

# Connecting community forests in the Democratic Republic of Congo with international markets: Some initial ideas

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## **List of Acronyms**

A&R	Afforestation and reforestation
CAF	Country Assistance Framework
CDM	Clean Development Mechanism
DFID	Department for International Development
DRC	Democratic Republic of Congo
FM	Forests Monitor
GEF	Global Environment Facility
INGO	international nongovernmental organisation
MSD	Market System Development
NGO	non governmental organisation
NTFP	non timber forest products
PES	Payments for Environmental Services
PRSP	poverty reduction strategy paper
REDD	Reduced emissions from deforestation and degradation
R-PIN	The Forest Carbon Partnership Facility Readiness Plan Idea Note
SMME	small micro and medium sized enterprises
UNFCCC	United Nations Framework Convention on Climate Change
WHRC	Woods Hole Research Center

## **Introduction and background**

Forests Monitor, with the assistance of DFID, and a range of partners have developed a joint proposal for a community forestry pilot project. As community forestry is an unfamiliar concept in DRC, it adopts a learning and experimental approach that plans to work closely with key stakeholders from government, civil society and the donor community to provide information to help with the agreement and implementation of supportive policy frameworks. It is one of a number of initiatives which represent the first contribution to the achievement of a long term goal for the widespread adoption of an appropriate system of community forestry for the DRC that is able to address poverty and empower rural communities to sustainably manage their own forests and revenues. A wide definition of community forestry (sometimes called “social forestry” or community based forest management) is used so as not to limit possible options. It envisages the control and management of forests by rural people, in their own interest, where the actual exploitation of resources (timber, PES, NTFP, tourism) can be made by the community itself by a community based enterprise or outside enterprises under a fair contract with the community. Developing community forestry is integral to the desire of the DRC government to find alternative ways to manage and economically use their forest resources.

Part of the original concept and vision of the proposal placed an emphasis on connecting community based producers with international markets in timber, environmental services (with a focus on carbon) and other non timber forest products. As well as being inspired by new potential opportunities generated by climate change, the idea is to provide an alternative to the DRC’s reliance on the industrial forest logging concession system. The aim is to introduce a way to achieve transformational development that can address poverty by enabling forest communities to capture real and direct benefits from assets in their environment as well as contributing to long term national development. However, the circumstances of the DRC suggest that connecting with international markets will feature in the later sections of any road map to develop community forestry. That said, the purpose of this paper is to reflect on ideas that offer a vision of how the latter part of that road map could look. This offers a number of advantages. A reality check of what is achievable in the short and mid-term; a clearer idea of some of the hurdles that need to be overcome; how these may relate to possible activities earlier on in that roadmap; and finally and importantly, a degree of encouragement and direction to the key stakeholders, particularly the DRC government, given the lengthy and demanding reforms they will need to invest in to develop a forestry sector based on a thriving medium, small and micro enterprise culture.

The paper is divided into three chapters, the first and second of which can be read separately depending on the readers interest. The first looks at the potential for community forestry initiatives to sell carbon. It will argue that efforts to develop community forestry in the DRC should focus on timber, NTFP and agriculture in the first instance on the basis that there is too much uncertainty about the nature of any carbon market and the DRC’s participation in it. In so doing, it will consider the prospects of a carbon market for standing forests emerging, the form it may take, the capacity of the DRC to participate, the role of community forestry initiatives at sub-national levels and the prospective economic and social returns for communities. At each stage it will consider the implications both for the DRC and efforts to develop a system of community forestry. The chapter will conclude by making a number of recommendations for future action to ensure that community forestry features in the debates and negotiations that are, and will be, occurring both in the DRC and internationally as the stakeholders work towards resolving these many uncertainties. The second goes on to look at some of the challenges of developing a system of community forestry that is able to access international markets, primarily through timber and NTFPs, but which could also be used as the basis for REDD payments. In so doing it develops some ideas for coordinating the enterprise activities of small community forest enterprises over the short and longer term. A third chapter makes some recommendations of relevance to the proposed FM pilot project.

## **Chapter 1: Will communities be able to access carbon payments to address poverty and development needs? The implications for community forestry in the DRC**

Before addressing the question – will communities be able to access carbon markets to address the poverty and development needs of its members? – the answers to a number of supplementary questions need to be considered. These questions are:

Will there be a meaningful market for carbon retained in forests? And if yes then:

- Will the DRC and its forest communities be able to take advantage of it?
- How will it be implemented? –What role will the DRC state take and how will local initiatives interact with the international market and the state?
- What level of financial reward will be available – will they be accessible to local initiatives and in what form? If yes, then what features will local initiatives have to adapt to access carbon monies and will they be economically, socially and environmentally beneficial to forest communities?

