XIV WORLD FORESTRY CONGRESS, Durban, South Africa, 7-11 September 2015

Is Community Forestry open for Business?

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Abstract

Community forestry (CF) has been seen as an optimal method for dealing with the many challenges facing forests in Asia-Pacific region. Many stakeholders, however, are questioning whether CF is proving to be an effective way to improve the livelihoods of the community. This work examines why these doubts persist, putting forward recommendations for addressing barriers to CF development, focusing particularly on commercialization, with the rationale being that after tenure it is the driving force for successful CF.

The aim of the paper, based on the hypothesis that CF often struggles to deliver on various economic, environmental and social levels, is to examine the causes of these struggles and the different methods employed by key actors for addressing the challenges.

Results of the analysis point toward three key components hindering livelihood development beyond subsistence level or preventing mature CF enterprises:

1. Legal and regulatory structures are unsupportive, compounded by: strict and complex regulations inhibiting equitable benefit sharing; limited rights; the perception that local benefits are incompatible with national benefits; an uneven playing field regarding state, private and community forests; and weak participatory decision-making processes.
2. Local governments and communities have low organizational and institutional capacities, and lack technical skills.
3. A lack of investments in CF, as a result of: unclear business policies; high initial costs; undeveloped infrastructure; and untrained workforce.

The paper proposes a strategy being designed and implemented by various organizations to strengthen engagements with the private sector and local governments to showcase that CF communities are capable business partners and are fundamental drivers for sustainable forest management. The strategy recognizes the importance of a suitable enabling environment and lays down markers for its creation.

Keywords: community forestry, livelihoods, capacity development, community forest enterprise

Introduction, scope and main objectives

In the Asia-Pacific region community forestry (CF) is seen by many to be the optimal way to address numerous social (e.g. rural poverty) and environmental (e.g. deforestation) challenges facing forest management in the region. Its potential value is underlined by the failure of state management of forests to address these issues. The importance, for example, on the social front is illustrated by the fact that an estimated 450 million people in the region depend on forest resources for their food and livelihoods (ADB 2003). For many of these people, access to these resources means the difference between an adequate diet and malnutrition; for others it represents the chance for a growing income, a means to invest in their children‘s education, and a route out of poverty (Sunderlin *et al.* 2005). This belief in CF is somewhat reflected in the increase of forest area under community management across the region, with further expansion planned (Sikor *et al.* 2013, RECOFTC 2014). However, as tenure reform has progressed it has become increasingly apparent that the expected benefits of CF have not lived up to expectations (Gilmour *et al.* 2005, Poffenberger 2006, Sikor *et al.* 2013).

RECOFTC – The Center for People and Forests, together with national and international partners, is investing a great deal of effort in addressing the barriers to CF delivering on its potential. This is based on the understanding that for CF to work certain fundamentals need to be in place, this includes that the CF communities must be allowed, and have the capacity to make a living from their forests. In this context this paper will briefly analyze the impact that CF has made towards enhancing forest communities' livelihoods, community organized enterprise structures and market development, and in more depth will examine the reasons for the impacts, or lack of. The paper will specifically examine:

1. Universal challenges and opportunities for CF in enhancing peoples livelihoods as experienced historically globally with special attention to seven countries in the Asia-Pacific region[1]
2. Major gaps hindering key CF players effectively engaging in enhancing their livelihoods from CF, and
3. RECOFTC and partner's roles and approaches in addressing identified gaps and capacity needs.

Approach

There is a frustrating scarcity of data on the impacts of CF (e.g. Bowler *et al.* 2011, Seymour *et al.* 2014), not just from an analytical point of view, but also from the perspective of identifying what works (or not) for CF, and what can be scaled up. Organizations such as the Center for International Forestry Research (CIFOR) are addressing this, but still in the Asia-Pacific region there is still a large gap in data beyond Nepal, and to some extent the Philippines.

