

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



VPAs in a broader context

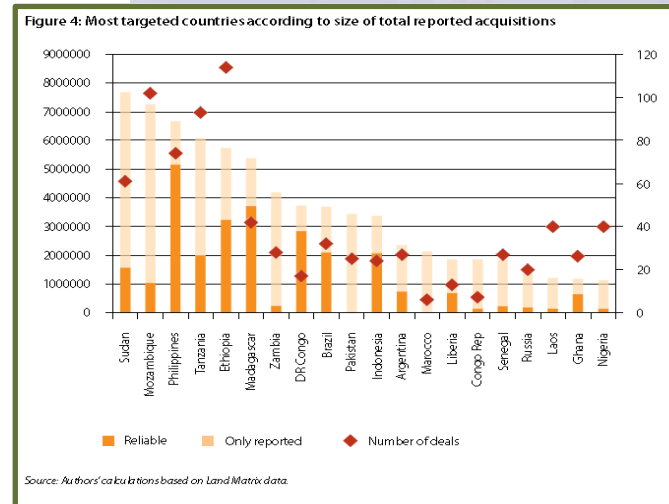
- Growing **competition for land** which is mainly stimulated by global trade and investment in agricultural crops and minerals
- Expanding trends of **transboundary and regional trade** due to growing urban demand and greater market integration
- A **vigorous domestic timber sector** involving several local actors that co-exists with the industrial/export-oriented one



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



About 24% of the land deals are located in forested areas, representing 31% of the total surface of land acquisitions