In posing each of these questions throughout this chapter, the intention is to provide the reader with an appreciation of the extent of the uncertainty that needs to be resolved and depending on what emerges, the implications for the DRC and community forestry. At the same time the reader is familiarised with some of the complex concepts and technical issues that are necessary to both understand and follow the emerging debate on payments for reduced emissions from deforestation and degradation under REDD

### **A Obtaining certainty on REDD rules**

As a consequence of recent heightened interest in climate change, previous efforts to include a mechanism that recognised standing forests contribution to the environment were finally included on the agenda of considerations for a post Kyoto regime following its expiry in 2012. At the end of 2007, the 13th Conference of the Parties to the UNFCCC agreed to develop a mechanism to compensate developing countries for reduced emissions from avoided deforestation and degradation, commonly referred to as REDD. At present, apart from a few voluntary conservation projects and a number of pilot REDD schemes in development, there is no market for REDD.

This will probably only emerge once a whole host of issues are resolved between now and 2012. There are currently at least 6 major proposals, each of which have attracted a wide variety of critiques and generated further proposals from academics and NGOs<sup>1</sup>. Whatever is agreed will be a product of the discussions this dialogue generates, but fundamentally will also be a question of political negotiation between developed and developing countries.

Currently the most popular proposal is for an incentive based scheme. Countries will be rewarded if they voluntarily reduce their emissions from deforestation below an agreed projected rate of deforestation<sup>2</sup>, often referred to as a baseline. This will require the setting of country level baselines and national accounting systems. Financial incentives will come from either an international development fund or a market mechanism of tradable credits similar to that in place under the Kyoto protocol for CDM credits. There will also be options for project level implementation.

However, a number of fundamental issues are in contention including:

- (1) How baselines are determined and how the concept of additionality is incorporated;
- (2) Whether an incentive scheme is the most appropriate mechanism to bring about the desired result;

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<sup>1</sup> For an excellent summary see Peskett, L, Huberman, D, Bowen-Jones, E, Edwards, G, and Brown, J, (2008) DRAFT, Making REDD work for the poor. Poverty and Environment Partnership.

<sup>2</sup> For the rest of this paper the term deforestation is used for the sake of brevity but should be read to include degradation.

- (3) The form that the architecture of REDD should take, raising questions about the type of policies or action needed to reduce deforestation and how compensation payments should be made and to whom; and
- (4) Technical issues for measuring baselines and monitoring actual deforestation rates. Failure to adequately resolve some of the concerns raised may result in a very different scenario emerging or different approaches being adopted for different countries.

By looking at each of these in the context of DRC and community forestry, the next three parts provide a flavour of how much ground there is to cover before any kind of concrete planning can start, and some of the potential challenges that may arise for community forestry.

#### **A1 Baselines and additionality**

How baselines are determined has the potential to be highly contentious. Karsenty and Pirard note the complexities of this issue are yet to be considered in much detail by the UNFCCC (2007). Some of those difficulties are:

- Tropical forest countries have made proposals on the basis of their own deforestation history and in the interests of capturing maximum compensation levels. For the DRC and other Congo basin countries the proposal based on historical rates favoured by Brazil and Indonesia, will make them a loser in the REDD system given their historically low deforestation rates to date. If an alternative proposal is not accepted (either a future predicted scenario or an adjustment fund and allowed levels of development deforestation without penalty) there may be limited carbon compensatory monies available to Congo basin countries and consequently for forest communities. Critics have indeed noted that failure to deal with this concern may be counterproductive especially since the repair of road and other infrastructure in DRC, and the need to secure development income, creates strong incentives for future deforestation. However there are methodological and political problems in using future predicted rates given the difficulties of assessing all of the variables that could affect deforestation and the degree of causality. It is unlikely countries will find acceptable a system that is adjusted post baseline setting and in which factors and policies are judged to have or have not contributed to reduced deforestation after the event. It would have to be done by an external agency raising difficult questions as to sovereignty of policy making (Karsenty and Pirard, 2007).
- Intertwined with the setting of baselines is the concept of additionality. This concept is imported from the CDM and is a way of managing finite resources available for emissions reduction. It means only paying for emissions reductions that arise because of project activities and not for those that would have occurred anyway (i.e. payment is only for emissions reductions over and above business as usual). In REDD, the baseline needs to account for areas that are unlikely to be deforested regardless of REDD related intervention. Otherwise, paying to prevent deforestation in these 'non-threatened' areas would introduce "hot air" into the compensation system. In a fund based incentive system this means money is not well targeted. For a market based offsetting system hot air has the potential to disrupt the nature of the market itself, which at the extreme could flood the market with credits making them worthless, and introduce credibility issues. However, there are problems in creating baselines that account for additionality as it again involves making predictions on future factors that are likely to influence deforestation rates with the attendant problems of establishing causal relationships. Angelson and Kamowitz (1999) argue that very little is understood about the factors that cause deforestation and the extent and interplay of their respective influence (in Karsenty and Pirard, 2007). Making post baseline adjustments is probably not politically acceptable suggesting that the system will have to accommodate the hot air problem. If the resulting risks to the system are unacceptable the incentive model may be rejected in favour of an international donor fund that supports targeted policies aimed at reducing deforestation (Karsenty and Pirard, 2007). If the system accommodates them, then there may be price fluctuations, especially if large numbers of credits arrive on the market. Market confidence may also be affected if attacks are made on the credibility of the system itself, especially if recipients of credits benefit from windfall circumstances not of their making.