A large part of the research on the impacts of CF highlight the same message: tenure is more likely to lead to increased forest cover, reduced deforestation and degradation, the environmental benefits however, are more likely to occur where communities are able to use the forest for livelihood options, with their rights secured and enforced (e.g. Seymour *et al.* 2014). Published work often puts forward a mixed message invariably highlighting that things could be somewhat better if certain issues were addressed: 1. Regulatory framework, 2. Capacity weaknesses, 3. Low level of investment. These issues provide the framework for the paper.

The work draws on the findings of various research projects, including capacity building needs assessment (CBNA) conducted by RECOFTC and partners throughout the region (e.g. Gritten *et al.* 2013, Gritten *et al.* 2014, Greijmans *et al.* 2014, IIED 2015). Additionally a review of CF related models from a wide range of literature was conducted to capture the various perspectives, conditions determining and shaping CF.

Results

Unsupportive legal and regulatory structures

CF community members require an enabling environment, particularly a supportive regulatory framework to manage their resources. This framework must be based on the recognition that the laws and how they implemented must facilitate, rather than inhibit, communities managing their resources to support their livelihoods (Gritten et al. 2013, Greijmans et al. 2014).

With the exception of China, regulatory support for CF in the region remains weak in the face of governments' more favorable orientation to forest and agriculture industries and forest conservation, reflected in the laws of most Asia-Pacific countries (see Figure 1). Policy reforms in recent decades that sought to broaden local participation in forest management and increase local benefits from

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[1] *Cambodia, Indonesia, Lao PDR, Myanmar, Nepal, Thailand, Vietnam*

forests are mostly incomplete, or counter-productive, reflecting poor understanding and weak support for CF (Anderson *et al.* 2015). For example in Thailand, largely based on strict focus on conservation, the lack of ratification of the Community Forestry Bill following its passage through Parliament in 2007 means there is no formal CF policy. Although there are government initiatives that provide a legal basis for devolved forest management, the absence of a law recognizing the management rights of communities heightens their level of insecurity (Fisher 2011, FAO 2012). Even in cases where CF tenure has been allocated like in Cambodia (15 years versus 99 for economic concessions) communities and smallholders face a significant number of regulatory barriers inhibiting their ability to profit, like technical requirements for legal compliance (Gritten *et al.* 2013) or because forests are too degraded (RECOFTC 2013, Greijmans *et al.* 2014) or too small (Pokharel 2012, RECOFTC 2013, Gritten *et al.* 2014), deterring investment. These impediments encourage illegal activities as the costs of following the legal path are prohibitive (Macqueen 2008, Gritten *et al.* 2013).

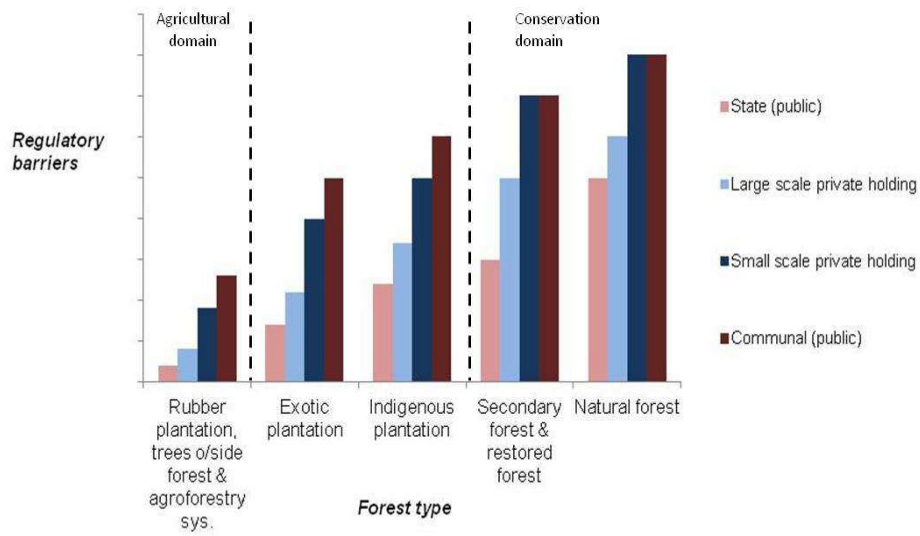

Fig. 1: Illustration of regulatory barriers according to forest type and tenure arrangement (Gritten *et al*. 2013)

