CERTIFICATION IN COMPLEX SOCIO-POLITICAL SETTINGS:
LOOKING FORWARD TO THE NEXT DECADE

by Michael Richards

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This paper is one of a series of reviews that cover critical challenges for the continued growth of certification to impact sustainable forestry around the globe. Each chapter attempts to gather as many cases as possible and to include a large and broad number of contributors. The chapters are meant to inform the forest community and enrich the certification systems as they look forward into the next decade. The reviews as well as the case studies are available at: http://www.foresttrends.org/whoweare/publications.htm

PREFACE

The original vision around the creation of the certification tool (as defined for the Forest Stewardship Council) was to raise the standards of forest management in the large tropical forests areas around the world, the Amazon Basin, the Congo Basin, Borneo, South East Asia and the Pacific. These forests, which provide a range of vital services and benefits, including the livelihood basis of hundreds of millions of the world's poorest people, also present us with the greatest challenges. Complex forests with up to 400 different tree species, governments with limited resources and capacity, poorly defined tenure rights, and in some cases institutionalized corruption are the beginning of a long list of unique challenges to certification in these regions.

The result is quite simply that in tropical regions, certification is lagging behind the success in more temperate regions. Of the 109 hectares certified globally by all certification schemes at the time of this review, only 3 % are in tropical settings, and of this certified tropical area only a small percentage is in natural forest settings. Many have been disappointed by and critical of the limited impact of certification in this region, including donors, forest advocates and the forest industry. In recent years, criticism has grown and now comes even from some of the staunchest early supporters of forest certification. Illegal logging has become a political priority for many countries, and certification has been burdened with the added expectation of being able to counter that problem too.

In its short existence, the expectations of this single tool have been high. Still, there are encouraging signs, even in the most complex settings, including:

- the emergence of buyers groups in Brazil and Central America and of producer groups seeking economies of scale in the supply of certified forest products;
- Bolivia's new legal framework now being inked to the marketplace;
- Russian companies' increasing interest in certification;
- the step-wise approaches introduced by IKEA and other companies to increase the pool of certified suppliers over time; and
- some financial players' adoption of sustainable investment principles that underscore an interest in forest certification (Equator Principles).

It is clear that as certification enters its second decade it faces no greater challenge and has no higher priority than finding ways to certify forests in the tropics.

The objectives of this paper are to:

- assess the impacts, progress and problems of certification in complex governance and socio-political settings;
- review evolving and modified approaches to certification in complex settings;
- make recommendations about the future role of certification in these areas.

What is meant by "complex governance and socio-political settings?" Many argue that almost every setting for certification is complex due to the nature of forestry with its multiple objectives and stakeholders, and the fact that it often involves conflicts of interest between local, commercial and national interests. Especially where indigenous groups are involved, reaching agreement on national certification standards in developed countries can be a complex matter, as in the well-documented cases of Sweden and Canada (Molnar 2003). While there are forest governance problems in wealthy countries, including corruption, illegal logging and lack of recognition of indigenous rights, these problems are much greater in poorer tropical and transition economies; for example, there is often a basic lack of respect for law and order.

Therefore, the main focus here is on tropical moist forest regions (South East Asia, Central Africa and the Amazon) and Russia, since this is where the governance, political and socio-economic barriers to certification are greatest.

While this chapter can stand on its own, it should also be considered a piece of the whole series and meant to provide a comprehensive, balanced and thoughtful reflection of our experiences with certification to date. Certification is celebrating its first decade and has had tremendous impact around the globe. As the forest community faces even greater challenges in this next decade, let our direction be guided by the valuable lessons learned from our first.

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List of acronyms

ATO	African Timber Organisation
CFE	Community forestry enterprise
CFV	Bolivian Council for Voluntary Forest Certification
C&I	Criteria and Indicators
CIFOR	Center for International Forestry Research
FD	Forest Department
FLEG	Forest Law Enforcement and Governance initiative
FMU	Forest management unit
FSC	Forest Stewardship Council
WWF-GFTN	Global Forest & Trade Network, WWF
HCVF	High conservation value forest
IBAMA	Brazilian Institute for the Environment
IFIA	Inter-African Forest Industries Association
ITTO	International Tropical Timber Organisation
LEI	Indonesian Ecolabelling Institute
MIV	Modular Implementation and Verification
MTCC	Malaysian Timber Certification Council
NGO	Non-government organisation
NTFP	Non-timber forest product

NWG	National working group
PCI	Principles, criteria and indicators
PEFC	Pan European Forest Certification scheme
PEFCC P	An European Forest Certification Council
PES	Payments for environmental services
PMF	Priluzye Model Forest, Russia
PNG	Papua New Guinea
RPG	Russia Producer Group
SFM	Sustainable forest management
SLIMF	Small and Low Intensity Managed Forests Initiative, FSC
SWIFT	Solomon Western Islands Fair Trade programme
TFT	Tropical Forest Trust
USAID	United States Agency for International Development
WWF	World Wide Fund for Nature
WTO	World Trade Organization

EXECUTIVE SUMMARY

To date the application and impacts of forest certification on sustainable forest management (SFM) objectives in these regions have been limited in comparison with progress in temperate and boreal forests. Certification initiatives have been largely donor driven as markets in these regions are weak. Too much has been expected too soon of certification, especially in situations where policy, market, and governance failures make SFM very difficult, particularly for natural forest management.

Certification has had more success in Latin American countries like Bolivia and Brazil that have undergone key policy and regulatory reforms and that have developed the democratic space for more effective civil society participation (these can be thought of as the "pre-conditions" for effective certification). Experience shows that certification is unlikely to be effective as a carrot without "sticks" (without the governance pre-conditions to generate a supply of sustainably produced products) or if used as a regulatory stick without sufficient demand or market incentives in place (i.e., compulsory certification).

Establishing a more level domestic market playing field by reducing illegal logging and the (often large) gap between current and certified forest management standards provides the basic conditions for certification. Country comparisons also show that a balanced set of national actors and donors working concurrently on certification and the policy and governance "pre-conditions" is more likely to achieve concrete progress than when isolated donors focus mainly on a certification agenda.

There have been important non-market benefits in countries which have undergone a national Forest Stewardship Council (FSC) certification standard setting process, as in Brazil, Bolivia, and Malaysia, especially the encouragement of a more participatory forest policy process. The national standard-setting process together with political reforms like decentralization has helped create the political space for raising social and environmental issues around natural forest and plantation management and forest industry, for example providing forest access to local people.

There have also been important social benefits to local communities and forest workers in certified concession areas, for example, in the area of health and safety standards, since certified forest management unit (FMU) standards are generally above those demanded by national legislation and regulations.

On the other hand, certification has proved difficult for the majority of community forestry enterprises (CFEs). This implies that modified certification approaches or models are needed that respond to the needs and characteristics of community forestry. This is particularly important in complex socio-political settings where forest tenure of local communities is being recognized or forest administration is devolving. Also, attempts to promote FMU level certification outside a national FSC standard-setting process, as in Malaysia and Indonesia, have been problematic. In countries with poorly defined land tenure rights and a high degree of centralization in forest authority and decision-making, upholding the full range of standards, including social standards, has not been successful.

Natural tropical forest management faces particularly difficult challenges. Many markets, including those proximate to these forests, are not yet demanding certified products nor are they willing to pay a green premium for more expensive management practices. The lack of markets for lesser-known species creates an economic problem for tropical forests with high levels of species heterogeneity; these need to be harvested along with higher value commercial species, both to fit ecological management standards and to make SFM viable. The high cost of audits and documentation for complex ecologies, combined with limited markets for lesser known species, needs to be offset by compensatory payments for environmental services or other green market mechanisms.

This inherent economic problem for certification of tropical natural forests inevitably means that the certification process has to be supported initially by some subsidy, whether directly or indirectly. Subsidized certification is theoretically justified by the significant environmental benefits at stake which are not at present recognized by the market. The fact that certification is a relatively new market-based instrument can also justify this subsidy, but can create problems for long-term progress towards SFM if this creates a perverse incentive against sustainably produced forest products in the marketplace.

The key priorities and recommendations for certification in complex settings include:

- Finding a balance between certification efforts and establishing the policy and governance "pre-conditions" for SFM and certification; this requires a set of national actors and donors working concurrently on certification and its pre-conditions (as opposed to a single donor focusing mainly on a certification agenda); this includes integrating certification into a broader forest governance approach to raising forest management standards in which there is a balance of incentives and controls;
- Striving for a "more level playing field" through regulatory reform that ensures that legislation and regulations do not make "customary" practices illegal or raise the cost of SFM and access to markets;
- Developing a modified model or approach for community forestry; a more flexible and non-market based certification process is needed which allows CFEs to access non-market benefits like tenure security and institutional status;
- Developing markets for environmental services, such as carbon, water, and biodiversity, and non-timber forest products, and lesser-known species;
- To encourage the development of national certified product buyer groups, at least in middle income developing countries;
- To promote a more active consumer education campaign that clarifies the role of forest certification in promoting SFM;
- Continuing to promote socially and environmentally responsible policies in the corporate and financial sectors as well as stepwise supplier polices in the timber trade, as these help channel incentives, financial, and technical resources to forest management units interested in moving towards SFM.