## **A2 A market system, voluntary fund based approach – or no formal incentive structure at all?**

Another outstanding issue is whether financial incentives should come from a market trading system under the Kyoto protocol or from a voluntary fund, or a combination of these. A market trading system has attracted a range of criticisms from both academics and NGOs, and is not favoured by Brazil. If a carbon trading system is preferred then a host of complex issues will need to be considered which will impact upon how DRC manages the REDD process. Proponents of trading think accessing commercial monies offers the only way to generate the appropriate levels of finance to tackle deforestation and introduces an efficiency discipline. In contrast, fund payments may be easier to manage and have less technical issues to resolve, but may be prone to mismanagement and corruption.

Those rejecting an incentive based system point out that the availability of monies may not be enough to motivate governments to introduce the necessary policies to tackle the drivers of deforestation and where they do, the policies adopted may not be acceptable to developed countries (Pirard and Karsenty, 2007). For the DRC there may be questions about political will, but sheer lack of capacity to develop and implement appropriate policies alone may prevent it from accessing carbon offset monies (Ebeling and Yasue, 2008). In making their argument, Pirard and Karsenty present a number of unsatisfactory scenarios. Such as where a country like Brazil is unwilling to absorb the political costs of dismantling its soy and beef industries in favour of compensatory sums (assuming of course these are sufficient economically, which is a stretch given the volatility in commodity prices). In the DRC resistance may come from the influential elite who are satisfied with the status quo and are not necessarily able to capture benefits from compensatory monies with the same ease (2007). Other perverse effects may occur. Countries may deliver on the easy policy changes and then withdraw from the scheme (Richards and Jenkins, 2007). In a weak governance environment there may be problems or an unwillingness to pass monies to field agents (a feature envisaged by many REDD proponents). As there is no conditionality, some countries may take unpalatable options to reduce deforestation, such as adopting a conservation and fences approach or failing to road build, leaving forest communities disconnected from services and economic opportunities (Pirard and Karsenty, 2007).

The proposed solution pushed by some academics and NGOs is to increase development type aid to support policies and initiatives that reduce deforestation. Pirard and Karsenty suggest the creation of an international climate fund, financed by an international tax that uses well targeted traditional development aid techniques, including conditionality. Such aid could support a package of measures including: the expansion of sustainable forest management and certified timber production that could offer a meaningful alternative to forest conversion for soy and palm oil production. Others would be to support governments to remove perverse incentives and make supportive structural changes to redress land tenure insecurity and make and enforce governance reforms (2007). A further suggestion is to use payments for large scale PES approaches targeted at field actors as a means of changing behaviour, say where agricultural systems are contributing to deforestation or to encourage communities in sustainable forest management (Pirard and Karsenty, 2007). Clearly in the DRC this approach could support programme efforts to establish community forestry both in developing national policies and encouraging uptake by local communities. It may also be better able to commence in the absence of large scale institutional development and capacity building (discussed in the next section).

## **A3 National Management and Monitoring – REDD Architecture**

To deal with the problem of, “leakage”, (i.e. where actions in one place to reduce deforestation cause deforestation elsewhere with no net benefit), there is strong support for management at country level so that national baselines will be set and incentive payments made on the basis of overall country performance. This will require countries to adopt national level policies and undertake national monitoring. For the DRC, this will require devising and implementing policies to address deforestation and setting up and achieving working functionality for a variety of REDD management institutions almost from scratch. Concerns relate to: the capacity constraints in the DRC; the time it will take to develop acceptable working institutions; whether any policy action taken by the DRC government can

actually reduce deforestation on the ground; and the fact that REDD seems to be encouraging an over reliance on a top-down approach in which the needs of the ordinary DRC population could easily be ignored, unwittingly or otherwise.

In the current uncertainty, the role of sub-national entities (such as local government, industrial and individual actors) in the process is unclear. A number of scenarios are possible. REDD monies may not be available to sub-national actors in the DRC to fund community forestry initiatives. Instead, the DRC could decide to use monies (whether from trading or a fund) merely to fund national policy changes, although this raises the question of whether it would be acceptable to buyers in a trading scheme. Alternatively it could develop a scheme for the transfer of funds directly to sub-national levels and actors. This could include payments to provincial or territorial administrations to carry out particular anti-deforestation policy making and implementation. The state could assign provinces their own deforestation baselines and incentive mechanisms. Alternatively, or in conjunction with local management, payments could be made directly to field actors such as communities. This would of course provide the type of opportunity to connect community forestry projects to the international market originally conceived by the project, or other forms of payments if a non trading system is devised.

### A3.1 Management Institutions and REDD Architecture

However, devising and operating the institutions necessary to manage national level emissions reductions is a significant and perhaps overwhelming challenge for a country with huge capacity and skill level deficiencies. Peskett et al (2008) have listed some 5 possible national institutions and the types of activities they could carry out including:

- a fund manager;
- a monitoring, reporting and verification system,
- a national registry and transaction log;
- scientific institutions; and
- an implementing institution.