Various national (e.g. Indonesian Timber Legality Assurance System - SVLK) and international (e.g. FLEGT - Forest Law Enforcement, Governance and Trade) legal tools, and voluntary certification systems are increasingly promoted to push for sustainable management of forests and trade of timber. However, there is significant concern that these are barriers for community forestry enterprises (CFEs), partly as a result of the capacities to deal with the complexities of these standards (e.g. Wiersum *et al.* 2013). CF has its own particular needs due to, for example, small forest areas and limited investment capital, and legislation has often not been able to address their specific circumstances (Gritten *et al.* 2013, Cronkleton *et al.* 2013).

Government and the private sector often have the attitude ranging from fear to disbelief regarding communities being able to manage resources sustainably, and be trustworthy business partners. This rationale may well be a "Catch-22" situation, influenced by a mix of underdeveloped capacities and attitudes from all stakeholders. Top-down approaches from government agencies and private sector have had little effect to actually capacitate communities in becoming effective "business partners".

Capacity weaknesses

Recognizing that local people will be resource managers they need to have sufficient capacity to meet the requirements to manage these resources sustainably, as well as to meet the legal obligations. This is one of the basic principles of participatory resource management whereby knowledge, confidence and skills are developed through learning interventions ensuring that local people have sufficient knowledge to develop and implement their resource management plan(s) effectively. They must be able to adapt and adjust taking into account various internal and external pressures and requirements (Greijmans *et al.* 2014).

One capacity challenge is for CF communities to move from using their resources in their raw form to being able to process and subsequently sell them. Often, however, they lack the capacity to do so, compounded by poor infrastructure and a prohibitive regulatory environment. It is important to consider that communities are usually unable to make large investments themselves, further hampered by the weak tenure rights that act as a deterrent to investment. In Lao PDR where many smallholders have no tenure rights there is thus no proof of collateral for banks or micro-finance institutions to provide loans to invest (Wong 2015). Additionally, CF communities lacking sufficient financial capital to invest or think in terms of scale, often also have weak social capital: when CF households are not organized and lack the willingness to invest in collaborative action, long-term business partnerships is a risk. Strong social cohesion among CF members is reflected in membership growth, strong corporate identity and commitment to CF development. For Hmong and Akha communities in Laos and Thailand this has resulted in successful long-term relationships with coffee buyers (Phimmavong *et al.* 2014, Cheung & Greijmans, 2015). Access to credit for CF communities can be highly variable and usually increases with the existence of long-term buyer relationships and relatively stable production volumes.

To facilitate communities to move beyond subsistence and establishing CFEs, outsider support is critical. The ASEAN Economic Community (AEC) may provide opportunities, but also sizeable challenges for local communities once the single market and production base is launched at the end 2015. This challenge may be exacerbated by the ASEAN Comprehensive Investment Agreement which is to open up land resources to investors from other ASEAN countries, a concern of which is an increase of land grabs.

Many communities organized in group-like structures require organizational and management skills (e.g. managing decision making processes, business planning, negotiation), a challenge for many members who often only have basic education, and lack other key assets like access to information. Participatory decision-making is key to CF, but the development of clear strategic perspectives can be hampered when democratic processes are combined with weak skills and capacities of local administrators, in particular changes in local leadership. In South-Sulawesi, Indonesia, a well functioning locally managed water distribution system with water available to all households collapsed once new village leaders announced that water was to be free for all, thereby discouraging investment to maintain the distribution system (Siregar et al. 2015). These weaknesses may lead to internal conflicts and endanger CFEs further development.

Platforms are going to be key to ensure that CF communities can voice their concerns and where grievances are taken serious by committed follow up. Capacity is one answer, but it needs to be taking place on a level playing field (as opposed to that illustrated in figure 1).