INTRODUCTION

This paper "Progress and Options for Forest Certification in Complex Governance and Socio-Political Settings" reviews the impacts and problems of forest certification in countries with weak forest governance and socio-political complexities. The methodology is similar to other chapters of this series in that it includes a comprehensive literature review, interviews with key informants (see Acknowledgements), and commissioned "mini" case studies on certification in Indonesia, Malaysia, Africa, Brazil, Bolivia and Russia, and has a diverse set of contributors. The paper is organized into: (a) a review of impacts, progress, and problems of certification in complex settings; (b) a review of modified or innovative approaches to certification in response to problems identified with the "traditional" approach to certification, a discussion of future options for certification and sustainable forest management (SFM) in complex settings, and (d) conclusions and recommendations.

IMPACTS, PROGRESS AND PROBLEMS

AREA CERTIFIED

Of the total global certified forest area of 109 million ha (3% of total forest area) in January 2002, 54% was in Europe, 38% in North America, 3% in Latin America, 3% in Africa, and 2% in Asia (Atyi and Simula 2002). Most of this was certified under the Pan-European Forest Certification (PEFC) system (38%), the North American national certification schemes (35%), and the Forest Stewardship Council (FSC) certification scheme (23%). Only 3% of all certificates have been for tropical or sub-tropical forests. Even with FSC certification, tropical forests only compose about a fifth of the total.

Within the tropics, the largest areas have been in Malaysia (Malaysian Timber Certification Council (MTCC) and the Dutch Keurhout Foundation schemes), Congo (Keurhout), Brazil and Bolivia (both FSC), Gabon (Keurhout), Mexico and Guatemala (both FSC) (Atyi and Simula 2002). Russia has over a fifth of the world's forest area and about a quarter of its "pristine" forest; just over a million ha (six FSC certificates) have been certified to date. But these figures disguise progress towards certification. For example, in Russia there were 13 major companies in the WWF Russia Producer Group (RPG) and this could almost double by 2004 (Ptichnikov 2003).

In addition to the distinction between temperate and tropical forests, other important distinctions are between plantations and natural forest areas, and between industrial and community forestry. While MTCC and Keurhout certifications have been solely in natural forest areas, about a third of the FSC tropical forest areas have been plantations. In Brazil, about three-quarters of the certified area have been plantations (Atyi and Simula 2002). Very few community forest enterprises (CFEs) have been certified (Molnar 2003).

DIRECT IMPACTS ON FOREST MANAGEMENT STANDARDS

Some observers (Bass 2003; Atyi and Simula 2002; Markopoulos 2003) feel that there has been little impact on unsustainable logging practices. These sources note that most certified forest management units (FMUs) in the tropics already had somewhat higher management standards than the "norm." For most FMUs, the size of the "standards gap" between their current management standards and the certification "gold standard" is the main disincentive to invest in forest certification. Therefore certification has had less impact on lower management standards.

The main improvements in certified FMUs have been in forest planning based on inventories; improved monitoring and evaluation; reduced impact logging and improved silvicultural techniques; adoption of scientific methods, for example in establishing permanent sample plots; and biodiversity conservation measures (Bass et al. 2001). The recently certified Priluzye Model Forest (Box 1) in the Komo Republic of Russia provides an example of certification in which these and the wider policy benefits are clear, while livelihood and economic benefits appear to be considerably further down the line. Regionally it appears that impacts have been greater in Latin America than Africa and Asia. For example, Markopoulos (2002) argues that in Asia, broader Criteria and Indicator (C&I) schemes under the ITTO, the Montreal Process and the Asian Initiative for Dry Zone Forests have had more impact on forest management standards than certification.

IMPACTS ON FOREST POLICY AND GOVERNANCE

More positive impacts have been obtained from the FSC national standard-setting processes. These have facilitated a more participatory forest policy process in several countries, most notably Bolivia, Brazil (Box 2) and South Africa. The benefits include increased acceptance of community representatives in local and national policy fora; raised awareness of the potential of SFM; a more participatory and decentralized forest policy process; better policy definition resulting from discussions of certification standards; and increased company and supply-chain transparency (Bass et al. 2001). A key question for countries like Brazil and Bolivia is whether these national certification processes stimulated key policy, regulatory and institutional reforms, or whether the latter preceded certification and were essential pre-conditions for its progress. The answer is probably a mixture of the two.

Box 1 –– Priluzye Model Forest, Russia

Priluzye Forest is a coniferous and broadleaf (mainly aspen and birch) forest area of 795,000 ha in the Komi Republic of northeast European Russia. The Priluzye Model Forest (PMF) project was launched in 1996 by WWF. Day to day project activities were carried out by WWF-Russia staff until 2002 when it passed into the hands of the non-profit NGO Silver Taiga with financial support from Swiss Development Assistance agency and MacArthur Foundation.

Forest harvesting is performed by many small logging companies, some 20-30 of which are medium-sized concessionaires. Forest management and control is the responsibility of the state forest management institution, the Priluzye Leskhoz. There is no local processing; the loggers mainly supply urban pulp and paper mills owned by a few big companies (which control some of the loggers). This situation caused WWF to choose the state Leskhoz as the main partner. While the latter clearly has an interest in improving standards, this has meant grappling with the huge bureaucratic problems of Russia's Forest Service and the absence of a market incentive for the main stakeholder. Certification was eventually obtained in March 2003 following assessments in 1999 (a pre-assessment) and 2002 as well as improvements in soil and water conservation (during harvesting), worker safety and social standards (of loggers).

An important part of the project experience has been developing a mapping system for high conservation value forests (HCVF) which comprise about 11% of the model forest area. This has led to negotiation with logging companies for protection of HCVFs. The inventory method was adopted by regional forestry authorities in 2001, resulting in the mapping of 5.5 million ha of HCVFs in the Komi Republic. Following development of the PMF Working Group, the project also made major efforts to establish a regional FSC Working Group. This has now developed an informal "Komi Group standard." Regional forestry officials, encouraged by the conservation efforts of the project, took part in these processes together with NGOs. This ensured political support for the PMF. Growing local interest and expertise in sustainable forestry is also noted.

While there has been "some improvement" in forest management, "practical changes in forestry practices were not so significant." Welfare benefits have so far been limited. They depend on processors making the necessary investments; but currently there is a lack of market interest in certification. Short-term concessions reduce investment incentives, local companies do not produce end products, and demand for certified roundwood is low. In spite of this, two logging companies have expressed interest in obtaining a chain of custody certificate. Another constraint is the instability of local forestry authorities. The Forest Service originally opposed voluntary certification in Russia, rather proposing a mandatory system. Although this was disbanded and the Ministry of Natural Resources assumed authority, the certification process in Russia currently lacks a strong institutional basis.

Source: Karpachevskiy (Case Study; 2003)

There is also little evidence of certification's impact on checking illegal logging, corruption and other severe forest governance problems. This is not surprising since these problems derive from problems in the legal, regulatory and policy framework, and public respect for law and order – problems unlikely to be much affected by a market instrument (with a small market) like certification. The Brazil case study reveals a mixed picture in terms of policy and governance impacts; one reason why governance impacts have not been greater is that the positive effects of certification have so far been felt more by the export than the (much larger) domestic orientated sector. At present, certified forest production accounts for about 2% of the total Brazilian Amazon production (Andre de Freitas, pers. comm.).

Box 2 –– Progress in Brazil

The FSC National Working Group was established in 1997. Now called the Brazilian Council for Forest Management (CBMF/FSC Brasil), it involves 60 participants representing NGOs, forest companies, state institutions, social movements, universities, research institutions and trade associations. The process of developing FSC national standards for plantations and Amazon dry land forest involved two parallel sub-groups and eight versions of the standards for each forest type. This process, which involved about 20 multi-stakeholder workshops and meetings, has developed confidence, mutual understanding, and trust between the stakeholders. It has helped increase civil society influence over forest policy; in 2001, the number of NGO members on the National Council on Environment (CONAMA), Brazil's most important regulatory body, rose from 12 to 22 members (Viana 2003).

The Amazon forest standards were sanctioned by FSC in 2002, while the plantation standards await final FSC approval. FMU certification commenced in 1996, but picked up speed after 2000. Of the 1.5 million ha certified to date, two-thirds have been plantation forests, mostly in the south and southeast. There are also about 140 chain of custody certificates, mostly in the south. Three of the certified Amazon FMUs are community forestry enterprises (CFEs), including the Chico Mendes Extractive Reserve certified in 2002, and several others are in the pipeline. These communities are benefiting from access to new markets and higher prices. Viana (2003) thinks this may even be having an influence on frontier pressures.

The Brazil experience indicates a range of incentives for certification, including:

- Access to and maintenance of export markets;
- Access to credit (the first bank loans for forest management in the Amazon have been to a certified FMU);
- Improved corporate image, especially in the cosmetic sector which uses NTFPs.

An important recent development has been the creation of a Buyers Group in 2000. Its 70 members represent a demand for a range of certified products, including solid wood, plywood, pulp and paper, charcoal, fuelwood and NTFPs. But it is noted that stronger monitoring of member compliance is key to improving public credibility.

Constraints and concerns over certification (and SFM more generally) include:

- Financial sustainability since certification costs have been heavily subsidized, especially for CFEs;
- Limited market benefits to date;
- Amazon tenure complexities which encourage illegal logging and discourage long-term forest investment (as an option, the government could do more to establish concession tenure incentives for SFM);
- Poor access to forest management information, and inadequate forest extension and training;
- Regulatory inconsistencies, like the ease of obtaining forest clearance permits;
- Unfair competition from illegal logging and (legal) frontier forest clearing.

