally-distinct, business models. The community forestry sector in Mexico has the potential to grow as a supplier of industrial raw material into domestic and international markets and as a producer of high-quality and more value-added wood and non-wood products. Some communities are scaling up their enterprises to process or market wood from neighboring communities and become direct marketing agents for a range of products, some of these to international forest certification standards. Other communities depend more directly on market intermediaries or on developing stable relationships with the processing industry for their products. Drawing upon the information and contacts collected during a recent country study of community forest enterprise market participation in five southern states in Mexico, *Opportunities and Barriers for Community Forestry in Mexico*, this study interviews companies and communities to identify promising trends and experiences in company-community collaboration through a shared methodology enabling comparison with the existing global study knowledge base. It looks both at inter-community models, where a vertically integrated community is partnering with neighboring community enterprises, as well as more traditional community-company models of collaboration.

Michael Jenkins
President, Forest Trends

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EXECUTIVE SUMMARY

Agreements between the private sector and local forest communities have been increasingly recognized as a potential solution to problems related to poverty alleviation, the increasing demand for wood products, and the need to increase the part of global forest area that is under sustainable forest management. Mexico represents one of the few countries that have the great majority of their forest resources (more than 80%) located in community lands. Even though communities are the major domestic timber supplier, they usually lack managerial and technical capabilities. Company-community agreements could improve this situation and thereby increase the overall competitiveness of the forest sector, thus benefiting both forest companies and communities.

This study was conducted with the objectives of (1) identifying models of successful agreements between companies and communities that have potential for wider replication; (2) discussing the factors that led these models to succeed; and (3) documenting technical, economic and political constraints hindering the involvement of low-income producers in these models. A literature review of the history of community forestry as well as forest company-community agreements in Mexico was conducted as a first step for this study. Next, forest companies that have entered agreements with communities and ejidos were identified and interviewed. Communities and ejidos were also asked to participate.

Table 1 presents a summary of the main results. Results indicate that the agreements that were part of the study seem to be economically-sound from a business perspective. Most companies reported that they benefited financially from these agreements. However, most of them stated that it may be difficult and risky to establish agreements with communities. It is necessary to determine which communities and ejidos are trustworthy before establishing agreements. Developing long-term relationships seems to be another factor necessary to make agreements successful. Building capacity and better managerial capabilities in communities and ejidos may be important in diminishing uncertainties in these agreements. Communities would be able to actively participate in negotiating agreements and their contracts, and would be able to better meet the expectations of their customers. Government programs promoting the development of agreements would also be an important factor in advancing the status of forest company-community agreements in Mexico.

Table 1: Summary of Main Results

	Forest Products Companies
Status of agreements	90% of companies have agreements with communities
Companies' interest in forming agreements	None of the companies that do not have agreements are interested in developing one
Constraints	
Technical	<ul style="list-style-type: none"> • Communities need to develop forest management plans
Economic	<ul style="list-style-type: none"> • Company needs to pay community in advance • Companies have strong market dependency
Political	<ul style="list-style-type: none"> • Government deficiencies
Other ¹	<ol style="list-style-type: none"> 1. Lack of loyalty and business ethics from the part of communities 2. Lack of a formal contract 3. Difficulty in finding the right product
Positive features/benefits	<ul style="list-style-type: none"> • Use relationship with communities as a marketing strategy • Improves company image • Company is able to guarantee supply of raw material at good prices and quality • Company learned from communities how to work with little financing and equipment
Types of communities ²	<ol style="list-style-type: none"> 1. Sawmill community 2. Roundwood community 3. Stumpage community 4. Finished product community
Types of investment ³	<ol style="list-style-type: none"> 1. Product quality control 2. Technical assistance 3. Financing; commercial support; inputs (e.g. seedlings, fertilizers) 4. Government financing/subsidies; other
Contracts	67% sign formal contracts with communities

^{1, 2, 3} Rank of most frequent responses.

INTRODUCTION

The forest sector is increasingly subject to a debate on how to reconcile apparently conflicting goals such as conserving forest ecosystems, meeting the increasing demand for forest products and promoting sustainable development in order to reduce rural poverty. Forests are closely connected to social issues and play an important role in the livelihood of rural poor (Scherr, White and Kaimowitz 2004), and it is becoming increasingly evident that poverty is one of the main drivers of environmental degradation (Nelson 2002). With the increasing number of forest areas under the control of communities in developing countries (White and Martin 2002), it is necessary to develop mechanisms that allow forest communities to have access and to benefit from these resources. Scherr, White and Kaimowitz (2004) argue that “fundamental changes underway in the forest sector offer new opportunities for commercial forestry to benefit local people and provide more sustainable pathways of economic development for local communities.”