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

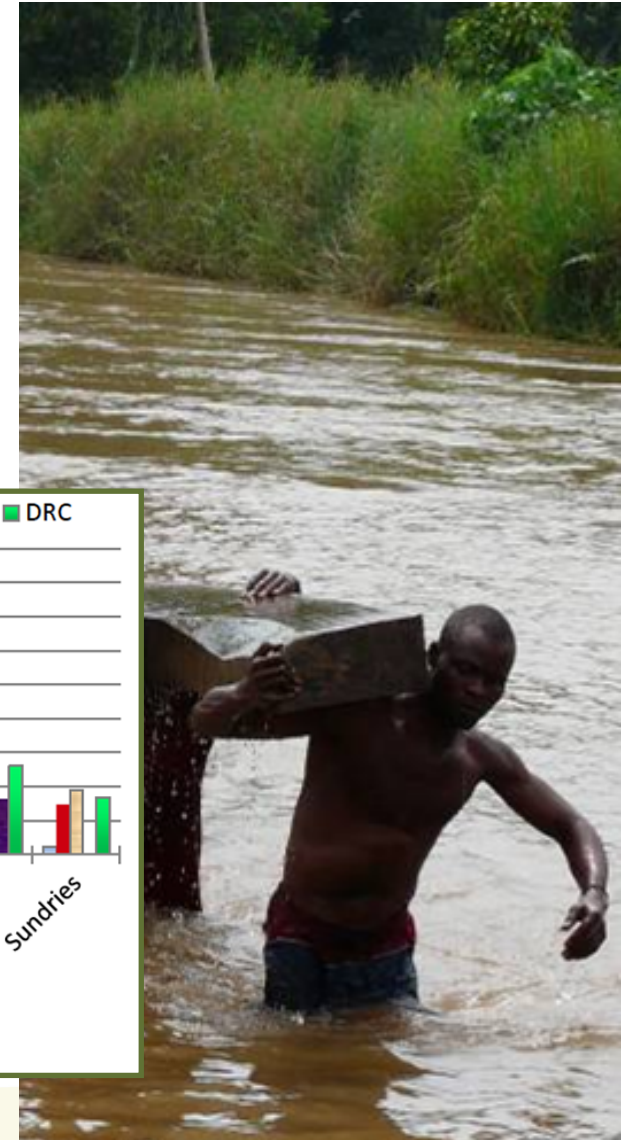
Vigorous domestic timber markets

- 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**

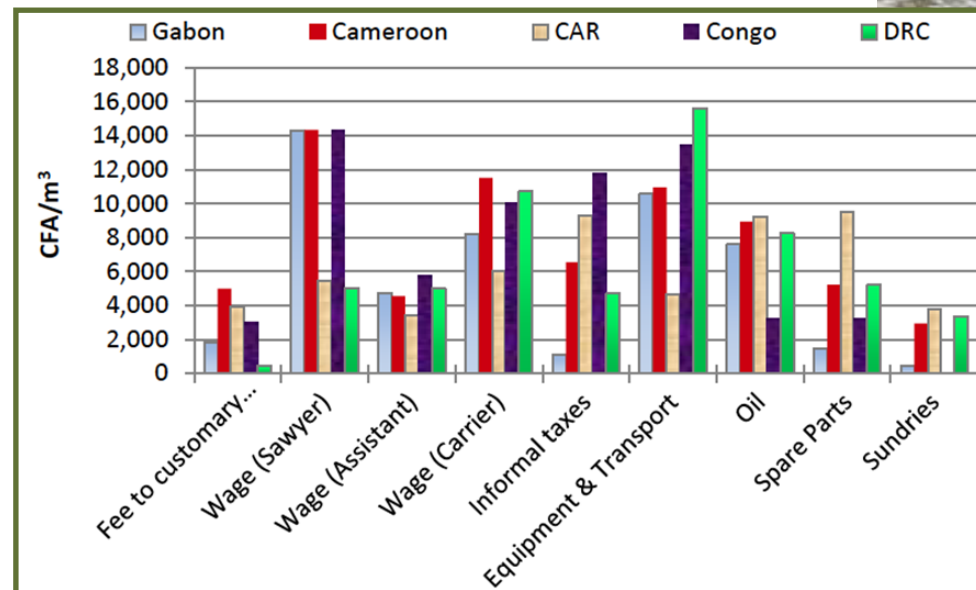


Chainsaw milling in Central Africa

- 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



Source:
 Cerutti and Lescuyer 2011;
 Lescuyer et al. 2010,
 Lescuyer et al. 2011,
 Cerutti et al. Forthcoming.

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



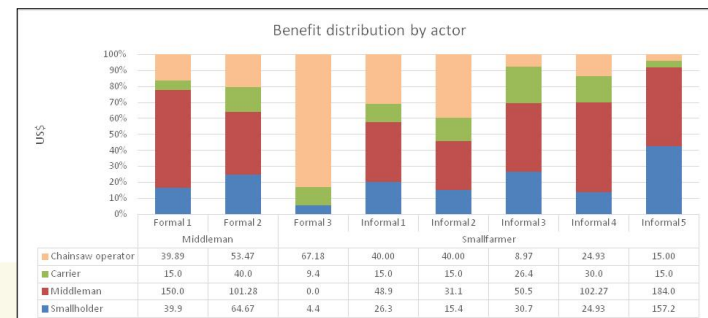
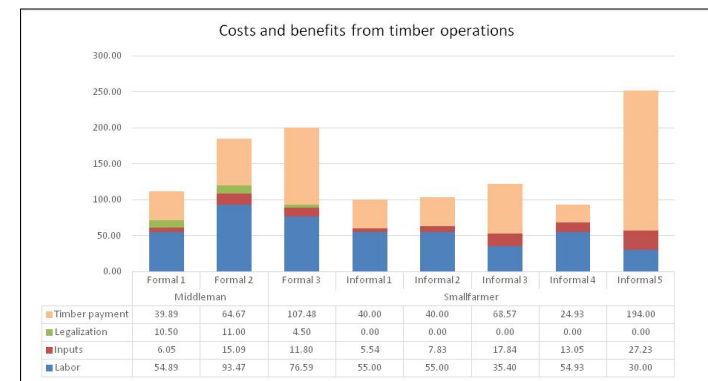
Lessons from other contexts: Ecuador