It appears that there have been mixed impacts on forest governance. May (2002) reports the benefits of land tenure dispute mechanisms associated with plantation certification. However, things may be less positive in the Amazon; the Brazilian Institute for Environment and Renewable Natural Resources (IBAMA) has insufficient resources for the monitoring of forest operations. In some cases IBAMA has subjected some certified operations to a more intense monitoring, probably due to image concerns, which might not be the best use of its limited resources.

Main Source: de Freitas (2003)

IMPACTS ON EQUITY

Significant benefits for communities in industrial concession areas and as partners in certified forestry operations on private company lands are reported by Andre de Freitas and Tasso Rezende de Azevedo (2003). These include more secure tenure rights, improved incomes and working conditions, new enterprise opportunities and training skills acquired. There is considerable evidence that certified FMUs have improved worker rights, health and safety standards above national norms. Some Brazilian concessionaires have outstanding records in improving worker conditions and compensating local communities, and in Bolivia national certification standards are particularly demanding in areas like conflict resolution and community organisation (Contreras-Hermosilla and Vargas 2002). Certification has probably also helped strengthen labour unions and raised the dialogue on the rights and access of communities to forests in concessions. On the other hand, negative equity impacts are likely where there is inadequate recognition of customary rights and where local stakeholders lack the capacity to participate effectively in certification assessments, as shown by the Indonesia case study (Box 3).

Box 3 –– Indonesia - Difficulties in Complying with FSC Social Principles

Indonesian forest managers are used to a colonial model of forestry involving a corrupt politico-industrial nexus centering on the Forestry Department (FD). Recent efforts to democratize and decentralize the political system have coincided with a period of severe deforestation and illegal logging. Community resistance to exploitation of their forests has been suppressed by the state, and recourse to the law has not been an option since it has only nominally recognized customary land rights. While the recently revised constitution recognizes customary rights and presents new opportunities as well as civil society space for forest sector reform, the FD is still resisting recognition of customary tenure in state forests.

Certification in Indonesia commenced in 1990 with certification by SmartWood of the plantations of the massive parastatal Perum Perhutani in Java, in spite of a history of dispute with local communities. These plantations were re-certified and additional areas added in 1998 and 2000, but complaints citing forest-related social conflicts eventually led to their withdrawal. Another plantation certificate granted by SmartWood to PT Xylo Indah Pratama in 2000 was withdrawn in 2003 when irregularities in timber sources were revealed.

Natural forest certification got off to a slow start. A national system of standards was developed in 1996 through the Indonesian Ecolabelling Institute (LEI), but lack of national FSC members (and possibly national pride) has prevented an FSC national standard-setting process. Partly in lieu of the latter, LEI and FSC signed a Joint Certification Protocol in 2000 requiring joint and simultaneous certification. The first FSC natural forest management certificate was granted in 2001 to PT Diamond Raya by SGS Qualifor. The certified concession involved logging the nationally depleted *ramin* in the habitat of the rare Sumatra tiger and has attracted complaints that it encroaches on customary land rights and operates without the community's proper consent or adequate dispute resolution mechanisms. The communities have called for withdrawal of the certificate.

In April 2001, national NGOs called on the FSC to suspend certification and called for an independent study of the challenges and obstacles to application of the social FSC Principles (2&3). The study, undertaken in 2002, substantiated legal and constitutional concerns, like the weak legal recognition of customary and indigenous rights, and concluded that "free and informed consent" was virtually impossible in the current system, especially while companies continued to pay state security forces to intervene in disputes. A key concern was that the 1999 Forestry Act did not specifically recognize the tenure of indigenous groups, but included forests with customary rights in the category of state forests and only recognized

Box 3: continued: corporate or individual rights in the private forest category. There is therefore a legal question of whether companies can legally recognize local community ownership rights even if they want to. The study also revealed that only 10% of "state" forest was properly delineated and gazetted, making most forestry concessions technically illegal.

An important lesson from the Indonesian experience is that social acceptability of certification depends on the quality of the participation that leads to decisions in terms of: agreeing to national standards; carrying out assessments; and dealing with complaints. Due to poor quality participation, certification decisions have been disputed. Field studies show that where assessments have been carried out, few people understand what certification is; fewer comprehend the FSC Principles and Criteria, or complaints procedures. Extensive public awareness-raising, capacity building and training efforts are essential. Currently such tasks and monitoring of certification initiatives are being shouldered by NGOs. The latter may find it increasingly hard to justify this role against alternative approaches (like participatory legal reform) to tackling poverty and environmental problems.

Some certification proponents now argue that FSC certification standards are too demanding, and it would be better to drop "unrealistic" social and environmental principles and criteria, and instead certify operations complying with national laws and regulations. Others argue for the stepwise approach in which legality is the first step. But this approach is unlikely to get much support from civil society; with current legislation, it amounts first to condoning the extinction of customary rights and later calling for their recognition. The alternative favoured by community advocates is for certification to focus on community forestry operations until the concession and tenure regimes are reformed.

Sources: Colchester (2003), Colchester et al. (2003)

Within the community forestry sector, more capitalized and export-oriented CFEs can benefit most from certification; for example, three certified Brazilian Amazon CFEs are reported to be benefiting from access to new markets and higher prices (de Freitas 2003); and some Mexican CFEs with higher social and natural capital endowments are able to access certified product markets (Richards 2002). While some improvements in organization and administration have been noted, most certified CFEs have found it hard to meet the quality and continuity demands of certified product markets (Markopoulos 2002). The lack of market benefits to CFEs has been somewhat compensated by significant non-market benefits. For example, in Bolivia, the certification process was important for resolving conflicts over indigenous land rights in the Lomerió project (Markopoulos 2003); and in Mexico, higher institutional status, increased "development bargaining power," and resolution of border tenure conflicts have been key incentives for certification (Richards 2002).

SUBSIDIES AND DONORS

It is natural to use subsidies in the early stages of developing a new market tool with weak market incentives; these subsidies are justified by the public good values at stake as well as poverty considerations. In Bolivia, the USAID funded Bolivian Sustainable Forest Management (BOLFOR) project absorbed many of the direct certification costs (Markopoulos 2003), while in Mexico, the government, Foundations, NGOs and a World Bank project have all invested in the

initial costs. But when the certification process is heavily subsidized, it can complicate long-term SFM efforts. Strong donor support can result in passive involvement of forest managers (Lomerío, Bolivia), distortion of market forces and reduced efficiency (Markopoulos 2003). Where administrative and technical capacity is limited, certification demands can increase dependency. Subsidies may also encourage CFEs along the high risk path of trying to access international markets before sufficient domestic marketing expertise has been obtained.

An important lesson from the experience of promoting certification is that it is more likely to take root when there is a balanced set of national actors and multiple donors working to establish the national process and governance pre-conditions, as for example has happened in Mexico, Bolivia and Brazil, than where a single donor has made most of the running with a narrower focus on certification (e.g., WWF in Russia). Recognizing this, the German bilateral financed certification program has changed its strategy over the past few years and shifted to supporting national initiatives in the Central African countries. These national initiatives represent long- term building blocks of a participatory forest sector decision-making process, and should be given the space to develop in their own form and timeframe (de Fraiture and Hijweege 2003).

SUMMARY LIST OF CHALLENGES TO CERTIFICATION IN COMPLEX SETTINGS

The experience with certification over the first decade in these regions reveals the following challenges, both for individual FMUs and the credibility of certification in general (Atyi and Simula, 2002; Atyi et al. 2002; Bass et al. 2001; Counsell and Loraas 2002; Molnar 2003; Markopoulos 2003):

- The large gap between current forest management standards and the certification "gold standard" results in a major disincentive for certification, and resource constraints have limited efforts to reduce this gap;
- The focus on end results rather than progress and lack of intermediate incentives can be disheartening for forest managers overwhelmed by the number of simultaneous activities required;
- The high direct and indirect costs (of adjusting management to conform to the standard) of certification; the latter is financially more important and includes the foregone "windfall" profits from unsustainable logging;
- Limited national resources to support national certification processes and weak or non-existent national certifier capacity;
- Difficulties for community forest enterprises in accessing niche certification markets and the frequent incompatibility of standards with locally developed management practices and customary laws and rights;

- Forest management unit level certification without national FSC standards is more prone to inconsistent assessment and less support for social benefits, due to differences in interpretation of generic standards by certifiers and the arguably lower accountability of certifiers hired by FMUs seeking certification (some critics even think there is the danger of a "race to the bottom" effect from competition among the certifiers, but other observers dismiss this viewpoint);

- Problems with chain of custody certification: for example, with multiple sourced forest products, cheating is possible at various points in the supply chain;

- Lack of recognition of broader landscape issues and values in SFM (e.g., how sustainable agriculture can reduce pressures on forests);

- Producer and consumer confusion from proliferation of certification schemes.

Some of these issues reflect the problem that too much has been expected too quickly from certification. For example, it was unrealistic to expect CFEs to rapidly access certified markets - this will only happen following intensive technical and administrative support (Vallejo 2003).