These will require high skill levels in planning, managing money, administration and the scientific and technical aspects of carbon measurement. As well as up front investment, these institutions will need enormous amounts of time to evolve given DRC's starting point.

In addition, numerous issues such as who owns carbon rights, who will have the rights to payment and who bears delivery risks will also need to be addressed through devising regulations and law changes. For community forestry, carbon rights are inextricably linked to land rights. The difficulties and unresolved issues around legislating for community land tenure and creating implementing bodies hints at some of the challenges facing legislators in resolving this issue. For example, policy makers are yet to get to grips with key questions such as how to define the limits of community land and how to deal with the recognition of overlapping customary systems, the right type of a legal holding entity and the form of institutional structure to undertake management (Long, 2008; Mpoyi, 2008, both in *Forests Monitor*, 2008). If trading is to occur directly between foreign buyers and sub-national entities, such as community forestry enterprises, then in addition to overall governance improvements, specific attention will need to be made to business laws and enforcement systems.

The whole issue of institutional development will not be a short term undertaking. The Country Assistance Framework sets out a number of relevant priorities under the PRSP pillar of promoting good governance, such as raising civil service effectiveness and developing basic commercial laws and means of enforcement. It observes that the overall aim of governance reform is 'to build an effective state in a country where there has never been one before', giving an indication of the immense task of prioritising and sequencing the multi-faced reforms in circumstances of limited capacity and state finances, and finite donor aid. For example the first priority is to start re-establishing security in the country (World Bank, 2008:15).

A number of ideas have been put into the public realm and will no doubt be considered as part of DRC's REDD readiness deliberations. An application has been made to the World Bank's Forest Carbon Partnership readiness mechanism (called the R-PIN) in which some

ideas are elaborated and areas requiring more work are also identified (Government of DRC, 2008). A useful contribution is also made by the Woods Hole Research Center (WHRC), which is working on the data requirements of developing a REDD strategy (Laporte et al, 2007). Their initial, 'first look' ideas envisage compensation payments to the DRC state in return for three areas of deforestation reduction, forgone granting of palm oil plantation concessions, improved governance of the industrial logging sector to reduce illegal logging and a doubling of small holder agricultural efficiency. On DRC's management architecture, the assessment is that in the early stages, REDD sales (or fund payments) could only realistically be made directly to the DRC state at national level. The government would then direct the monies to key policy areas and possibly to stakeholders. They envisage payments: (1) to improve overall government competence and governance of the forest sector; (2) for policies targeting the general population who are dependant on forests, including small farmers whose agricultural practices they see as contributing to deforestation; and (3) to better manage forested areas as well as timber and oil plantation concessions. Payments directly to deforestation agents such as farmers or to communities or sub-national authorities are an option with the potential at a later stage when systems are in place for some type of direct relationship between buyers and sub-national entities. The complex challenge of, "how to distribute funds in practice, through what institutions, to what entities and in what form?" is acknowledged (Laporte et al, 2008:2). The R-PIN does not rule out payments to local forest community members but has not developed its thinking in much detail beyond the idea of getting payments to the lowest administration level that is democratically elected by relevant forest populations. There is generally more thinking to be done around policies and the effect of direct incentive payments on forest people's actions (Government of DRC, 2008).

WHRC have given some thought to the sequencing of a REDD strategy. Their idea is that the first set of monies generated post 2012 as a result of the most straight forward REDD policy measures (say adopting a policy to forgo palm oil concessions) will go into a fund to pay for governance reforms that can then deliver the other envisaged changes. These funds can then support the rapid design and implementation of an effective system of government-run distribution of income derived from a carbon market in the DRC. Such monies could only be available post 2012 at the earliest, if not 2017 if the sums are to be paid upon carbon delivery rather than up front. The other option is for them to come earlier from donor funding such as the World Bank FCPF readiness mechanisms. Overall there is an enormous amount of work to be done. The WHRC work on (1) carbon stock measurements, (2) household use of natural resources to estimate opportunity costs and test some policy ideas and (3) forecasting land use change in palm oil and logging will take at least three years (Laporte et al, 2008). Many other contributors will need to help in addressing the many outstanding issues around developing both REDD architecture and the right policies (discussed below) to reduce deforestation rates and technical competencies to undertake accounting.

To complicate matters, some proponents are arguing for REDD projects similar to those permitted by the CDM to be allowed into the Kyoto trading scheme before the state is able to monitor deforestation rates and manage a national level accounting system. This is notwithstanding that it is impossible to ensure leakage has not occurred. In contrast, the WHRC paper envisages direct connections between buyers and sub-national entities occurring only once the DRC has developed its own system of management. Proponents of a project approach argue that this is the only way to attract immediate private investment and offers a quick start advantage in which knowledge transfer on technical issues can be passed to national governments with limited expertise to help them design and implement national systems (Pedroni and Streck, 2007). To date experience from the voluntary market suggests that ancillary services have been provided almost exclusively in the north with the exception of NGO implementation and some local capacity building for baseline assessment so this latter justification should be treated with caution (Peskest et al, 2006a:6). Capacity building could be made a condition of early entry, but will private investors want to bear the transaction costs of real and longstanding capacity building training in an environment like DRC? And what impact will it have on price? Further issues that arise for local level projects are discussed later.