Lacking investments

For CFEs to develop in a sustainable manner market access is key. For commercialization purposes there is little likelihood of success of a new crop or new added value initiative if it does not match with market demand, an oversight common in development projects. Information such as product quantity, quality and investment costs need to be understood in order to develop common interest between CFEs and investors or other private sector businesses that are always on the lookout for competitive advantages (Macqueen 2010; Greijmans *et al.* 2014).

CFs are often located in remote areas, where infrastructure is not in place to efficiently transport goods (roads), provide reliable communication and information access regarding market information or policy developments (phone, Internet) or even to process efficiently (electricity). This is a significant disincentive to investors interested in working with community from a business perspective, one implication is that the resulting increased transaction costs for investors will often be borne by communities (Mayers and Vermeulen 2002).

As CFs are emerging as enterprises they have to address numerous challenges in terms of technical, organizational, financial and rights issues. CFE development is a risky business to invest in with so many uncertainties. They require time and commitment in order to be profitable, but often cannot afford to wait for returns on their investments for more than a few years. Private funding is often not geared to sustainable practices in countries where tenure insecurity, information gaps, small scales of operation and lack of business organization and capacities present barriers to securing financial investment. Mayers and Vermeulen (2002) point out that experience of investing in forestry in developing countries have led to misunderstandings between partners and to financial losses or litigation. Investors demand a proven track record to be convinced that returns are favorable (Asen *et al.* 2012).

China in many respects provides a possible roadmap for the way forward. Tenure reform and international trade contributed to an expanded market access, including increased market competition for CFEs, improved livelihoods and local employment (Luo *et al.* 2009). A key factor is also the infrastructure in place in many rural areas that facilitates the development of CF through such support programs as the "Grain for green", but also through general investment in rural areas (e.g. for State Designated Poor Counties).

Discussion and recommended approaches

In order to address the challenges we call on key stakeholders (e.g. companies and governments) to support the program currently being developed and implemented RECOFTC and partners:

1. *Multi-stakeholder engagements* - to create a better understanding of all stakeholders' needs, understanding, capacities and views regarding the use of the forests. This will often require facilitation support from an external party accepted by all stakeholders. These facilitators need to be well informed about the issues and any sensitivity among stakeholders. In particular mitigating or transforming conflict will have to be a skill set to ensure effective discussions / negotiations leading to sustainable outcomes.

2. *Piloting and demonstration* – new approaches, often emerging from stakeholder discussions as part of seeking potential ways forward, need to be tested in real situations to allow for evidence to be analyzed in a participatory manner, and by assessing which, if any, approaches should be scaled up on sub-national, national, regional and global levels and facilitated by relevant organizations at different levels e.g. FAO and World Bank.

3. *Capacity development* – organizational and technical capacities for communities to engage in enhancing forest-based livelihoods and income generating activities need to be based on their vision and capacity, from which different CFE development levels can be considered (Figure 2).