EVOLVING EXPERIENCES WITH MODIFIED OR INNOVATIVE APPROACHES

STEPWISE CERTIFICATION

The conclusion of a major International Tropical Timber Organization (ITTO) workshop on certification in 2002 (Atyi et al. 2002) was that certification standards were too high for tropical countries, which explains the discouraging progress. The phased or "stepwise" approach was proposed to facilitate progress. While there are several variants of the stepwise approach, they all involve an initial independent assessment or audit to identify gaps between current practice and an SFM standard; development of a phased action plan to tackle identified weaknesses; and independent verification of progress (possibly through annual audits). Key benefits of phased or stepwise approaches include:

- Forest managers can make improvements in "bite-size chunks" within a rational framework of forest management improvement;

- Incentives can be provided before final certification as key phases are completed, including sale of "transition timber," grants, tax breaks, credit and reduced administrative requirements;

- The first steps are to establish the legal origin of timber and compliance with forest regulations - this ties in with recent emphasis on legal forest compliance (3.6);

- Verification should be more reliable, since it is easier to assess improvements in a few management variables; it also becomes a monitoring tool.

Two main stepwise models can be identified: the "staircase" model and the Modular Implementation and Verification (MIV) system in which the desired standard is divided into 20 modules or activities to be tackled gradually over three years (ProForest 2002). In the former there is a clear sequence of steps and activities for raising forest management standards, while in the latter the implementation of the modules can take place in parallel according to the action plan of the Forest Management Unit (FMU). Each system has its strengths and weaknesses. The modular approach is more flexible and allows timely training and information support, but it is less easily understood in the market place. With the staircase model, progress towards certification is more transparent. There is widespread demand for phased approaches both by FMUs and the trade, since the latter has been unable to obtain sufficient certified tropical hardwood to satisfy consumer demand. Various timber wholesalers or retailers have developed their own stepwise approaches, like Home Depot and IKEA (Box 4). But there are also some concerns with the stepwise approach (Box 5).

Box 4 ––The IKEA Stepwise System

IKEA Sweden has put in place a staircase model to increase the amounts of certified wood in its supply chain and ensure that its home furnishing products come from sustainable forests. This includes four steps or categories of supply: supplier entry level ensuring exclusion of solid wood from intact natural or high value conservation forests (HCVFs) unless certified by FSC; a compliance level whereby all solid wood comes only from legal sources of known origin, felled according to management prescriptions, and applying a forest tracing system and three way audits; assistance towards an IKEA standard with actions plans towards full certification; and finally purchase from certified forests of an IKEA recognized standard (until now only FSC). IKEA's aim is to ensure rapid movement to the second level, and to help suppliers move systematically to the third and fourth levels (but no time frame is put on this). IKEA is working closely with WWF on development of the stepwise approach in Russia.

Sources: www.ikea.com; www.forest-trends.org/whoweare/pdf/ Huangshan/Lofmark_Ikea_HS.pdf.

Box 5 –– Issues Surrounding Stepwise Certification

The main concern with the stepwise approach pertains to the claims and communications surrounding "transition timber" and the potential to lead to lower standards – at least in the view of some NGOs in the social and environmental chambers of FSC, which has not yet officially endorsed stepwise approaches. Some observers think that a large increase in transition timber, which would be welcomed by most of the timber trade, could lead to a lower threshold trade standard. They are also concerned with the unreliability and cost of chain of custody verification needed for transition timber. Labelling of transition timber is regarded as undesirable since it would confuse consumers and encourage "greenwashing". Other questions are:

- how to limit proliferation and/or harmonize multiple stepwise approaches;
- how to give small-scale forestry equal access to phased verification;
- how to deal with failures to comply with action plan requirements;
- how much time should be allowed for FMUs to move towards certification;
- who should carry out the initial and verification assessments.

Sources: Atyi et al. (2002) and key informants

GROUP CERTIFICATION AND THE SLIMF INITIATIVE

A challenge for certification in both tropical and temperate areas has been the lack of "economies of scale" for small- and low-intensity forest operations. Group certification allows a number of small FMUs to apply for certification as a single entity. Although this is not a new approach,[1] it is attracting considerable current attention and guidance (Nussbaum 2002). A review by Markopoulos (2002) of various "ecotimber" schemes in Asia and the Pacific reveals the considerable potential of group certification, but also some challenges (Box 6). Group certification requires a group management institution with strong organiZational and administrative capacity; there can be risks to social capital when such structures are imposed from outside (Stewart et al. 2003).

A recent FSC response to the scale problem is the Small and Low Intensity Managed Forests (SLIMF) initiative. The SLIMF package reduces the financial and administrative barriers to certification by allowing more flexible rules for group certification; less frequent monitoring and auditing of forests with intermittent harvesting or where low environmental risks can be demonstrated. It also changed the methodology of field checks (Nussbaum et al. 2001). It has been estimated in Brazil that SLIMF can reduce the direct costs of certification by as much as 60% (Andre de Freitas, pers. communication). Key challenges for the SLIMF approach are to establish a realistic minimum size limit and to develop standards for low intensity forest management, since there are many FMUs which would not qualify on the basis of size alone, but are subject to only intermittent or low levels of harvesting.

Box 6 –– Experiences with Group Certification Schemes in the Pacific and Asia Region

The 1997-certified Solomon Western Islands Fair Trade (SWIFT) programme operated an administratively simplified internal certification scheme for producers not yet part of its FSC-certified group system. Although well-established, SWIFT never achieved self-sufficiency and lost its certificate in 2002 due to financial problems. In Laos, group certification has been a priority of the World Bank and FINNIDA, but it appears that the forest communities, unable to meet their basic development needs, are not yet ready for it. A more successful example has been the PNG Ecoforestry Programme, awarded a group certificate in 1998 covering five village sawmills. It continues to export certified timber commanding a 10-20% price premium to Australia, Netherlands, and Vietnam.

More generally, the following challenges for group certification were identified: how to fund operations producing small amounts of timber; the variability of market benefits; disputes over unmapped customary rights; high wastage levels; weak monitoring capacity; and limited marketing experience.

Source: Markopoulos (2002)

[1] By February 2003, 105 FSC group certificates had been issued (Stewart et al. 2003).

NATIONAL PRODUCER GROUPS

WWF's Global Forest & Trade Network (WWF-GFTN) comprises over 500 members including forest owners, timber processors, construction companies, retailers, investment agencies, and local authorities. Its aim is to promote partnership between NGOs and the private sector to improve forest management, especially through "independent, multi-stakeholder forest certification" (World Wildlife Fund 2003).

The aim of the WWF-GFTN Producer Groups of forest managers and primary processors is to promote improved forest management and "credible certification" through services to members. The main services provided by Producer Groups are information and training on certification, links with WWF-GFTN buyer groups and other potential customers, like governments and ethical investors, assistance to small-scale and/or community forest enterprises (both of which can become producer group members if they choose), as well as policy advocacy and publicity. The main requirements for membership are a documented commitment to SFM and certification within a defined time frame to a "credible" certification scheme (in effect FSC, since this is currently the only credible certification scheme recognized by the WWF-GFTN); an action plan including a timetable for legal sourcing; and regular reporting and auditing.

The first Producer Group was established in Russia (Box 6); so far 12 country producer groups have been established in Latin America, Central and West Africa, Southeast Asia, and Russia, with three more in the process of being established (Darius Sarshar, pers. comm.). The emerging Central and West Africa Producer Group, launched at the African Forest Law Enforcement and Governance (AFLEG) meeting in October 2003, is attracting considerable producer interest, although the low premium on European markets has hampered efforts by the WWF-GFTN to secure commitment (Mike Packer, pers. comm.).

KEURHOUT FOUNDATION APPROACH

The Keurhout Foundation certification scheme involved a stepwise approach and third party-assessment to determine whether forest management met certain "minimum requirements" (five main ones) of the Dutch government. Products from any certification system could apply for the Keurhout logo; thus the system effectively endorsed the certifiers. This has the advantage that labelling is separated from standard setting and certification, and it solves the "proliferation" problem – once the products got on to the Dutch market, there was only one label (Rametsteiner and Simula 2001). For the supplier it was an entry point to the Dutch market. In the ITTO producer countries, Keurhout certificates covered 4.2 million ha (over half of this in Malaysia) in early 2002, compared to 2.3 million ha under FSC (Atyi and Simula 2002).

However the Keurhout scheme has been criticized by some NGOs as part of a "fast-track approach" to certification (Box 7). A recent evaluation commissioned by the Dutch Government criticized it for being trade influenced (e.g., acceptance of "declaration timber" from Malaysia), and for assuming wide stakeholder participation in Congo-Brazzaville, Gabon and Malaysia

(Saskia Ozinga, pers. comm.). The Dutch government recommended that a new structure be established to take over Keurhout's "gate-watcher's task" (Taiga Rescue Network 2001).

Box 7 –– Russia Producer Group

The Russian Producer Group (RPG), also known as the Association of Environmentally Responsible Timber Producers of Russia, was formed by 16 companies in April 2000. In addition to the general objectives of Producer Groups, the Russian group sees itself as a forum to influence the policy and institutional framework and hopes to reduce illegal logging. The RPG has adopted the stepwise approach to certification and plans to assist marketing of "transition timber". It should be noted that Russia's forest industry is highly concentrated, so that changes in forest management practices by a few companies can have large impacts. It is also worth noting that at least 80% of illegal timber is due to legal companies cutting more timber than authorized in their "felling tickets," as opposed to clandestine operators. Thus the main potential for reducing illegal timber is through higher standards of legal operators.

