International Institute for Environment and Development

# Privatising sustainable forestry

## A review of global experiences

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# Overview

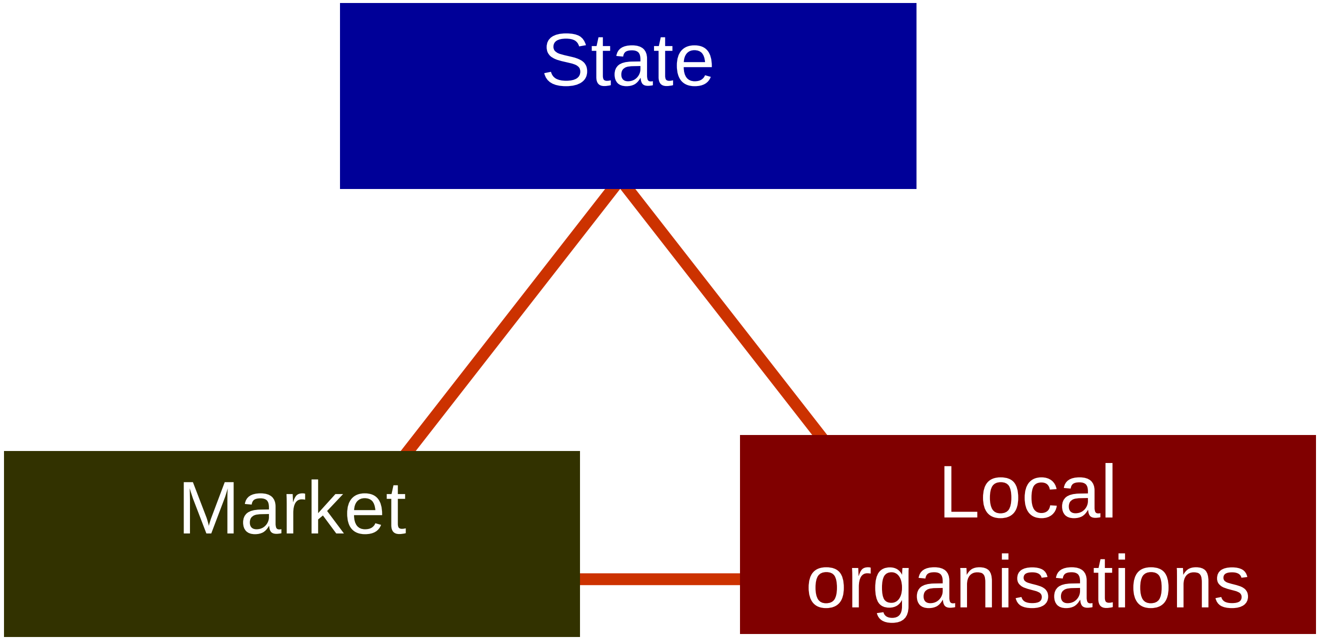
- Background
- Key findings of global review
- Innovative approaches emerging
  - Forest certification
  - Markets for forest environmental services
  - [Company-community partnerships]
- IIED work in China

# 1. Background

**Rationale:**

- Markets fail to account for social and environmental benefits of forests >> overexploitation and conversion
- Private sector increasingly dominant: from forest asset strippers to best practice enterprises
- Government capacity weak
- Civil society is a growing force

# *"Policy is what organisations do"*




- Civil and private organisations too - not just government
- Processes of policy making and implementing – not just statements

# Aim

- To identify effective market and regulatory instruments for ensuring that the private sector produces social and environmental benefits from forest management; and
- to promote these instruments

# Main project components

- **Brief overview** of the issues (completed 1997)
- **Global review** of private sector participation in forestry (completed 1999)
- **Thematic studies**: certification, company-community partnerships, markets for forest environmental services
- **Country studies**: China, Brazil, PNG, India, South Africa

# 2. Key findings of global review

- Review conducted March-November 1998:
  - 142 responses from 76 countries
  - 23 countries selected for detailed investigation
- Private sector: large and small companies, community “enterprises”, households and individuals

# Picture of widespread of reform

- All countries implementing reforms to **increase PSP**
  - forest management > use > ownership
- All countries introduced at least one **market-based instrument**
  - incentives > promotion of markets for non-timber benefits > certification
- Just under 70% of countries **restructured forest authority**
  - contracting out > privatisation > corporatisation

# 3. Innovative approaches

## Forest certification

- From an idea to routine in 10 years
- FSC 18 M + ha – of which:
    - 84% in developed countries
    - 85% corporate/state industrial
    - 81% in natural forest
- PEFC c25+M ha soon – Europe
- National schemes in 12 + 12 being developed

# Many questions exist

- Will it really tackle key forest problems?
- Who will be the winners and losers?
- IIED's concerns: how can certification:
  - meet the needs of community forestry?
  - improve forest product supply chains and responsible business?
  - contribute to SFM policy processes?