This study seeks to identify potential partners in the forest industry that demonstrate interest in linking low-income forest producers to the private forest sector and market opportunities. Specific objectives included:

1. Identifying model agreements that have proven successful and that have potential for replication;
2. To discuss the factors that led these models to succeed;
3. To document technical, economic and political constraints hindering the involvement of low-income producers.

Companies were selected from a list provided by the research team of a parallel Forest Trends study, the Mexico Market Assessment. This study consisted of a market assessment of timber and wood segments in which communities from five states in Mexico participated. The list consisted of wood processing companies, intermediaries and forest communities. Only companies that had direct connection with forest communities and ejidos were selected to participate. This criterion was used in order to identify successful business models as well as success factors and constraints. Communities and ejidos were also asked to participate in the study in order to identify similarities as well as gaps with companies' opinions. All selected companies and communities were sent a letter in advance, along with a list of questions, to explain the study and to ask for their collaboration. This gave respondents the possibility to complete the questionnaire on their own (returning it by fax or e-mail). Telephone interviews were arranged with companies and communities that did not reply by fax or email.

This report presents the findings of this study in five sections. First, a brief literature review of the history of community forestry in Mexico is presented. Next, the results of the interviews with companies are described, followed by an overview of the opinions of communities and ejidos. The following section presents successful business models and a discussion of success factors/benefits and constraints. In closing, opportunities for action are identified and conclusions presented.

OVERVIEW OF COMMUNITY FORESTRY IN MEXICO

Mexican forest communities and ejidos have a long history with peculiar characteristics when compared with forest communities in other parts of the world. Agrarian reforms launched in the early 1930s by the Mexican Revolution resulted in the transfer of ownership of large amounts of forestlands to indigenous communities and ejidos (Bray and Merino-Pérez 2002). Today, around 80% (approximately 95 million hectares) of Mexico's forestlands are owned by forest communities and ejidos, 15% are private property owned by small forest landowners and 5% are national forestlands (Villanueva 2002; Bray and Merino-Pérez 2002).

It is estimated that Mexico has a total of 28,058 ejidos and communities. Of this, around 7,200 have forest resources (Villanueva 2002). The majority of forest community management in Mexico can be found in temperate forests, especially in the states of Chihuahua, Durango, Oaxaca, Michoacan, Guerrero and Puebla. Most of the tropical forest communities are located in southern Campeche and southern and central Quintana Roo (Bray and Merino-Pérez 2002). Data on the number of forest enterprises in Mexico is very scarce and not always accurate. Bray and Merino-Pérez (2002) found that, from 1998-2000, 351 logging permits were issued to communities, representing 21% of the permits issued during this time. According to Villanueva (2002), forest activities constitute the primary source of income to only 421 ejidos and communities located in northern Mexico. **Table 2** provides more information on ejidos in Mexico according to the 1995 *Censo Ejidal*.

Table 2: Censo Ejidal in Mexico (1995)

Number of forest ejidos in Mexico	6,922
Area	
Larger	604,321 ha
Smaller	6 ha
Shared area in ejidos	Range from 0 to 604,321 ha
Average population in ejidos	148 ejidatarios (range from 15 to 4,322)

Source: Adapted from Villanueva (2002).

There are several ways in which ejidos and communities may be classified. The classification system proposed by Bray and Merino-Pérez (2002) was the one considered for this study. It is based on the degree of vertical integration of communities and ejidos, which include five types: (1) potential producers; (2) stumpage communities; (3) roundwood communities; (4) sawmill communities; and (5) finished products communities (**Table 3**).

Table 3: Typology of Forest Communities and Community Forest Enterprises

Type I – Potential Producers	Potential producers: Owners and/or possessors of forestlands with capacity for sustainable commercial production that currently do not carry out logging because they lack an authorized forest management plan or sufficient means to pay for its elaboration.
Type II – Stumpage Communities	Producers who sell timber on the stump (<i>neorentistas</i>): Owners and/or possessors of parcels subject to timber exploitation where the activity is carried out by third parties through commercial contracts, without the owner or possessor participating in any phase of the extraction process, although they may participate as laborers.
Type III – Roundwood Communities (Phase I – Logging Team; Phase II – Extraction Equipment)	Producers of forest raw materials: Owners and/or holders of forest properties that have authorized logging and that participate directly in some phase of the production chain. This category contains two phases: In Phase I the community has its own logging team and in Phase II it acquires extraction equipment such as skidders, winches and trucks.
Type IV – Sawmill Communities	Producers with capacity for transformation and marketing: Producers of raw materials that have infrastructure for its primary transformation and directly carry out the marketing of their products.
Type V – Finished Products Communities	Producers with capacity for processing sawnwood: Producers of roundwood that have a sawmill as well as other diversified processing infrastructure to give value-added to sawnwood. These may include driers, furniture and factory moldings, chip mills, etc.