Many of the founding companies dropped out in 2001 when it was found they did not meet the requirements, but were obtaining public relations benefits. To tighten things up, stricter rules were imposed by WWF in 2001, including an independent annual ecological audit. In spite of this, Russia's leading timber company, Ilim Pulp Enterprise, joined, so that by mid-2003 there were five companies in the RPG supplying over 30% of Russia's production and exports. It should be noted that about 70% of Russia's wood production in 2002 was for export. There were three more companies close to agreement; WWF expects 10-12 companies to join by 2004. This may include four or five companies in Siberia and Russia Far East, in which case there would be links to the Japanese and Chinese markets, as well as to European markets.

Each RPG member is subject to an independent baseline audit of current performance against standards and criteria developed by Russian NGOs under the "Environmental Policy of Forest Management". Companies have to commit to the Policy, which requires proof of legal origin, increased transparency, and efforts to promote biodiversity (e.g., it excludes timber from high value conservation forests). Each member then develops an action plan showing compliance with these standards in a given time frame. The RPG also organizes study tours, for example, to Sweden (completed) and Canada (planned).

Source: Ptichnikov (2003)

Box 8 –– The 'Fast Track' Approach: Will it Lead to Lower Standards?

The slow pace of certification in the tropics and other complex areas has built up pressures to fast track the certification process. For example, WWF-World Bank Alliance certification goals include large planned increases in China, Eastern Europe and Indonesia in time-scales that make strong ownership of national certification processes unlikely. Pressures are also increasing from the timber trade, especially retailers. For example, B&Q now accepts timber from non-FSC national certification systems.

A challenge for the FSC is that it is not designed for fast-track certification and less demanding certification programmes are beginning to overtake it in the "quantity game". Certification scheme 'competitors' and the timber trade are pressing for "mutual recognition" between certification schemes, claiming consumer confusion between schemes as the main justification. The main threat of this is to social standards; for example, in Malaysia following a year of workshops and discussions which formed part of the '"working relationship" between MTCC and FSC, indigenous and NGO groups found the MTCC position over indigenous rights, especially in Sarawak, unacceptable (Ozinga 2003).

A widely distributed proposal in the discussion over mutual recognition is the "legitimacy thresholds model" (World Business Council for Sustainable Development 2003). This suggests three forest management levels acceptable to different groups of stakeholders: a high SFM threshold level; a mid-level threshold appropriate for small and community operations; and a "minimum"-agreed threshold oriented to legally verified timber. Agreement would be through multiple stakeholder consultations, a code of conduct between the schemes, and independent assessment methodology. This proposal may be a logical response to production system diversity and the capacity and needs of different stakeholder groups, but a concern must be its effect on incentives for FMUs to aim for the higher SFM level.

THE TROPICAL FOREST TRUST (TFT)

Another innovative approach is that of the Tropical Forest Trust (FTF), a non-profit ethical investment company established in 1999. TFT was formed in 1999 by garden furniture retailers (especially ScanCom of Denmark) under increasing NGO pressure to improve supply chain quality. TFT links buyers and suppliers, and assists suppliers in moving towards FSC certification by providing supply chain, forest management and communication services. The current 23 retail and trade members pay for these services with a levy of 2% of their gross timber revenue, and can buy "transition wood" from these suppliers.

In terms of FMU level certification, TFT has worked mainly with commercial managers in Malaysia (certified in 2002), Vietnam and Indonesia. TFT also promotes national standards development; it has sponsored FSC workshops in Malaysia (including funding of indigenous peoples), Indonesia, Cambodia, and Laos.

ENVIRONMENTALLY RESPONSIBLE INVESTMENT

The investment climate is also changing, with a potential to create better conditions for market-driven certification. Socially and environmentally responsible investing is at an incipient stage and in many cases "socially responsible investors" have only ensured their track record by staying away from controversial or risky sectors like forestry. However, there are some very positive examples of "due diligence" policies directly related to forestry or which entail a commitment to projects and operations which promote sustainability. For example, 17 investments banks worldwide, including CITIGROUP and ABN-AMRO, have adopted what are called the "Equator Principles," an industry approach for financial institutions in determining, assessing, and managing environmental and social risk in project financing (http://www.equator-principles.com/).

These banks have agreed to adopt the International Finance Corporation (IFC) system of project categorization for environmental and social sensitivity, and the relevant standards for environmental and social impact assessment and investment criteria. The London-based Dealogic ProjectWare, which produces statistics and analysis of the project finance market, has calculated that the first 16 banks which adopted the Equator Principles arranged $42 billion of project loans in 2002, and accounted for 88% of the project loan market to August 2003. One of the banks, ABN-AMRO from the Netherlands, has a detailed risk policy in place for forestry and tree plantations (Box 9) which to some extent mirrors the stepwise approach discussed above.

Box 9 –– ABN-AMRO Bank – "Due Diligence" Investment Policies

The private financial sector is also adopting increasingly strict "investment risk standards" for forests. For example, ABN-AMRO, an international bank with its headquarters in the Netherlands, has a risk policy for forestry and tree plantations which excludes operations in HCVF or primary forests unless certified; only finances plantations where no link to the original deforestation can be demonstrated; and requires evidence of legal logging, policies respecting human and indigenous rights, as well as compliance with international environmental agreements and legislation. In addition, operations are assessed in terms of completing environmental impact assessments and resource management plans; proper use and disposal of chemicals, biological control agents and wastes; establishing chain of custody; and providing evidence that local tenure rights, labor conditions, worker health and safety, informed consultation, NGO dispute resolution, and adequate compensation for relocation have all been addressed adequately.

Source: http://www.abnamro.com/com/about/env_report_1.asp

This approach was recently (October 2003) endorsed at a meeting of the Forest Investment Forum involving the World Business Council on Sustainable Development (WBCSD), Forest Trends, WWF, Program on Forests (PROFOR), the World Bank, and the International Finance Corporation (IFC). The outcome statement of the Forum points out the "growing convergence of interest between leading forest enterprises, financial institutions—including commercial banks, investment funds, export credit agencies and the multilateral development banks—and conservation organizations that investment in the sector must occur under a credible framework of safeguards and environmental assessment procedures that can act as an incentive to

responsible investment and a deterrent to unsustainable and destructive activities" (http://lnweb18.worldbank.org/ESSD/ardext.nsf/14ByDocName/EventsForestInvestmentForumOct2003). Furthermore, the Forum makes the commitment that in order to progress towards "cost-effective and credible third-party verification of performance, over the next 12 months the World Bank, WWF and WBCSD will catalyze creation of a core alliance of stakeholders to foster interaction and conflict resolution between certification systems."

THE INCREASING EMPHASIS ON LEGAL COMPLIANCE

In response to high levels of illegal logging and associated governance problems in complex countries, there has recently been a greatly increased emphasis on legality issues, as shown in the EU Forest Law Enforcement, Governance and Trade (FLEGT) process, regional FLEG agreements, and embryonic national timber procurement policies. The first stages in the stepwise approach are to show timber is from a legal source and is legally produced. Recent actions by Greenpeace to expose UK public and retailer interests to bad publicity for using illegal timber[2] have contributed to a perceptible shift in trade focus from certified to legal timber. Governments also naturally have a greater interest in the governance implications of the legality agenda.

The new emphasis on legality poses various challenges, the first being how to define and identify it in view of the ease of laundering or "legalizing" illegal timber, including at source. Tracing legality through the international trade system is highly demanding in terms of "identification, documentation and segregation" since any chain of custody system is vulnerable to fraud (Brack et al. 2002). Secondly inappropriate laws and regulations can mean that "legal" wood may not be from well-managed forests, whereas "illegal" wood conforming to customary practices may be. Implementation of forest regulations can also be highly inequitable; thus legal compliance ahead of legislative and institutional reform can perpetuate and deepen existing injustices (Kaimowitz forthcoming). For example, Colchester (2003) thinks this approach would not get much support from civil society in Indonesia, since customary rights are inadequately recognized. The other concern is that it could lead to a lower market threshold standard.

A number of countries, including Bolivia, Brazil (Acre State), South Africa, Guatemala, Russia, and Indonesia, are considering (or have implemented) legislation introducing a regulatory or compulsory element into certification, or legislation that uses certification to increase incentives for regulatory compliance. For example, in Bolivia certified forest concessions are exempt from state forest management audits;[3] and in Guatemala, certification within three years is a condition for community concessions in the Mayan Biosphere Reserve (Bass et al. 2001). There is also high potential in Africa to eventually link concession allocation to certification, or at least legal

[2] For UK retailers, acquiring legal (and ideally certified) tropical timber has become an essential risk reduction policy. Thus the UK Timber Trade Federation is working with the Nature Conservancy Council and others to try and impose a common auditing framework on the Indonesia export industry (Andy Roby pers. comm.).

[3] This is a win-win situation in that scarce state forest institution resources are freed up, and forest managers generally prefer to deal with certifiers than government officials (Contreras-Hermosilla and Vargas 2002).

verification. This approach, strongly promoted by donors like USAID, provides various state benefits, notably lower regulatory costs, increased efficiency, and better monitoring (Viana 2003).