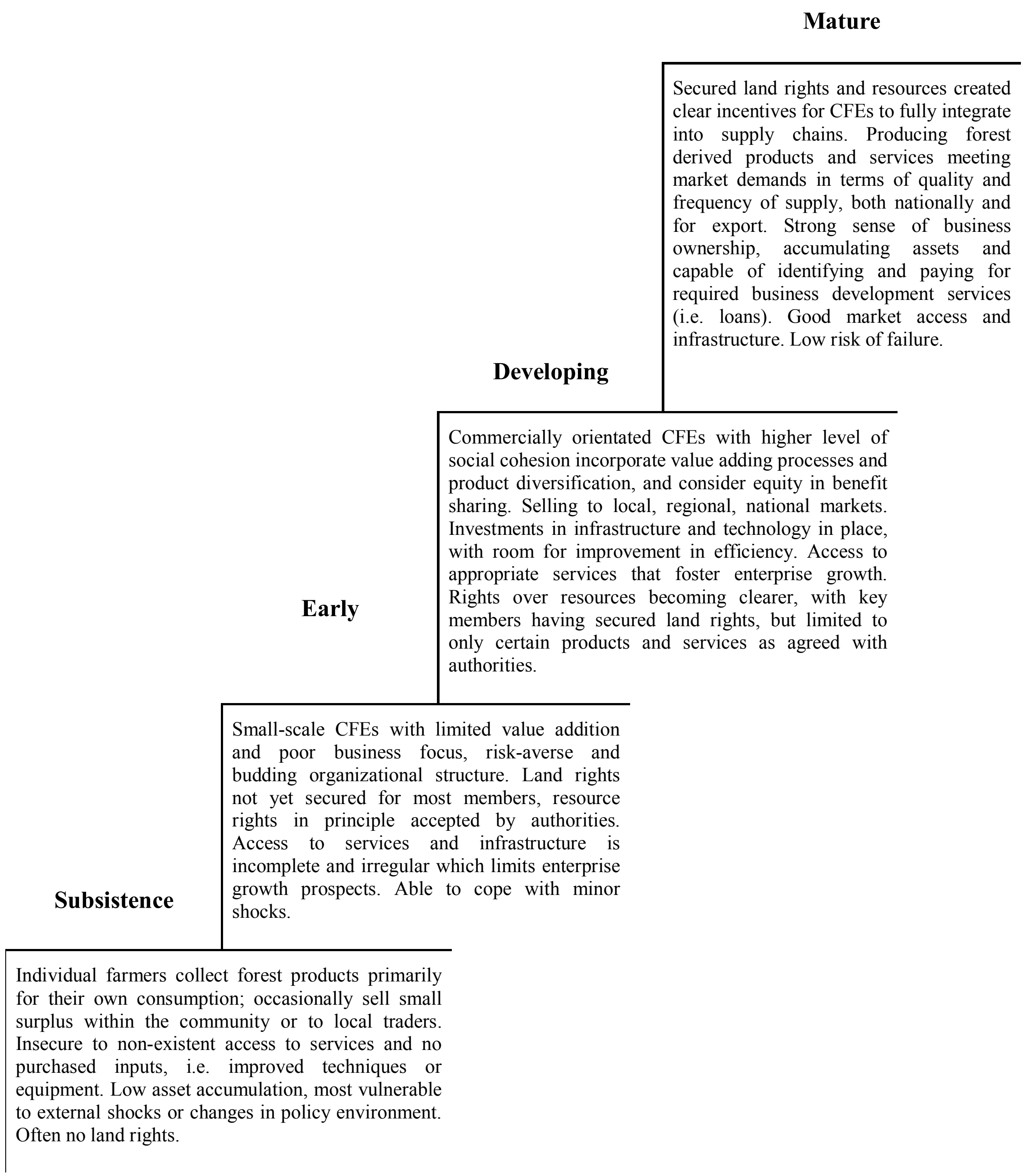

Fig. 2: Stages of CFE development. Adapted from Lundy *et al.* (2005)

4. *Networking and peer learning* – learning from cases where progress has been made, or from peers who went through a learning process towards levels of success is a recognized mechanism to build social capital.

5. *Action research and policy advocacy* – for example, in collecting evidence on unofficial rent seeking costs actors face in forest product supply chains, can reveal what losses can be avoided to society and convince policy makers to remove barriers which currently do not create incentives for supply chain actors to abide by the law. Such improvements have the potential to increase incomes more fairly and distribute benefits more equitably. Similarly, incentives can be created by allowing

communities to commercialize their forest according to well planned implementing of forest management and enterprise plans. Elson (2010) calls these incentives which help to reduce costs “soft investments” needed to attract “hard investments”.

Acknowledgements

Mr. Bernhard Mohns is gratefully acknowledged for providing feedback on an earlier version of this paper. We are grateful to the Norwegian Agency for Development Cooperation (NORAD), the Swedish International Development Cooperation Agency (SIDA) and the Swiss Agency for Development and Cooperation (SDC) for funding the research on which this paper is based.
The authors are extremely grateful to all those that contributed to the research.

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