Source: Bray and Merino-Pérez (2002).

It is not known exactly how much community forest management contributes to the overall Mexican forest sector. Currently, very few forest ejidos and communities are able to compete in the forest products market. Ejidos and communities usually prefer to form agreements among themselves in order to have better access to markets as well as access to forest technical assistance (Villanueva 2002). Almost all forest communities and ejidos that manage their forests commercially market their timber production directly, usually to the domestic market. The smaller communities usually sell to state-level markets and the bigger ones to different national markets (Bray and Merino-Pérez 2002).

Communities and ejidos usually face a number of internal problems that may make it difficult to reconcile their own objectives and business strategies. These difficulties include, among others, the sometimes intertwining interest of traditional community governance and enterprise management, the issue of managerial rotation every three years, issues of financial management and business strategy, and the issue of corruption and mismanagement. These difficulties put community forest enterprises at a big risk because of

mismanagement, inefficient enterprises, high costs and exploitation by outside forces. According to Segura (2000), “the efficiency of forest community enterprises is a function of the degree of internal organization of the community and is related to the importance that the forest resource represent to them.” It has been observed, however, that most forest communities managing their forest resources commercially can produce profits. It seems that the higher the degree of vertical integration, the larger the average profits (Bray and Merino-Pérez 2002).

Box 1 – The Case of Boise Cascade Corporation in Guerrero, Mexico

Boise Cascade Corporation is based in the US and one of its subsidiaries, Costa Grande Forest Products, in the state of Guerrero, Mexico. In 1995, the corporation signed an agreement with the State of Guerrero that gave Costa Grande Forest Products exclusive rights to the timber of 400,000 ha of pine forests owned by 24 local ejidos. In return, the company would have to provide seasonal start-up capital as well as capital investments in new sawmills, road improvements and better harvesting equipment. Additionally, the company agreed to provide local workers with training on new equipment and silvicultural techniques.

The agreement was dissolved a few years after it was established. The company was being targeted by heavy environmental protests due to the lack of environmental assessment of its operations in Mexico plus its operations in old-growth forests in the Northwest Pacific. In 1998, the company closed its timber operations in Guerrero, alleging inconsistent and seasonal supply.

Source: Landell-Mills (1999) cited by Mayers and Vermeulen (2002).

There are different types of agreements that can be established between forest communities and forest companies. Mayers and Vermeulen (2002) identified four main types: (1) joint venture; (2) timber concessions leased from communities; (3) out-grower schemes; and (4) corporate social responsibility projects. There are very few documented cases of company-community agreements in Mexico. Boxes 1 and 2 describe two of these cases. **Box 1** describes agreements between Boise Cascade and ejidos in Guerrero. **Box 2** concerns the experience of Ejido San Pedro de Villa Corona in Durango. This case study is part of a study conducted by the Inter-American Development Bank (IADB) on company-community agreements that generate vertical integration benefiting all the parties involved (Nascimento and Villanueva 2003).

Box 2 – The Experience of Ejido San Pedro de Villa Corona

Ejido San Pedro de Villa Corona is located in the state of Durango and has a population of 400 people. In the year 2000, the ejido established an agreement with local companies, resulting in the formation of a company, Puertas y Molduras de Durango, S.A. de C.V., which is currently being disintegrated. In the same year, the ejido decided to establish an agreement with Spanish entrepreneurs. This agreement led to the formation of another company, Hispano Mexicana de Puertas y Molduras S.A. de C.V., which will produce wooden doors. The company has not started to operate yet, but the expected production should be 125,000 units per year. The doors should be sold at US\$40.00, which will give the company a profit margin of US\$6.00 to US\$18.00 per door. The second phase of the project will include furniture manufacturing.

Potential benefits of this agreement include: (1) the constitution of an organized company with clear objectives; (2) clear participation and utilization rules; (3) the manufacturing of value-added products; (4) sound financial operation of enterprise; (5) guaranteed market access, especially in the Southwest of the United States; (6) viable alternatives to illegal logging in northern Mexico; (7) the possibility of high profit margins for the partners, which will improve the ejido livelihoods; and (8) market access that may generate access to other products manufactured by the community.

Potential constraints and risks include: (1) economic benefits generated for the ejido that will be small at least in the first phase; (2) the possibility that the amount of wood supplied by the ejido is limited which would result in an incomplete integration; (3) the limited managerial experience of the ejido which may result in wrong strategic decisions; and (4) the risk that the amount of raw material that is not produced locally is too large and the company does not have a production scale large enough to have good bargaining power.

Source: Villanueva (2002).

TELEPHONE INTERVIEWS

WHO PARTICIPATED?