- 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

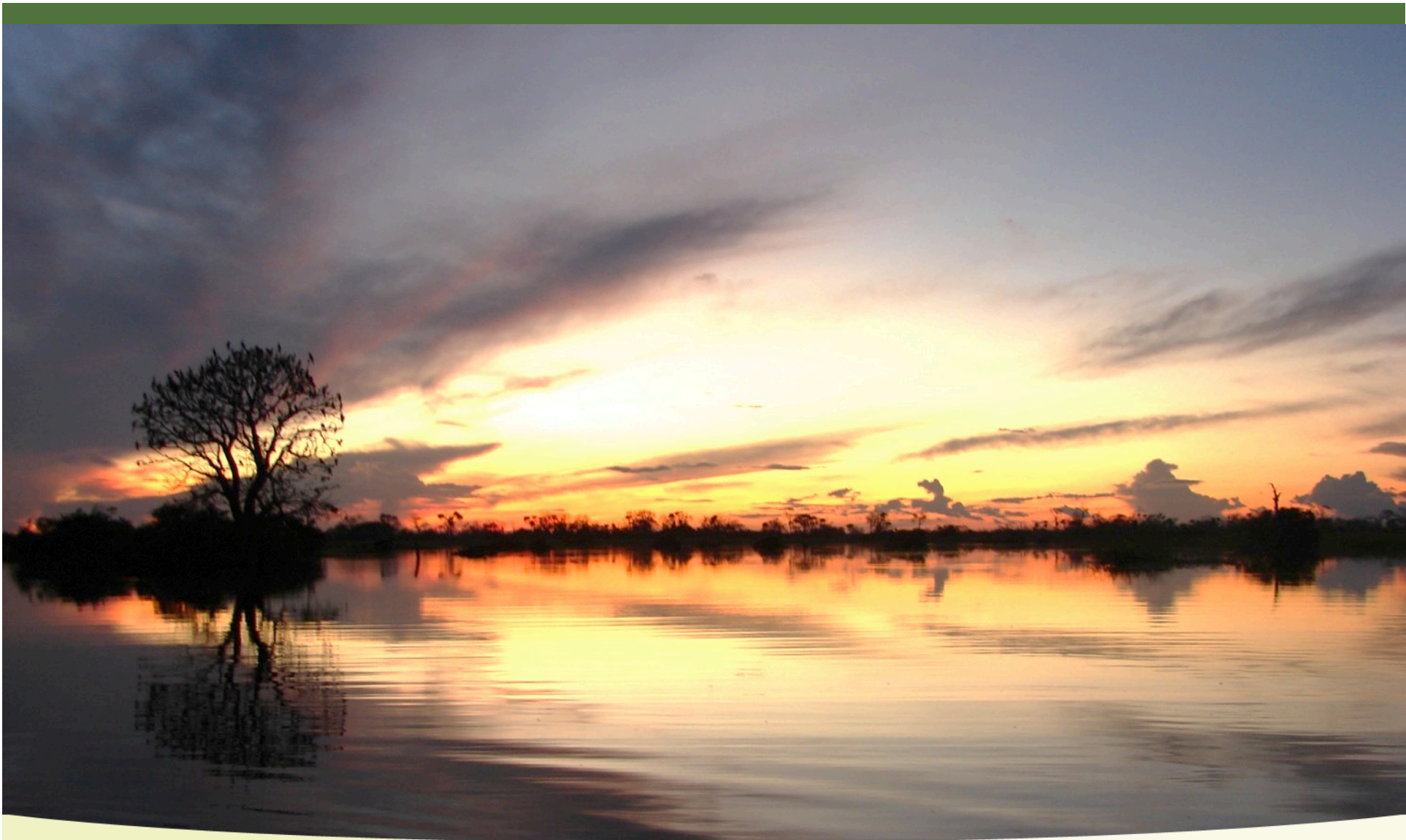


Some issues to consider

- 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



Thinking beyond the canopy

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