VPAs in evolving contexts

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Outline

- VPAs in a broader context
- Domestic markets in the VPAs
- VPAs implementation process
- Some lessons from other contexts
- Messages on the way forward
The competition for land is growing, which is mainly stimulated by global trade and investment in agricultural crops and minerals. Expanding trends of transboundary and regional trade due to growing urban demand and greater market integration also contribute to this dynamic. Additionally, a vigorous domestic timber sector involving several local actors that co-exists with the industrial/export-oriented one plays a significant role in the broader context.
A growing competition for land

- About 1,000 deals involving large-scale investments amounting to 70M hectares of land have been registered since year 2000
- Large-scale land acquisition is a growing phenomenon although its pace has slowed after a peak in 2009
- 68% of the projects are located in Africa, 21% are reported in Asia, 8% in Latin America, and the remaining in other regions

Source: Anseeuw et. al. 2012
Transboundary and regional trade

- Transboundary and regional timber trade occur in different regional contexts driven by market and policy factors:
  - Timber trade in Central Africa in the borders between Cameroon, Chad, Nigeria, Congo and RCA / DRC with Central and Eastern Africa
  - Also occurs in the borders between Ecuador, Peru and Colombia / Bolivia and Peru and Brazil / some of this timber supplies markets in China
  - In southeast Asia timber trade occurs between Indonesia and Malaysia and in the Mekong to meet demand from Vietnam’s timber industry

- This is one additional challenges for legal enforcement (and VPA implementation) due to a potential “leakage effect”

- The drivers and dynamics of transboundary and regional trade as well as its magnitude are still little known
Vigorous domestic timber markets

- Domestic markets are as important in terms of contribution to the economy as export markets in producing countries.

- The overall contribution (e.g. jobs, income, revenues) is related to their magnitude, composition and structure:
  - More “dual types” of forest economies in Central Africa (small-scale milling vs. industrial logging).
  - More integrated in Indonesia with a larger sector of small-and medium timber enterprises.
  - A range of different situations in Latin America depending on stage of market development.

- Legality verification along the timber value chain has different challenges depending on the market structure.
Chainsaw milling in Central Africa

- Domestic timber markets contribute with €60M (excl. DRC) to the national economies
- Contribution (in some cases) higher and (always) redistribute better than industrial
- Networks of corruption “fight” formalization and affects income distribution from timber

**Distribution of chainsaw milling costs by production factor**

Domestic markets in the VPAs

- Most VPA-countries have included domestic markets in the negotiations
  - VPAs should ensure that smallholders and chainsaw operators comply with forestry and other norms affecting forest management

- Law enforcement has a dual effect:
  - Harming local actors by criminalizing informal practices that do not fit in the current laws,
  - Integrating them as part of the formal timber sector by adopting more flexible approaches

- Outcomes depend on the ways (or not) to formalize by addressing, mainly:
  - Recognition of tenure rights
  - Granting of management decisions
  - Status of small-scale economic units
  - Access to markets and finance
VPA implementation in Indonesia

- All companies have until 31 Dec 2013 to be SVLK (VPA) compliant
- 4,000 registered timber exporters out of which 800-900 are large/medium firms which have financial/capacity means and will obtain SVLK certificates – as of Nov 2012, 279 were SVLK compliant

**Key question:** What happens to thousands of export and domestic-oriented small-scale business units which operate informally?

A vast small-scale sector exists in Indonesia:

- 15,000 small-scale timber businesses and 175,000 workers in Jepara alone, Central Java
- In Java and Bali there are estimated 150,000 small industries employing ~750,000 people
- Nation-wide there are about 686,000 small-scale units employing 2.7M people which consume ~ 10M m3 of timber annually

Source: Melati et al. 2010, Klassen 2010
Lessons from other contexts: Ecuador

- Efforts to make norms more flexible
- A developed system of timber monitoring
- Incentives to promote forest conservation
- Related to parcel management plans

Some outcomes in practice are:

- A major portion of smallholders outside of the law due to costs of legalization and final profit
- Volumes of timber extracted from informal operations tend to be lower than from formal operations
Some issues to consider

- There are **opportunities in the small-scale informal sector** that should be harnessed for better governance:
  - In place relatively well organized networks of local actors
  - But risks of environmental impacts and elite capture

- **Process and contextual factors matters**, so both should be addressed simultaneously, for example:
  - Adapting local business models to improved norms
  - Adopting ways to reverse market asymmetries

- The VPA is no one-fits-all solution and **differentiated approaches are required** in different contexts:
  - Step-wise approaches with longer time frames
  - Legal requirements adapted to local conditions
  - Financial incentives to support formalization
What about the broader context?

- FLEGT should be **assembled with other policy actions** to trigger change in the forestry sector mainly aimed at:
  - Clarifying access to tenure and securing bundles of rights
  - Enhancing transparent decision-making and accountability

- **Link to other existing initiatives** for reducing pressures on forests and enhance the responsibility of private actors
  - Enhancing responsible large-scale investments in forestlands
  - Supporting private sector towards more inclusive business models
  - Promoting regional initiatives to enhance monitoring/enforcement

- **Support coalitions** to strengthen multi-stakeholder and multi-scale efforts which are unfolding in the countries:
  - Building on endogenous processes and initiatives
  - Facilitating development of forest users organizations
  - Stimulating learning and sharing on policy innovations