Box 10 –– Progress in Bolivia

Bolivia undertook key policy and institutional reforms in the early 1990s, for example, the 1994 Law of Popular Participation; this and other factors helped create political conditions favourable to democratic participation. This paved the way for the 1996 Forest Law and a new state forest institution, the Forest Superintendency, given the task of regulating and supervising forest management. Donors like USAID, World Bank and FAO contributed key technical information. Improved forest legislation and control significantly decreased the gap between legal and certified forest management, and reduced illegal logging, thereby increasing the incentives for certification.

Key legal and policy changes favouring certification were the similarity between mandatory forest management plans and certification; improved recognition of indigenous tenure and rights (including the right to export forest products); exemption of certified FMUs from state auditing; the switch from volume to area-based forest fees and the ruling that forest managers can only exploit 5% of the forest area, which both forced more intensive management. For the Superintendency, certification has liberated resources and reduced its costs. The other key incentive has been access to export markets: some of these would have been closed to Bolivian products without certification.

Meanwhile the first certification actions commenced in 1994 and involved both the private and public sector. The Council for Voluntary Forest Certification (CFV) was created in 1995 following a national public consultation process. This evolved into the FSC National Working Group, which currently has about 200 members. In 1996, the first national certifier (CIMAR/Smart Wood) was created, followed later by two more. National certification standards were approved by FSC in 1999. Over a million ha have been certified, the most for a tropical country, and there are another million ha "in the pipeline." Processors also hold 17 chain of custody certifications.

Most certified operations are large, vertically integrated and export-oriented companies; one company, CIMAL/IMR, owns half of the certified FMUs and area. These companies have successfully accessed the international market; while the value of Bolivia's forestry exports fell by a third from 1998 to 2002, certified wood exports (predominantly high value-added products) increased from almost zero to US $14 million (17% of total forest exports). No CFEs are currently certified, but Lomerió (certified in 1996) awaits re-certification following organizational problems, and Yuqui CFE is in the pipeline. A key certification incentive for communities is that land and customary rights are mapped and explicitly included in written agreements, and management plans have to include clear conflict resolution procedures. This has particularly benefited the Lomerío project. But there has been insufficient time and resources for the administrative and market development necessary for CFEs like Lomerío to gain access to international markets.

Sources: Moreno (2003), Contreras-Hermosilla and Vargas (2002)

In spite of the fact that Principle 1 of the FSC Principles is to conform to national laws, some observers (Forest Stewardship Council 2002) think that certification is not the ideal instrument for promoting legal compliance (SGS 2003). As a voluntary market-based instrument, only actors operating within the law are likely to be interested; paper-based chain of custody systems are vulnerable to fraud; and even if certification were compulsory,[4] there would be a considerable time lag before forest management could be expected to change, whereas legal verification of current forest management practices can start immediately.

FUTURE OPTIONS FOR CERTIFICATION AND SFM IN COMPLEX SETTINGS

ESTABLISHING THE PRE-CONDITIONS FOR CERTIFICATION

The comparative international experience, at least in tropical areas, has been that the more positive certification experiences have been in countries (predominantly Latin American) where a better forest governance and policy basis has been established, and the political or democratic space has encouraged civil society pressures, as well as allowing a prominent role for multilateral donors and the private sector, including multinational retailers like IKEA. Perhaps the clearest comparison is between Bolivia (Box 10) and Brazil on the one hand, and Africa (Box 11) on the other.

It should be noted that a decade ago countries like Bolivia, Brazil and Mexico had forest governance problems comparable to parts of Central Africa and Southeast Asia today (although significant forest governance problems persist in Bolivia, and certification is far from straightforward). There is a stark contrast between Bolivia's regulatory framework, democratic space and reasonably equitable forest institutions, and the situation in much of Central and West Africa. For example, it is noted that certification is more likely to run into stakeholder conflicts when the pre-conditions are not in place (the lack of conflict surrounding certification in Africa is a reflection of the relative weakness of civil society) (Bass et al. 2001). This implies that for effective and equitable certification in complex settings, there is a set of policy and governance pre-conditions:

- National policies and regulations which send out clear policy signals for SFM (this implies tackling extra-sectoral policy problems) and which are implemented by efficient and equitable institutions;
- Clear and secure land tenure, and other local stakeholder rights;
- Sufficient FMU administrative and technical capacity to access certification markets;

[4] Other problems of mandatory certification include the likelihood of it being opposed in the WTO as a trade barrier; it would be onerous for smaller and less market-oriented forest managers, and encourage illegal logging; and it would leave certification vulnerable to the problems traditionally associated with regulation, such as corruption, bureaucracy and inflexibility (Bass et al. 2001).

- Local stakeholder capacity to participate effectively in the national standard-setting process and in FMU certification decisions; this implies effective support, training, and information, as well as transparency and civil society empowerment.

Implicit in these pre-conditions are supportive rather than resistant governments. Many of the preliminary problems (see above) relate to these underlying conditions; for example, the size of the "standards gap" depends on policy and governance issues.

Box 11 –– Progress in West and Central Africa

Certification efforts in the moist tropical forest zone of Central and West Africa have assumed a regional nature with European forestry companies taking a prominent role, for example, through the Inter-African Forest Industries Association (IFIA). A recent achievement has been a code of conduct for IFIA members in which the latter have committed to the SFM principles and criteria of the African Timber Organisation (ATO). The latter, with the support of CIFOR, established the Pan African Forest Certification (PAFC) scheme in 2002 following an intergovernmental process involving 14 countries. The PAFC is based on the principles, criteria and indicators (PCIs) of the ITTO. These are being field tested, but some stakeholders think them too demanding. Recent workshops to discuss the feasibility of the PAFC agreed on the need for a framework recognizing national certification standards (akin to the PEFC approach). This requires the definition of an appropriate standard for assessing all African country standards, which the ATO would be responsible for implementing.

Consumer country demand, combined with recent regulatory improvements, have led to several cases of independent legal verification; two of these, in Gabon and Congo-Brazaville, were subsequently recognised by the Dutch Keurhout scheme. Companies with legal verification are eligible to join the recently established regional WWF-GFTN (Global Forest & Trade Network of WWF) Producer Group. Cameroon, with 90% of its timber production exported, appears to have a high certification potential, but political economy problems have dogged progress in spite of important sectoral reforms. As in other regions, donors have actively promoted certification. The EU and WWF have supported the development of National Working Groups in Cameroon and Gabon since 1996. Four Cameroon companies are moving towards PAFC certification supported by an EU grant in which the companies only pay the (relatively minor) logistical costs. The USAID funded Congo Basin Initiative, involving an investment of $53 million over 2002-2005, has a strong emphasis on certification.

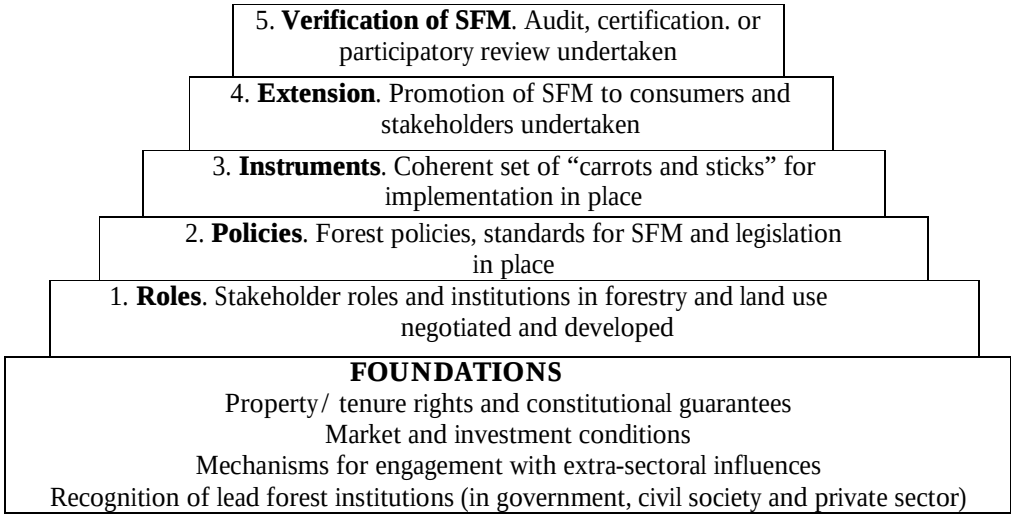
Key challenges for SFM and certification in Africa are forest governance problems, especially corruption, law enforcement and regulatory complexity; the recent shift to less discerning Asian markets by some countries coupled with a reported European market shift away from African timbers (for example, a large UK retailer has recently listed various African species, including Sapele, Iroko and Idigbo, that it will no longer trade in); the lack of national certification standards; minimal provisions for community involvement in forest management or policy; and resistance by some governments due to a fear of loss of national sovereignty. This is not to mention civil wars and political instability.

Sources: Packer (2003), SGS (2003)

One approach is to establish the basis of the "forest governance pyramid" (Figure 1). Certification can be considered as a more sophisticated "carrot," which exerts a demand pull on SFM, to be promoted once the supply-side "sticks" are in place (Bass et al. 2001). There is a strong sequential logic in first improving the regulatory and supply-side basis for SFM as this

increases the incentives for certification. It would tackle the severe forest governance problems on bigger domestic markets, which international market certification effects only marginally. The dangers of attempting market solutions on the basis of weak institutions and regulatory frameworks are well argued by Stiglitz (1998).