Two communities/ejidos and 10 companies agreed to participate on this study. It is important to keep in mind that this an exploratory study, which is qualitative in nature. **Table 4** briefly describes the profile of the interviewed companies. Responses indicate that these companies expect to increase their annual log input in the next five years. Forty percent of the interviewed companies are located in Oaxaca and sell mainly to domestic markets (83%). Lumber and specialty products are the two most common products manufactured by these companies.

Table 4: Profile of Respondents

Average annual log input	72,867 m ³ /year (range from 1,800 to 450,000 m ³ /year)
Average number of suppliers	20 (range from 4 to 40)
Average cost/m³	US\$ 65.74/m ³ (range from US\$ 7 to US\$ 139.5/m ³)
Log requirement in 5 years (average)	105,071 m ³ (range from 4,500 m ³ to 450,000 m ³)
Should come from SFM	78%
Products manufactured ¹	1. Lumber 2. Specialty products ² 3. Veneer; plywood 4. Pulp; paper
Main species used ³	1. Pine 2. Oak 3. Tropical woods 4. Eucalyptus
Markets	
Domestic	83%
Export	18%
Location	
Head Office	Durango - 20% Oaxaca – 40% Nuevo Leon – 20% Jalisco – 10% DF – 20%
Have divisions in other places?	Yes – 50% No – 50%

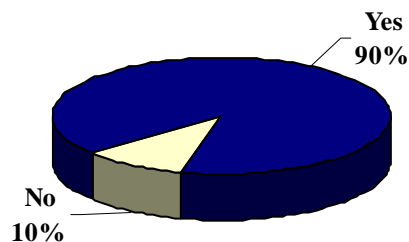
^{1,3} Rank of most frequent responses.

² Specialty products cited include: craft wood products and furniture, flooring, molding, railway dormant, posts and poles, doors, parquets, packaging, truck platforms.

COMPANIES' OPINIONS

Agreements with communities – 90% of the companies interviewed purchase at least part of their timber supply from communities and ejidos (**Figure 1**). **Box 3** presents the experience of a respondent who prefers not to have agreements with communities. 78% of the respondents that purchase timber from communities and ejidos said that the communities and ejidos they buy from practice sustainable forestry management. Some respondents (11%) stated that the communities they purchase timber from do not practice sustainable forest management and another 11 % of the respondents said that they do not know whether they do.

Figure 1: Proportion of Respondents that Have Agreements with Communities



Box 3 – A Negative Experience in Forest Company-Community Agreements

Carpicentro Perroni S.A. de C.V. produces kiln dried lumber, treated lumber, flooring and molding from tropical hardwoods, 15% made of mahogany. They used to buy most of their timber supply from forest communities. However, due to negative experiences with these agreements, the company now imports 95% of its timber supply from other countries in Latin America and buys only 5% from forest communities and ejidos in Campeche and Quintana Roo. Even though it is more complicated to import most of their supply, the company finds it less expensive. Carpicentro believes that this difference in price is mainly due to different production structures of the places they import from.

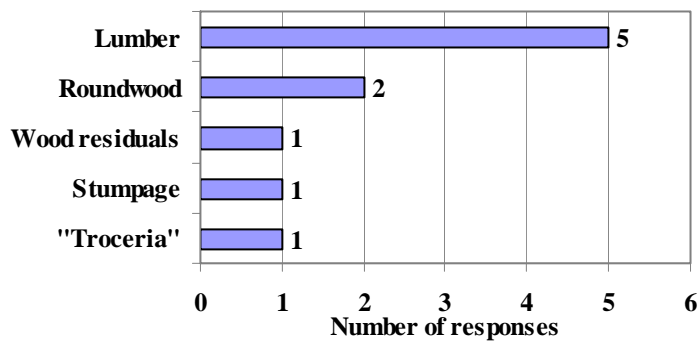
According to Carpicentro, the difficulties in dealing with communities result from their lack of understanding on how to do business and on how markets function. Furthermore, the company thinks that there should be better legal enforcements to protect companies when communities do not meet the terms of the agreements. Other complications identified by the company include the fact that most communities do not practice sustainable forest management because it is not economically viable since their lands are not very large.

Carpicentro indicated that they will change their position only if the legal frameworks changed and the company would get legal guarantees. They believe that it would be possible only if the government of Mexico changed its paternalistic attitude towards communities. The company also believes that NGOs could be helpful in providing communities with managerial training. However, the company has also verified that, in some cases, NGOs may complicate negotiations and community operations, resulting in increased costs.