### A3.2 Getting the right policies to reduce deforestation

As mentioned above, the DRC is still in the early stages of devising its REDD policy strategy including developing appropriate policies to reduce deforestation. A pre-requisite to do this is to accurately understand the drivers of deforestation. The R-PIN lists the drivers of deforestation in the DRC without relying on an evidence base, other than the WHRC initial satellite analysis, but does then go on to acknowledge that these must be regarded as tentative as more evidence is required on the dynamics of deforestation. Those tentative views blame deforestation on charcoal production to meet the fuel needs of large urban centres, where rotational agriculture is using shortened fallow cycles, through mining activities and illegal logging (though not stated this presumably includes industrial and artisanal extraction).

The risk in using inappropriate policies is that they don't deliver the required reduction in deforestation. Given that baselines are nationally set, this will have implications for any community forestry activities hoping to access part of those carbon monies.

The wrong policies could be arrived at for a variety of reasons:

- Failure to devote sufficient time to understanding the particular drivers of deforestation in the DRC before creating policies for intervention. A concern expressed by a variety of NGOs is that the underlying causes of deforestation won't be thoroughly tested and REDD strategies will be based on false assumptions with detrimental effects on forest communities (Wainwright, 2008). This is particularly the case with some of the assumptions made regarding rotational systems used by small farmers and their being regarded as major drivers of deforestation. Without first testing the assumption is correct with better field validation, proposals to develop methods to calculate opportunity costs and possible policy ideas may take the DRC down an unproductive track. A number of comments made in the December Chatham House meeting indicated that there are additional potential causalities that should be investigated. These include: high population influxes due to instability and conflict in the east of DRC, the interplay between high levels of artisanal and industrial logging, the establishment of protected areas on land clearance and the effect of rotational systems upon forest regeneration as well as deforestation. The R-PIN particularly notes the lack of data on levels of illegal logging.
- Failure to consider evidence on policy efficacy from elsewhere. The R-PIN makes a number of tentative policy suggestions. Development history suggests that policy efforts in the area of agricultural change may struggle to make an impact and innovative new ideas will be required. In the case of efforts to modernise agriculture, and particularly to increase productivity to discourage rotational clearance, the efforts of many development agents and governments in Africa have shown limited results. Increasing productivity has been the 'holy grail' throughout Africa as a means of addressing poverty and economic development. Yet there is still no technical magic bullet akin to the green revolution of Asia. The prospects look even bleaker in the absence of hard public subsidy and public provision of farmer supports, so out of favour by policy advisers such as the World Bank. The DRC's current agricultural strategy, supported by the World Bank, doesn't make any radical shift in this regard (World Bank, 2006). One country that has used public subsidies, Malawi did manage to rapidly increase yields through public subsidy for petrochemical based fertilizers. However, from a climate change perspective the use of fertilizer will provide zero carbon benefits. Any such efforts will also have to take into account the aspirations of producers to move out of subsistence and become wealthier. Successful interventions may encourage increased agricultural activity and therefore the same levels of deforestation through agricultural expansion, a point acknowledged in the WHRC proposal (Laporte et al, 2008). Another problem is that even if a new technology were available, uptake can often be slow, even generational. Subsistence farmers have to take a cautious approach in the absence of any state safety nets and are unlikely to adopt new high risk practices overnight. In the case of introducing low tech energy saving stove technology to reduce the amount of charcoal or wood consumption, the evidence is very mixed upon both their efficacy and the problems of encouraging take up by households (Clancy et al 2003).

- Failure to undertake proper consultation with those that have the most intimate knowledge of the drivers of deforestation. The R-PIN sets out its ideas for consulting on developing a REDD strategy. At the core is a cross ministerial multi-sectoral task group, comprising government personal, national and international experts and NGOs to steer policy development. The aim is to design a widespread consultation to involve all stakeholders, including forest dwellers. There are existing national and provincial forest forums for consultation that can be used; however, the R-PIN notes some of the difficulties in getting good input. Notably local populations don't have accountable representatives and local administrators can be very influential in getting their own view heard whilst not necessarily representing the needs of forest peoples. There is no mention about capacity building local representatives from communities and civil society to thoroughly understand what REDD is and the implications, without which it may be difficult for them to meaningfully contribute to any consultation. Again this will take time and be demanding of resources.

Interestingly, neither the R-PIN nor the WHRC proposal mentions community forestry as a way of managing illegal logging through the management of forest production in a sustainable manner. The private sector is mentioned with ideas to give them tax breaks if they manage forests in a carbon positive way. Clearly all models of forest management should be considered, especially given the history of unsustainable and illegal logging within the large scale industrial forest logging concession system. An effective consultation system should ensure community forestry is given full consideration and included in future government proposals on REDD.