# Community forest enterprises

- **Emerging benefits**:
  - More scientifically rigorous forest management,
  - entry into international markets,
  - social institution building & improved links to policy processes
- **Key constraints**:
  - high costs & little increase in incomes,
  - lack of capacity,
  - inaccessible information/markets,
  - externally-driven & local land use systems not recognised

  $\Rightarrow$ **a regressive MBI?**

# Supply chain

- **Benefits**: improved transparency, maintained/expanded markets, higher prices in niches (e.g. hardwoods)
- **But...**
  - ➢ Temperate softwood products dominate – 'safer' than tropical hardwoods?
  - ➢ DIY retail sector dominates – construction timber/paper left out
  - ➢ price premium temporary
  - ➢ lack of broad based customer demand

# Contribution to SFM policy

Uses being extended from market process to:

- Government market-based instrument: supporting government regulation
- Project certification – verifying project success
- Improving forest policy – stimulate discussion and awareness within policy-making community

# Forest Policy Pyramid

**Sophisticated Elements for IFM and livelihoods...**

**7. Monitoring/verification of IFM *undertaken* *****

**6. Promotion of IFM *made* to consumers/stakeholders *****

**5. Capacities for IFM implementation and control *in place* ***

**4. IFM plans *in place* ***

**3. Standards for IFM *agreed* *****

**2. Stakeholder roles in IFM/control *agreed* ***

**1. Forest, land and IFM policies *agreed* ***

**FOUNDATIONS *in place*:**

**Property rights, market conditions, constitutional guarantees, engagement with extra-sectoral influences, recognition of lead forest institutions (in government, civil society and private sector) ***

*** indicates the degree we could expect certification to contribute**

# Markets for environmental services

**Definitions & scope:**

- “markets” interpreted broadly as payments in exchange for services: a buyer & seller
- four “environmental services” - carbon sequestration, biodiversity conservation, watershed protection, landscape beauty
- “forests” range from semi-arid woodlands to moist evergreen formations

**Attractions**:

- cost-savings: costs transferred to private sector
- efficient: allocative and productive
- equitable: beneficiary pays

**Feasibility:**

- increased WTP with improved awareness of benefits
- Growing threats to supply
- Increased regulations that generate payments
- Improved capacity to measure supply

# Key questions

- What form do markets take?
- How do markets evolve?
- What are the costs?
- What are the benefits?
- How are costs and benefits distributed?

| Service | Cases * | Funded ** | Countries** |
|---|---|---|---|
| Carbon sequestration | 73 | 61 | **Africa:** Uganda, Burkina Faso & regional<br>**Asia:** Australia, Malaysia, Indonesia<br>**Latin America:** Argentina, Belize, Bolivia, Brazil, Costa Rica, Ecuador, Honduras, Mexico, Panama, Paraguay<br>**North America:** Canada, USA<br>**Europe:** Czech Republic, Poland, Russia, UK, Netherlands, Denmark |
| Biodiversity conservation | 73 | 58 | **Africa:** Cameroon, Cote d'Ivoire, Ghana, Nigeria, Uganda<br>**Asia:** Australia, Bhutan, China, Fiji, India, Indonesia, Laos, Pakistan, Vietnam<br>**Latin America:** Belize, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guyana, Jamaica, Mexico, Peru, Philippines, Suriname<br>**North America:** Bahamas, USA<br>**Europe:** The Netherlands, Russia, Switzerland |

| | | | |
|---|---|---|---|
| Watershed protection | 60 | 38 | **Africa:** Malawi<br>**Asia:** Australia, China, India, Pakistan, Vietnam<br>**Latin America:** Brazil, Colombia, Costa Rica, Ecuador, El Salvador<br>**North America:** USA<br>**Europe:** - |
| Landscape beauty | 10 | 10 | **Africa:** Rwanda, South Africa<br>**Asia:** China, India, Indonesia, Nepal, New Zealand, Philippines<br>**Latin America:** Chile, Costa Rica, Peru<br>**North America:** -<br>**Europe:** - |

* Includes descriptions of multiple initiatives within one country, as well as some regional or international initiatives.
** Excludes feasibility studies and proposals, and global initiatives.

# Emerging findings

**Form**:

- Participants varied: state, private, NGOs, CBOs
- Competition: hard to determine due to price discovery and immature nature of markets
- Payment mechanisms diverse: bilateral transactions, intermediary-based to OTC, retail-based and exchange based trades
- Geographical scope broad: local to global

- Nested nature: markets are always nested in broader social & political institutional frameworks

**Process**: iterative and gradual

**Costs & benefits**: potentially significant net benefits

$\Rightarrow$ BUT unequally distributed – some gain more than others and poor tend not to be the first to benefit

# 4. IIED's work in China

**Themes**:

- forest resource tenure & evolving contract systems
- forestry charges and taxation
- company-community partnerships
- markets for environmental services
- certification

$\Rightarrow$ ***draft final report April 2001***