Figure 1: The "pyramid" of good forest governance



Source: Mayers et al. (2002)

The logic of "sticks and carrots" and increasing importance of legality issues suggest certification should be integrated into a broader forest governance approach. The SGS "sustainable timber trade labelling" system includes three main milestones (SGS 2003):

- A certificate of legal origin: this shows that logs or timber are from a legal source (using chain of custody to the point of export or sale), forest fees have been paid, and other basic regulations have been met;
- A certificate of legal compliance: this shows that forest management complies with national legislation; and
- A certificate of SFM (FSC or other recognized certification scheme)

Key distinctions are that the first two stages are compulsory and nationally implemented, while certification is voluntary and implemented at the FMU level. The incentives for certification increase as illegal logging declines and the "standards gap" diminishes (as the regulatory framework improves). Domestic market governance problems are tackled first in contrast to the "export-led" approach of certification. Governments can increase revenue collection (the system is claimed to be self-financing) and focus on law enforcement, leaving certification to the market place. Internationally, it can help satisfy consumer country demands for legal timber. The approach emphasizes the use of technology in forest surveillance (e.g., remote sensing and

automated timber flow control systems involving bar coded log tags), data networks, and information transparency (SGS 2003). Projects using this approach have recently commenced in Congo-Brazzaville, Ecuador and Indonesia (in collaboration with the Nature Conservancy Council and WWF).

While SGS (2003) notes that the review and reform of forest legislation, policies and institutions should precede legal compliance, current fast-track priorities make it unlikely that sufficient time will be allowed for this. The risk of proceeding directly to legal compliance is that this will reinforce current injustices and discriminate against good customary practices.

THE NATIONAL STANDARD SETTING PROCESS AND FOREST MANAGEMENT UNITS

The experiences of Bolivia and Brazil in particular show how the FSC national standards multiple-stakeholder consultation process has helped increase civil society's role in the policy process. There seems to be a consensus that the national standard setting process is essential in the long term, but there is a warmly debated issue over the role of FMU certification in situations without a national FSC process.

Box 12 –– Stalemate in Malaysia

The Malaysian Timber Certification Council (MTCC) was established in 1998 to develop and operate a voluntary certification scheme to enhance SFM practices and supply certified timber products meeting the requirements of Malaysia's markets. Contemporary statements by the Minister of Primary Industries emphasized the trade rationale of the MTCC, particularly the desire to recapture higher value European markets. But Malaysia's poor record over indigenous and community land rights has been a constraint to this. The desire for credibility caused MTCC to develop a working relationship with FSC from 2000. The attempt to incorporate FSC standards has meant the need to consider the very different perspectives of indigenous and forest-dependent peoples (as those of Sarawak), who see forests as an essential livelihood, cultural and spiritual resource.

For over a year, representatives of NGOs and state environmental organizations, indigenous and other community groups participated in regional groups to discuss the MTCC standards. Community workshops revealed the needs for "full and informed consent," recognition of indigenous rights (especially in cases of logger encroachment), access to information and transparency. Following a lack of response from MTCC, indigenous organizations and most NGOs withdrew from the process in 2001. The MTCC has since been accepted as a member of the Pan European Forest Certification Council (PEFCC), and it remains to be seen whether their scheme will become accepted under the PEFC label. By 2002, the MTCC had certified three FMUs with an average size of 770,189 ha (one of these was suspended in 2002). 'State-owned' forests in four states were assessed in 2003 and are pending approval. But the withdrawal of NGOs and communities from the process has raised public and international doubts over the credibility of the certification process.

Source: Ozinga (2003)

Some NGO observers argue that in some countries the legal and policy regime makes it hard to uphold social FSC standards. The clearest examples are those of Malaysia (Box 12) and Indonesia (Box 3) where there is insufficient recognition of customary rights. In such situations, it is argued that FMU certifications or "certifier standards" (in the absence of a participatory-agreed national standard) are problematic in that they can be inconsistent, lead to disputed decisions, and appear to legitimize inadequate policies and laws. This can slow down establishment of the "pre-conditions." Also, FMU level certification in situations where the "pre-conditions" are absent is more expensive, requiring strong (often donor) support and a substantial subsidy element.

But most certification proponents feel that FMU level certification is vital to ensure engagement, even where policies and governance are unsupportive, and that disengagement means "business as usual." For example, many national NGOs in Russia, Brazil and other parts of Latin America have found individual FMU certification to be the only way to achieve practical on-the-ground experience to convince forest industry and government that improved forest management can be viable. This is also the policy of TFT in Southeast Asia.

COMPLEMENTARY ECONOMIC INCENTIVES FOR NATURAL FOREST MANAGEMENT

Market incentives for certification (and SFM) are still weak in many countries as might be expected from a relatively new market-based instrument with a high public good component. One reason is that the market for certified timber is mainly limited to Europe and North America (although Brazil now has a 70 members strong domestic buyers group). In many tropical countries, only a small proportion of timber is exported. Furthermore there is the "market substitution" effect of certification, involving the substitution by certified temperate timber for uncertified tropical timber on higher value markets. African producers like Gabon and Equatorial Guinea, which used to export primarily to Europe, now mainly target Chinese markets (although it is not clear if this is more due to the "push" of substitution or "pull" of Asian markets). Lack of domestic demand and capacity to pay has also encouraged Russia to mainly supply Asian markets, especially China.

At present, certification of natural forests in the tropics and Russia is being driven more by donors than the market. For example, a review by Markopoulos (2002) of certification in six countries in the Asia and Pacific Region found that in all but one case (Thailand) certification was strongly promoted on forest policy agendas by multilateral donors, NGOs and foundations. These sometimes appear to see certification as the beginning rather than end point of SFM. For example, one claim was that "the economic, social and environmental viability of the operation will be ensured by certification" (WWF, Indochina, cited in Markopoulos 2002). For some actors, certification is preferable as a market-based tool for SFM to regulatory or market intervention approaches with their macroeconomic implications. If certification could eventually substitute state regulation, this would transfer regulatory costs from the public to private sector, an ideal "neo-liberal" scenario.

It is appropriate here to recall the economic rationale of certification. As a market-driven instrument, certification encourages forest users to incur the additional costs of SFM in the hope of receiving commensurate market benefits that offset the loss of some of the "windfall" profits from unsustainable forestry. This can only be achieved by accessing markets for certified products commanding a green premium which represents consumer willingness to pay for the non-market benefits of SFM. At present, premiums are at best modest,[5] and the cost of SFM remains high. For example, in Bolivia, calculations show that even if consumers paid 15% more for certified wood, this would not be enough to tilt the commercial balance in favour of SFM (study by Bojanic and Bulte, cited in Contreras-Hermosilla and Vargas 2002). A further problem is the slow growth of markets for lesser-known species. Certified forest management places considerable emphasis on a shift away from selective felling to a more multiple-species and silviculturally balanced regime, but especially for small operations, this does not improve the economic basis for SFM.

MARKETS FOR ENVIRONMENTAL SERVICES—EXPANDING BEYOND TIMBER

The development of markets and payments for multiple products - lesser-known species, non-timber forest products, and environmental services (Box 13) is vital to the future of natural tropical SFM and timber certification (at least while consumers are not prepared to pay a substantial green premium[6]). Depending on its stumpage value (derived from distance from the market, species value and diversity, etc.), tropical natural forest management has a shaky financial basis. This basis may deteriorate as hardwood plantations and technology allowing softwoods to mimic hardwood properties come on stream. Natural forest management may only be viable for a few key high value species with inelastic demand due to their specialized properties and uses (Leslie et al. 2002). Payments for environmental services (PES) automatically demand higher forest management standards. In the future, certification could become a major tool for justifying and attracting PES, for example in the context of landscape-scale forest conservation (Leslie et al. 2002).

[5] Some suppliers have reported price premiums of 5-65% for certified tropical sawnwood and plywood (Atyi and Simula 2002), but the higher end of the range refers to small volume specialized products. The US International Wood Products Association observes no evidence of premiums for certified wood on US mainstream markets (Baer 2002). In practice it appears that some traders pay at least a 10% premium but this is kept as a "trade secret." The UK Timber Trade Federation reports premiums of 5-10% for certified or legal timber; this is a "risk premium" to avoid bad publicity from environmental NGOs identifying illegal timber. But this premium could disappear as more legal production becomes available (Andy Roby pers. comm.).

[6] The absence of a premium or PES also makes subsidies essential as a non-market mechanism for securing environmental externalities. The other main approach to capturing non-market benefits is regulatory, but unless the costs are passed on the consumer (unlikely except for demand inelastic products), returns to SFM may fall too low to compete with alternative land uses.

Box 13 –– Markets for Environmental Services

Markets and payments for environmental services (PES) are growing in three areas of relevance to SFM: water and hydrological service markets; carbon sequestration services, and biodiversity services. The key trends in the development of these markets are:

- The total value of ecosystem service payments is relatively modest (some hundreds of millions of dollars in direct payments and something over a billion dollars for certified forest products, compared to $8 billion for timber and $20 billion for all tropical timber products), but has grown rapidly, more as niche markets rather than commodities.
- The scale of markets is expected to grow rapidly, particularly within domestic economies.
- Governments play a critical role as direct buyers of forest ecosystem services and as catalysts for many private sector PES schemes.
- Ecosystem service payments will in most cases cover only a modest - but potentially catalytic - share of the costs of good forest management.