#### A3.3 The problem of additionality and equity

The DRC has 1.1 million km<sup>2</sup> of dense humid tropical forest, the largest forest estate in all of Africa. However the WHRC initial research indicates different areas are under more deforestation pressure than others. Their initial findings indicate that rates are highest in three areas of the DRC: the north-central region; in the northeast close to the border with Uganda, Rwanda and Burundi; and in the southwest (Laporte et al, 2007). A national REDD strategy could create regional management structures with baselines and responsibility to deliver lower deforestation rates in return for a share of the monies. This may lead to the delivery of a large share of the monies to those areas of high deforestation or degradation. This makes sense in terms of averting carbon emissions but could appear inequitable if community forestry efforts in regions of low deforestation have no or limited potential to access carbon offset monies. The position would be no different from a project perspective, as to meet the test of additionality there would need to be some threat to forests that community forestry could avert. The WHRC proposal recognises this conundrum when evaluating the extent that indigenous forest peoples should be rewarded for forest conservation even though their existing practices result in the least threat to forests. They conclude that a trade off will have to occur between equity and using monies most effectively (Laporte et al, 2008). There is therefore a possibility that only some community forestry initiatives can access carbon monies or where there is an extent of redistribution that monies available may be limited.

#### A4 Measuring and monitoring baseline carbon stocks

Measuring and monitoring carbon stocks at a national or project level requires the use of sophisticated science. Most commentators agree further technical breakthroughs are necessary to address a number of concerns on accuracy and cost and that they will occur as development funding is applied to the problem (Ebeling et al, 2007). Measurement occurs through a combination of satellite imagery analysis and ground measurements to provide estimates of the full carbon picture. Issues this raises for the DRC are that:

- Forest degradation is an important component of DRC's REDD strategy. Currently remote sensing technology cannot detect changes through degradation so analysis has to be through ground work. Solutions that involve modelling and statistical analysis can go some way to solving problems, but transaction costs will still be high and create an additional layer of technical capacity building for DRC institutions (Peskett, 2006b). Solutions to account for present day unknowns that use discounted carbon values may

attract criticisms similar to those levelled against CDM schemes and attract credibility risk to the detriment of DRC sellers.

- As mentioned above, there are huge capacity issues for the DRC in undertaking measuring and monitoring themselves at national and sub-national levels. This will take time to develop and will probably require donor funding. The WHRC proposal makes a small start in this respect, however given the size of the DRC and the possibility of working at sub-national levels for accounting purposes, such technical expertise will need to be diffused and developed widely. To the extent the service is bought in from the north it will involve even higher transaction costs. It is not clear if these will be included in the carbon price.
- Standards will need to be higher in a trading system to avoid challenges to credibility. Additional transaction costs will probably arise through the need for independent third party verification especially at project level.

## **B Issues of price and stability: risks and limitations in REDD payments being able to support community development**

As well as taking a cautious approach on the availability, nature and possible implementation timetable of any REDD incentive system, it is also important to think about issues of price. The uncertainties around REDD make it difficult to assess income returns but also there are factors generally about the incentive system and particular to DRC that suggest it would be wise not to rely on carbon as a sole or core source of income for community development until the market is more well established and proven.

The price paid in an offset trading market will depend on the market price of carbon credits based upon supply and demand. Two demand side requirements are that: (1) the sums are sufficient to induce change compared to other options; and (2) cover the costs of implementing the change. However these requirements are competing with the offsetting needs and market demand from Annex 1 countries. At present it is impossible to make sensible price estimates as there are so many unknowns that could affect this supply and demand dynamic. At the extreme, REDD credits may flood the market resulting in such a low price as to seriously destabilise existing systems. Alternatively, to encourage Annex 1 countries to make meaningful cuts in their own emissions, rather than offsetting, market access for REDD credits may be restricted. An opposite scenario is that there may be a huge demand for credits, especially if new sectors and countries are added to the international agreements (EcoSecurities, 2007). These uncertainties make planning very difficult.

Although uncertainty might mean demand and prices are high, a note of caution should be taken from existing A&D carbon forestry projects. They have proven not to be profitable solely on the basis of carbon payments and rely on other income sources, such as harvested timber. Carbon monies are such a low percentage of the overall return that their value can merely be sufficient in tipping the balance to make a marginal project profitable, but little more. In some cases projects actually make a loss despite receipt of carbon monies, however, project investors see this as the cost of obtaining corporate social responsibility benefits (Neef and Henders, 2007).