Reasons for developing agreements with communities – When asked which reasons led their companies to pursue agreements with communities, the most frequent responses were that: (1) a company did not have another choice since the majority of forestlands in Mexico belongs to communities; (2) communities supply wood with good quality; (3) a company decided to make a social commitment to community development; (4) a company prefers to buy Mexican wood; and (5) a company sells to a domestic market.

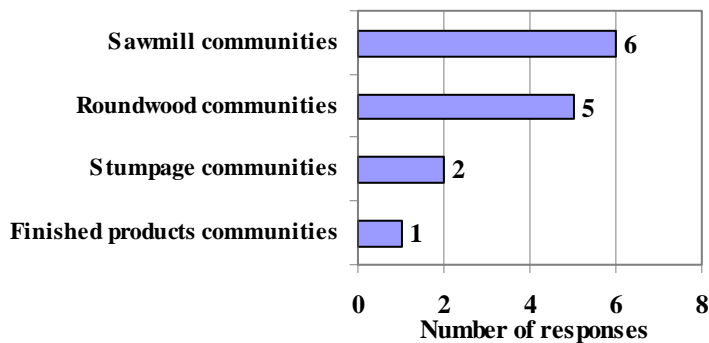
General characteristics of communities – On average, around sixteen different communities and ejidos supply timber to each company.¹ The most common product supplied by communities is lumber, followed by roundwood (Figure 2).

Figure 2: Types of Products Communities Supply to Companies



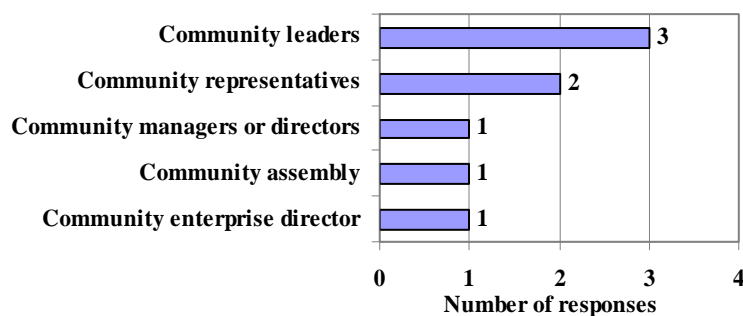
Companies were also asked to classify the communities according to their manufacturing capacity. Figure 3 shows that most communities are sawmill communities (i.e. communities with capacity for raw material transformation and marketing) and roundwood communities (i.e. communities that produce and sell roundwood). According to the respondents, communities are usually represented by community leaders or community representatives in these agreements (Figure 4).

Figure 3: Types of Communities According to Their Manufacturing Capabilities



¹ Please note that the responses used to calculate this average ranged from three to 40 suppliers.

Figure 4: Type of Community Representation in Agreements with Companies



Constraints – Most of the respondents (70% and above) do not believe that there are any technical, economic or political limitations to the development of agreements with communities (**Table 5**). The fact that communities have to develop and approve a forest management plan was the main technical limitation cited. Economic limitations cited include (a) the need to pay in advance for community products; and (b) the strong market dependency on the part of the companies which limits their capacity to forecast growth and increase number of agreements with communities. Political limitations were mainly related to governmental deficiencies.

Still, nearly 90% of the companies interviewed stated that certain constraints hinder the development of agreements between companies and communities/ejidos. Most frequently cited was the lack of loyalty and business ethics from communities and ejidos. Most companies found it difficult to trust communities and ejidos to keep their part of the agreement. However, respondents stated that once they learned who they can trust they often found good business opportunities with communities. Less frequently mentioned was the difficulty to find the right product, the lack of a formal contract and the fact that political conflicts often cause a delay in businesses processes.

Table 5: Constraints to the Development of Agreements

	Are there limitations?	
	Yes	No
Technical limitations	20%	80%
Economic limitations	30%	70%
Political limitations	10%	90%
Other limitations	89%	11%

Change in government policies – Less than half (44%) of the respondents believe there are state or federal government policies that could be changed to facilitate company-community agreements. Changes suggested include the need to strengthen and promote the participation of communities in the supply chain as well as the encouragement of long-term contracts and concessions.

Positive features – Most of the respondents (63%) believe that there are financial benefits resulting from agreements with communities (**Table 6**). Respondents specified that these benefits result from (1) the

possibility of using their relationship with communities as a marketing strategy; (2) an improved company image; and (3) the good prices and wood quality offered by communities.