Tropical forests and developing countries are inherently disadvantaged when it comes to gaining access to international markets. For biodiversity markets, until certification standards are better adapted to tropical conditions and greater efforts are made to support certification, tropical producer countries will be at a competitive disadvantage to industrialized country producers. For carbon markets, the greatest opportunities will be in middle-income developing countries, unless low-income countries undertake strategic planning to identify investment opportunities and strengthened support. In the search for international standards of forestry investment for carbon sequestration, an open issue is whether certification will become a proxy for measuring SFM in such investments. An important equity issue for multiple purpose tropical forestry is how to guarantee continued access of local users to non-timber and cultural forest products in forests accepted for PES, whether for water, carbon, or biodiversity.

Source: Scherr, White and Khare (2003)

OPTIONS FOR COMMUNITY FORESTRY ENTERPRISES

The analysis here suggests that the current certification model is more appropriate for the industrial forest sector than the community forestry sector.[7] Without heavy subsidies, certification is only realistic for large-scale and export-oriented CFEs. National certification standards can be over-detailed, inflexible, incompatible with local or customary standards, and ultimately costly for local people, even with group certification (Markopoulos 2003). It has proved very difficult to access the demanding international markets, although very valuable non-market benefits have been obtained. For most CFEs, market-based certification is therefore a high risk strategy, especially while the non-market benefits of SFM are not compensated. It is also questionable whether there is the same need for public environmental accountability as for

[7] According to Markopoulos (2002), who has carried out several evaluations of certified CFEs, there is a basic incompatibility between certification and community forestry. He argues that whereas the latter is a people-first approach, certification is a forest-first approach designed mainly by and for the industrial forest sector. What is green and profitable is often not 'social'. This problem is reflected in the tensions between the social and other chambers of the FSC.

industrial forestry enterprises, if it can be established that CFEs have long-term livelihood and social interests in the resource. A "one-size-fits-all" approach therefore appears unhelpful.

Only CFEs with a clear market development strategy, probably involving partnerships with other stakeholders with strong technical and entrepreneurial capacity, should be encouraged to go down the certification route. For most CFEs it makes more sense to first raise administrative, institutional and marketing capacity, since this is essential for SFM – whether certification is later achieved or not – rather than promote subsidized certification. Access to credit to develop value-added processing capacity may also be a higher priority.

Various sources (Thornber 2003; Atyi and Simula 2002) argue that a non-market approach to CFE certification is needed that involves locally developed and flexible standards. The Criteria and Indicators (C&I) toolbox developed by CIFOR in Brazil, Cameroon and Indonesia represents a standards-based approach which might be adapted into a non-market certification tool. It claims to be oriented towards livelihoods, community decision-making, and landscape-level forest health (Ritchie et al. 2000). Molnar (2003) also reports on other certification approaches, for example, using first or second party standards and evaluation, and alternative ways of getting CFE products onto the international market place. For example, "fair trade" has been little used for forest products.

CONCLUSIONS AND RECOMMENDATIONS

Of the different forest certification schemes, FSC certification has been the leader in "tropical" settings and has provided a very important set of standards and criteria against which to measure sustainable extraction of tropical forest products for the marketplace. Certification has been promoted in tropical forest regions by buyers seeking a responsible supply of timber as well as by environmental and social activists seeking to foster more sustainable and equitable forest management.

The challenges have been enormous given the greater complexity of forest management in the tropics, especially in the face of such serious problems as weak governance, poorly defined tenure rights, and institutionalized corruption. A major economic problem has been that while the demand for sustainably harvested timber exceeds supply, particularly for the high value tropical species, the marketplace has largely not proved willing to pay the higher costs of certified management. This has limited the political will to develop credible standards and criteria in national initiatives, and put pressure on producers to seek easier standards of sustainability that allow them to remain in the higher value markets. Many national dialogues and initiatives have not gained the internal consensus necessary to move ahead with FSC standards, or have chosen to adopt other certification schemes which avoid more profound changes in the local reality, especially those which are less demanding in terms of the social standards. And, because certification focuses on specific harvesting and processing operations, it is generally outside the purview of national initiatives to advance issues of weakly defined forest land tenure rights (especially customary tenure) where these are pervasive and complex.

Certification also faces a serious dilemma between expanding the supply of certified forest products to meet the emerging demand, demonstrating that it is a viable and affordable market instrument, and maintaining a credible standard that takes into account all aspects of forest management—including environmental and social standards. This challenge is made more difficult by the fact that domestic markets in most tropical countries have little demand for certified products.

This review has found that more serious strategic thinking is needed to effectively move forward in complex settings like Central Africa, Southeast Asia, and the Pacific Rim. As a donor-driven rather than market-driven instrument in complex settings, forest certification has often been imposed in inappropriate conditions or in isolation, or as a last ditch attempt to brake rampant deforestation and illegal logging caused by underlying policy, market and institutional failures. The pace of certification in the tropics is conditioned by the difficult economics of timber-based natural forest management, but it has made encouraging progress as a market-based tool for SFM in countries with improving forest governance. Elsewhere progress has been slow with an active debate as to whether the way forward is through establishing positive examples in individual certified FMUs or through concentrating on establishing minimum pre-conditions for a national process.

The main benefits of certification have come from the multiple stakeholder discussions of national working groups, most notably in Latin America. In some countries it has helped create the necessary political space (as has decentralization) for raising important social and environmental issues around natural forest and plantation management and the forest industry. The development of a Buyers Group in Brazil and growing domestic market interest in certified products in Mexico also indicates the potential of certification to influence large domestic markets (although this may prove more difficult in poorer countries). The way forward entails an improved balance between certification efforts and the establishment of the policy and governance "pre-conditions" for SFM. The latter is essential for reducing the size of the "standards gap" and increasing the incentives for certification; a sophisticated demand-side "carrot" like certification will be ineffective without the necessary supply-side "sticks."

Key priorities or recommendations for certification in complex settings are:

A. Actions that FSC and other certification schemes can take

- A two-pronged strategy, one for countries with preconditions in place and one for countries lacking the appropriate and equitable laws, regulations and institutions for promoting forest certification, exploring alternative approaches aimed at quickly raising forest management standards and exploring transitional models to foster improve conditions for promoting certification. Voluntary forest certification should follow mandatory compliance with forest regulations;
- To pay even more attention to local tenure rights and to appropriateness of certification standards and criteria to the characteristics of community enterprises;

B. Actions that proactive governments can take (with donor support)

- To promote an active consumer education campaign that makes the role of forest certification in promoting SFM much clearer and raises awareness of the costs of such management;

- To follow a slow-track approach to certification based on establishing the "pre-conditions," developing national certification standards, and upholding social standards; this includes providing sufficient capacity-building resources to local stakeholders for them to be able to effectively participate in national dialogues and initiatives (decentralization is also a key political process in progressing towards this objective);

- To strive for a more level playing field through regulatory reform ("smart regulation") which ensures that legislation and regulations do not make "customary" practices illegal or raise the cost of SFM and access to market,

- To develop modified models or approaches for community forestry; a more flexible and non-market based certification process is needed which allows CFEs to access non-market benefits like tenure security and institutional status - a possible model is provided by the CIFOR C&I toolbox.

C. Actions that FSC can undertake collaboratively with actors

- To continue to promote socially and environmentally responsible policies in the corporate and financing sectors, and stepwise polices for forest product retailers, as these help channel incentives, financial and technical resources to forest managers and traders interested in moving towards SFM;

- To follow the example of Brazil and encourage the development of certified product buyer groups, at least in middle-income developing countries; and

- To adjust standards and criteria to support evolving markets for environmental services, non-timber forest products, and lesser known species, as these have the capacity to make SFM, especially natural forest management, economically viable;

D. Related support that strategic donors and forward-looking investors need to put in place

- To encourage a balanced set of national actors and donors to work concurrently on certification and the policy and governance "pre-conditions" (as opposed to a single donor focusing mainly on a certification agenda); this includes integrating certification into a broader forest governance approach to raising forest management standards that has a balance of incentives and controls;

- To focus certification efforts on situations with a more obvious market basis for it; for CFEs, it makes more sense to focus on raising administrative, institutional and marketing capacity before going down the high cost and risk certification route; and
- To support the development of better markets for environmental services, non-timber forest products, and lesser-known species.

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ANNEX 1: LIST OF CASE STUDIES

La Experiencia Boliviana en la Certificación Forestal. By Henry Moreno Sanjines, Director, Consejo Boliviano para la Certificación Forestal Voluntaria (CFV), Bolivia

Forest Certification in Brazil. By Andre de Freitas, Director, IMAFLORA, Brazil

West and Central Africa: progress and prospects for forest certification. By Mike Packer, Manager, Certified Timber Solutions, Timbmet Group, UK

Forest Certification in Indonesia. By Marcus Colchester, Director, World Rainforest Movement, UK

Forest Certification in Malaysia. By Saskia Ozinga, Director, FERN, Netherlands

The Experience of the Russian Producers' Group. By Mikhail Karpachevskiy, Biodiversity Conservation Center, Moscow, Russia