Credibility risks have already been mentioned in this paper. Although once agreed a contract can provide a steady income stream over a long duration of time in return for agreed emissions reductions, for those entering into the market there could be high levels of volatility in the prices available to them. Demand for REDD credits may drop if successful attacks are made on the credibility of the incentive based system. These could come from the NGO lobby, currently finding problems with the system as a whole, bolstered by a swell of opinion in developed countries if they don't believe the REDD system is efficiently contributing to climate change. Challenges could come from the hot air problem and in calls for offsetting to be abandoned or severely curtailed if developed country industries don't adopt innovative technologies to reduce their own emissions. Another area of future challenge could come from the science of establishing carbon sequestration. Calculating the amount of carbon retained in forests is highly complex and the effects of many factors including the impacts of climate change itself are unknown. As these become established accurate measurement may produce very different results to the science we are currently relying upon (Lohmann,

2006; Kollmuss et al, 2008). Further challenges could be made if the weight of evidence demonstrates negative impacts upon the local environment and an inability to deliver appropriate social benefits to local communities (Lohmann, 2006). As we will see in the next section, results from existing CDM and conservation projects have been disappointing in this respect. Credibility challenges, especially around the issues such as permanence, leakage, and accounting questions, have resulted in the volume of business in the voluntary market for forestry projects dropping by approximately half (Hamilton, 2008).

This makes a bundled income stream an attractive option for community forestry and a more realistic long term aim and suggests that the focus should first be on developing a system of community forestry that relies on timber, NTFP and agricultural production. As discussed above carbon monies could feature as a supplementary income source. This approach has been adopted by Plan Vivo, an agro-forestry voluntary carbon project where returns from carbon are combined with incomes from tree and crop sales. A bundled business proposition also makes sense as a way of communities and individual producers managing a variety of business risks including price fluctuations.

### **B1 Voluntary Markets as a basis for community forestry development: a note of caution**

Evidence from the existing voluntary carbon offset market for afforestation and reforestation (A&R) projects (spawned from the regulated CDM system for forests) suggests that financial benefits to communities will be limited or not available, especially over the short to medium term. Overall the size of the voluntary carbon market for all types of offsetting activity is considerably smaller than the regulated CDM market and the prices available are lower. Although consumer demand for action on climate change has caused it to jump from \$60 million in 2006 to \$258 million a year later with further projections of growth, the share of forestry projects in this same period dropped from 35 to 15% due to the public airing of a number of credibility concerns. It is expected that some of these can be addressed by improved voluntary certification standards (Hamilton, 2008). However it is unlikely that the voluntary market in forestry offers immediate prospects for community forestry in the DRC for the following reasons.

- The market is probably not big enough and the perceived risks and transaction costs much greater than in other forest countries also competing for this type of project. The size of the voluntary market in Africa dropped between 2006 and 2007 (Hamilton, 2007).
- The current A&R voluntary market takes many of its rules and concepts from the CDM framework. The lack of direction on REDD may delay the voluntary market from engaging until they have a better idea of the final structure that will apply. A cursory review of the literature produced by hopeful brokers and technical analysts suggests that although there are many think pieces expressing interest and raising relevant issues for discussion, there appears to be little concrete investment over limited philanthropic experimental funding. One such project has been launched in Aceh Indonesia. A project designer noted the difficulties in getting investors interested. Reticence was attributed to uncertainty on the rules governing REDD and the lack of voluntary standards on forest conservation (O’Niles, 2007).
- Discrete voluntary projects make it impossible to address the problem of leakage satisfactorily, suggesting that they will need to complement and work with a national strategy.

This of course does not rule out the potential to access funds supplied by philanthropic experimental investors wishing to set up a carbon project in the DRC. However, this is a very small aspect of the voluntary market and cannot be treated as a viable source of income on which to develop a widespread business sector in community forestry carbon. Some of the difficulties of working with experimental projects are dealt with in the next section.

### **C Sub-national projects and direct carbon payments**

Although it would seem that sub-national schemes, and possibly direct payments to sub-national entities such as community councils, are a distant feature of any possible REDD

incentive scheme at present, it is nonetheless important that their potential relevance is assessed from time to time as REDD develops and degrees of certainty are achieved.

Important questions to continually address are:

- 1) What features will local initiatives have to adopt to access carbon monies and
- 2) Will they be socially, environmentally and economically beneficial to forest communities?

### **C1 Economic benefit?**

The experiences and procedures devised for CDM projects provide a useful guide to the types of additional costs and requirements of selling certified or verified emissions. Projects will need to use an acceptable methodology to set their own baseline, to establish additionality and to calculate how emissions reductions are to be generated. These will need to be measured and monitored at the beginning, and periodically through the project life. To ensure credibility, monitoring will need to be validated by a third party so the emissions can then be certified for sale. There will also need to be some form of stakeholder consultation in the design phase. In the CDM, the costs of this process have proved so prohibitive that only one project has been approved and many have chosen to follow one of the many voluntary market standards schemes instead. A small project procedure has been developed by the CDM in response to the problem of cost, however, estimates of the initial cost of registration of these projects range from US\$40,000 to US\$90,000 (UNDP, 2006 in Peskett et al, 2007). In addition, estimates for the validation costs for CDM projects are between US\$15,000 and US\$25,000 (Neef and Henders, 2007). Voluntary standards can also add on sizeable costs, from between \$4,000 to \$8,000 for the CCB certification scheme (Peskett et al, 2007). Costs at these levels may make projects uneconomic or act as a barrier to enter the market, unless project developers are able to access large credit sums. However, such costs can be mitigated by using less stringent systems or standards such as the Plan Vivo scheme which uses local capacity to undertake self monitoring and verification. Credibility concerns can be met by keeping a buffer that is not sold and/or discounting the price. Alternatively, economies of scale could be achieved, perhaps by multiple community forest schemes banding together to share costs or contracts and baselines being set at a local government or national level. However much these costs are minimised, they will necessarily eat into the carbon price available. As with the national project, if capacities can be developed locally for all of the relevant project start up, implementation and verification tasks, this may bring the costs down. But this is a big job and it will take time to develop the necessary depth of experience and local businesses. Experience from CDM projects shows that, other than measuring and monitoring, the project design, legal services and validation have remained as value added businesses in the north (Peskett et al, 2006a).