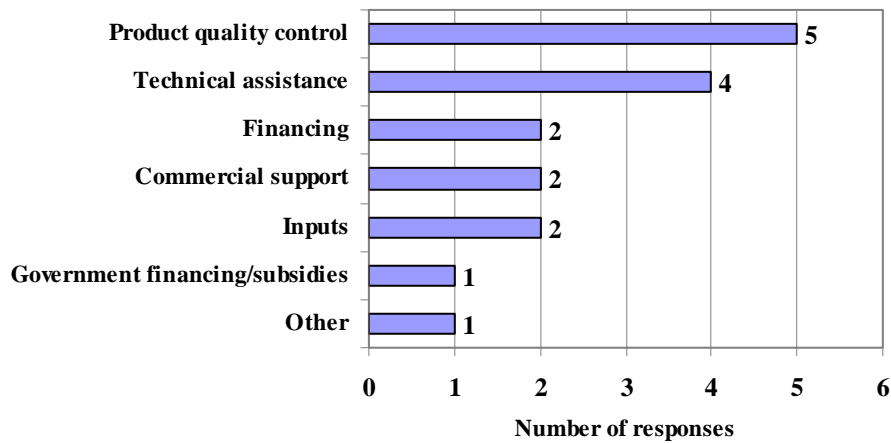
The non-financial benefits cited include the fact that these types of agreements with communities are part of the company philosophy and that the experience with communities taught the company how to work with little financing and equipment.

Table 6: Respondents’ Opinion on Benefits from Agreements with Communities

	Are there benefits?	
	Yes	No
Financial benefits	63%	37%
Non-financial benefits	25%	75%

Types of investments – Quality control of product and technical assistance, respectively, were the most common types of investments companies make in agreements with communities (**Figure 5**). The category “other” includes medical assistance to community members.

Figure 5: Types of Investments

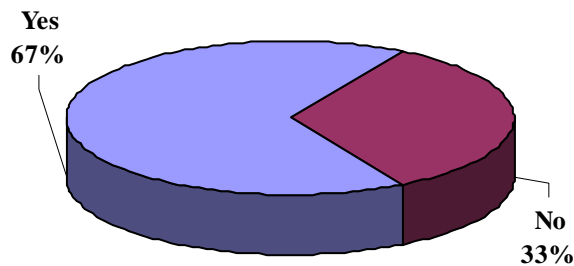


Continuity of agreements – All respondents stated that they plan on keeping and/or extending their agreements with communities. 75% of these respondents are willing to make some type of investment in order to keep or extend these agreements. Responses revealed that these companies would be willing to make investments in social, technical, financial and/or managerial support.

Contract framework – 67% of the respondents sign formal contracts with communities when establishing agreements (**Figure 6**). Those respondents that do not have legal contracts with communities stated that the obligations and risks are shared based on mutual trust between parties as well as through informal requirements. Of those that have formal contracts, 67 % said that their contracts have been modified over time. Changes included price adjustments, changes in quality requirements and types of social work provided

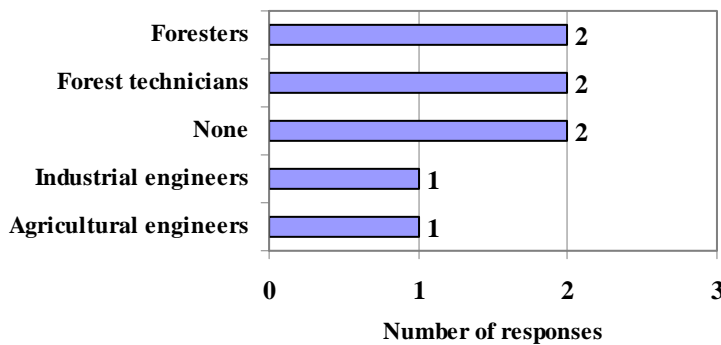
by the company. Half of the respondents that have formal contracts believe that their contracts may need to be modified in the future. Respondents stated that contracts should for example include penalties when the contract is not followed as well as a clause that obligates the community to re-invest part of their profit in forest care, plantations etc. According to the respondents, the communities' main obligation is to supply products with the right specifications and within pre-specified time. Companies' obligations are (in order of most frequent responses): (1) to pay on time; (2) to provide social, technical, financial and/or managerial support; and (3) to buy all the wood available.

Figure 6: Proportion of Respondents that Have Legal Contracts with Communities



Professionals working directly with communities and ejidos – Respondents were asked about the professional background of the people working directly with the communities. The most common responses were professional foresters, forest technicians and people with no qualification (**Figure 7**).

Figure 7: Professionals Working Directly with Communities



Lessons learned – Respondents stated that, in order to have successful agreements with communities, (1) it is always necessary to keep and cultivate a good relationship with communities; (2) there needs to be mutual support between the company and the community; (3) it is necessary to find a community that a company can trust; (4) it is necessary to increase the community's productivity; and (5) that it is important not to give big money advancements before receiving the product.

COMMUNITIES' OPINIONS

Two communities/ejidos agreed on contributing to this study by describing their experience of agreements with forest companies. Both communities receive some kind of investment from companies, do not sign formal contracts with forest companies and believe that agreements with other communities could be beneficial after solving some organizational difficulties (**Table 7**). Ejido El Balcon faced some difficulties when implementing agreements with forest companies, which are described in **Box 4**.

Box 4 – Difficulties Faced by Ejido El Balcon when Establishing Agreements with Forest Companies

Ejido El Balcon is located in the State of Guerrero, Mexico and has been establishing agreements with forest companies for timber supply for the past eight years. They have decided to develop agreements with forest companies because these agreements bring them advantages in positioning the community in the supply chain. The ejido did not have any economic difficulties when establishing the agreements. However, there were technical and political limitations that hindered their development. Initially, El Balcon had technical difficulties regarding the necessary precision of finishing and packaging the products as well as with the language. Political limitations included slow processes of issuing permits and authorization for transport of forest products. Among other difficulties is the free transit of Mexican trucks within the United States. The ejido believes that federal and/or state policies could be modified to simplify the official formalities and decrease the amount of requirements. They added that NGOs could collaborate by developing projects that can be used to simplify official formalities. El Balcon intends to keep or even extend agreements with companies in the future. These agreements help them to diversify their products and broaden their marketing options.

Table 7: Communities' Opinions on Agreements with Forest Companies and Other Communities

	Ejido El Balcon	Pueblos Mancomunados
General characteristics		
Have agreements with companies?	✓	✓
Practice SFM?	✓	✓
How many companies?	2	20
Length of agreement	8 years	10 years
Main product supplied to companies	Lumber	Kiln dried dimension Lumber
Representation of community/ejido	Directors of the community enterprise	Sales department of community enterprise
Specific characteristics		
Types of investments provided by companies	Commercial support; product quality control; financing	Commercial support; product quality control
Company obligations	Pay in time for purchased volume	(did not specify any)
Community obligations	Meet pre-specified delivery times, volume and product quality	Meet the needs of their clients
Sign formal contracts?	✗	✗
Constraints		
Technical	✓	✗
Economic	✗	✗
Political	✓	✗
Financial benefits	✓	✓
Agreements with other communities?	✓	✗
If no, interested?	N/A	✓
Problems in agreements with other communities	To coordinate product quality	Organization
Benefits in agreements with other communities	Ability to offer greater product volumes; ability to guarantee supply to larger companies	Better prices
Products supplied to companies	Lumber, block, blanks	Lumber
Are formal contracts signed?	✓	✓
Other community's responsibilities	Adequate supply Meet product quality	Same responsibilities for all participants
Your community's responsibilities	To be responsible to the group's professionalism	Same responsibilities for all participants
Profile		
Size of forestlands	7,619 ha	13,000 ha
Total production	14,500 m ³ /year	25,000 m ³ /year
Number of buyers	11	20
Selling price/m ³ ¹	US\$ 270/m ³	US\$87/m ³
Products manufactured	Lumber	Lumber
Species	<i>Pinus berierae</i> ; <i>Pinus teocote</i> ; <i>Pinus pseudostrabus</i> ; <i>Pinus ayacahuite</i> <i>Abies religiosa</i>	<i>Pinus patula</i> ; <i>Pinus rudis</i> ; <i>Pinus ayacahuite</i> ; <i>Pinus sdustrobus</i>
Location (City/State)	Tecpan de Galeano / Guerrero	Sierra Norte de Oaxaca

¹ 1USD = 10.91MXN

DISCUSSION

SUCCESSFUL MODELS

It seems that in order to develop successful agreements, a company has to have the ability to build a relationship with communities and ejidos based on mutual trust. Most of the respondents seem to have learned that lesson the hard way. Responses indicated that successful agreements with communities start by identifying suppliers that are trustworthy. In addition, a company has to be able to identify those communities and ejidos that have production capacity to supply a quality product within pre-specified time. However, if the respondents needed to choose between suppliers that were trustworthy and ones that had production capacity, it seems that most of the respondents would prefer to find a community that they could trust and to then work on building capacity in the community.

Since mutual trust seems to be an important component for a successful agreement, most of the respondents have put a lot of effort in establishing long-term relationships with their community suppliers. The types of investment companies make in communities is an important factor in building a relationship based on trust. Companies interviewed for this study concentrate their investments in product quality control and technical assistance. However, many respondents stated that they have provided other types of assistance such as community infrastructure development and medical assistance.

This study demonstrates that successful models of company-community agreements in Mexico usually include one or more of the following points: mutual respect and trust, a fair negotiation process, long-term commitment, practical business development principles, and the goal of improving livelihoods. Other studies have confirmed this (Mayers and Vermeulen 2002; Nascimento and Villanueva 2003).

CONSTRAINTS

Few respondents identified technical, political and/or economic constraints hindering the development of agreements between forest companies and forest communities. If they did, the most frequently cited factor was the lack of loyalty and business ethics displayed by communities and ejidos. This concern is related to two other frequently cited constraints: the lack of formal contracts and the need to give communities and ejidos money advances in order to guarantee product supply. Most of the interviewed companies stated that they have been in situations in the past when communities did not keep their part of the agreements. The risk of this happening increases with the lack of a formal contract specifying obligations and sharing risks. Although most of the respondents have found a way to overcome these difficulties, this may be a serious limitation to the development of forest company-community agreements. The establishment of contracts should serve to defend the interests of companies as well as communities and ejidos. In order for objectives being met, contracts need to be clear and mutually acceptable (Mayers and Vermeulen 2002).

Another common limitation cited by the respondents is the need to pay in advance for part or the entire product they buy from communities. This is necessary to guarantee the availability of raw material, since supply can often be limited. However, companies that do not have legal contracts signed when making these

agreements have no guarantee that they will actually receive the product even though they have already paid for part or all of it in advance. Some respondents have described situations when they made the payment in advance and then another company that had made a better offer got the product instead. These companies never received the money back.

POSITIVE FEATURES AND BENEFITS

The benefits had from these agreements were very diverse and included more financial than non-financial benefits. Agreements with communities for timber supply therefore make business sense for most of the respondents. Companies stated that these agreements may also be beneficial in areas that indirectly influence their financial bottom line, such as access to high quality raw material at competitive prices, improved relationship with local communities and improved company image. This was confirmed by similar studies (Mayers and Vermeulen 2002; Scherr, White and Kaimowitz 2004; Nascimento and Villanueva 2003).

OPPORTUNITIES FOR ACTION

According to companies participating in this study, factors that limit forest company-community agreements in Mexico seem to be related to a lack of trust and business ethics of communities as well as a lack of legal contracts in some cases. Companies seem to feel that they are at a disadvantage when negotiating with communities. Since communities own most of the available supply of domestic timber, companies believe that they have greater bargaining power. Furthermore, there should be better legal enforcement in order to guarantee that both parties meet their share of the agreement. The case of Carpintero (**Box 3**) illustrates this.

Contracts may be an important part of agreements because they protect the interests of all parties involved and dissipate some of the uncertainties implicated in such agreements. However, these goals are not always met because the initiative of developing a contract usually comes from companies, which results in their interests being better represented in the contract than those of communities (Mayers and Vermeulen 2002). In order to prevent this from happening, it is necessary to improve the managerial and technical capabilities of forest communities and ejidos so that they can be an active party in the negotiation of agreements and contracts and better meet the expectations of their clients.

In the past, Mexico's paternalistic and controlling government policies prevented communities and ejidos from developing managerial capacity and long-term planning of their forest businesses. Except for a few cases, the government of Mexico has not promoted associations between communities and the private sector. However, these associations would increase the competitiveness of the forest sector, which is essential to improving the livelihoods of forest communities and ejidos through market mechanisms. In the case of Mexico, such associations between private sector and communities are particularly important because communities and ejidos retain more than 80% of the forest resources, but do not control production means and market knowledge (Villanueva 2002; Segura 2000). Respondents suggested that government policies should include programs that strengthen and promote the participation of communities in the supply chain and to encourage long-term contracts and concessions. In addition, it was suggested that the government

improve the allocation of financing resources and strengthen the institutions that ensure the proper enforcement of laws and regulations (Segura 2000).

CONCLUSION

Mexico's community forestry has some peculiar characteristics. The Mexican Revolution launched agrarian reforms, which resulted in a transfer of ownership of large amounts of lands to communities. More than 80% of Mexico's forestlands are owned by communities and ejidos. However, communities and ejidos do not control the means of production and do not have extensive market knowledge. They therefore use forest resources in an inefficient manner that does not contribute to the improvement of their livelihoods. Forest company-community agreements play an important role in improving the livelihoods of communities as well as the competitiveness of forest companies and the forest sector in general.

Results indicate that company-community agreements can be profitable. According to respondents, profits result from indirect factors such as an improved company image and access to quality raw material at better prices. Lack of loyalty and business ethics of communities were the main constraints identified by companies participating in this study. Companies' concerns revolve around whether or not communities and ejidos will keep their part of agreement. However, there are companies that have been successful in dealing with these uncertainties where a relationship was based on mutual trust. Identifying reliable partners therefore is crucial for companies. Another factor that may help to reduce uncertainty includes the use of formal contracts when establishing agreements. In order to negotiate fair and clear agreements, it is necessary that communities have better managerial capabilities. These will have to be better developed. In addition, there is a need for better government programs promoting company-community agreements and better law and regulation enforcement.

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