The problem of high front end project development costs could be a barrier to entry even where the economics for the overall project work, as offset monies are only paid upon sale, i.e. once they have been achieved. This could be 5 years after the initial project costs have been incurred. Loans could be used to bridge the gap, secured against the sales income, or the buyer could agree to pay all or part of the sale price early to defray the start up costs. As this is risk taken by the buyer, a discount may be requested as well as a contractual obligation to pay the money back if the credits are not ultimately delivered. In the DRC, it is unlikely that an investor would take such a risk unless it was underwritten by the government or a creditworthy entity based in a less risky jurisdiction, perhaps a large INGO.

These requirements may be more loosely applied in a fund based incentive scheme with consequential effects on costs.

### **C2 Social benefits for poverty reduction and enhanced livelihood opportunities**

It is not clear whether REDD will include requirements similar to those in the CDM stipulating that projects must address the dual aim of sequestering carbon and enhancing social and environmental development. The position of the World Bank's FCPF (whose purpose is to help get REDD markets started) is that initiatives should reduce carbon emissions and social benefits are welcome extras where they can be achieved. At a minimum they should do no harm to the local environment and communities (Bosquet and Aquino, 2007).

A debate is occurring on this issue with some arguing that too much is loaded on initiatives if they must achieve multiple goals. A further issue is how does one determine social benefits? As REDD currently envisages large transfers at national level it could be argued that while there may be no obvious changes in poverty and livelihood improvements at the project level, there could be an investment at national or provincial levels in a number of social goods that could contribute to long term growth and social well being, e.g. better security, education, industrialisation etc (Peskest et al, 2008). However, since the stated aim of the FM community forestry project is to improve livelihoods and reduce poverty for forest and rural communities, the very reason for engaging with the possible opportunities REDD may provide is for the social benefits it potentially offers, whether these are directly or indirectly accrued to community members in the form of incomes or the provision of social services. This issue will need to be monitored and be part of any REDD advocacy efforts of the development community and civil society both internationally and within DRC.

On a project level, a number of lessons can be drawn from the current voluntary offsetting market and a variety of experimental projects set up to inform the CDM system for A&D carbon offsetting credits. Overall the results were mixed with some reviewers concluding that the results were disappointing from both social and environmental perspectives (May et al, 2004; Brown and Corbera, 2004; Lormann, 2006). Others have pointed to some successful projects such as the Plan Vivo model (Richards and Jenkins, 2007). However, from all these experiences some clear lessons have emerged for project developers and assessors. Firstly, projects will fail to deliver social development benefits unless this objective takes priority over the delivery of carbon credits or conservation. "Projects need to take a broader scale integrating development or other productive components into their design", (Boyd et al, 2005:7). Secondly, to get this right, project developers need to professionalize their engagement with local stakeholders, forming partnerships rather than adopting a top down paternalistic approach and utilising participatory techniques to determine both project goals and its design and subsequent evaluations. Thirdly, as partners, local stakeholders should have a direct interest in the carbon incomes generated from the project and how they are applied and not just spin off activities. Fourthly, projects need to retain flexibility so that changes can be made if aspects are not working. (from May et al, 2004 and Boyd et al, 2005)

These raise a number of issues in the context of the DRC and community forestry. Many of the disappointing social results have occurred because the implementing intermediaries have focused more of their resources and activities on conservation and carbon sequestration. Many intermediaries were international conservation organisations rather than development focused NGOs (Boyd et al, 2005). In the example of a scheme implemented by CARE to produce carbon credits for a US power company the need to deliver carbon benefits drained away efforts aimed at introducing alternative agro-forestry livelihood opportunities (Lormann, 2006). Adopting a more professional developmental approach can solve these problems but may well raise the transaction costs of project development. They also require reasonably representative and accountable local institutions, such as local councils, producer or cooperative associations, and local civil society organisations that can act as project implementers or in partnership with INGOs or international market operators or in an advisory role. Although there is some evidence that this type of project can strengthen the capacities of local institutions, they do need to have reached a threshold of competency in order to withstand the pressures of negotiating with external agencies where obvious power imbalances exist between project developers and communities and to make their case where there are conflicting demands between carbon generation and achieving social benefits. Existing information from the DRC reveals that a lot of work has to be undertaken on strengthening the capacities of local councils and to develop the type of producer organisations and civil society that would have the strengths and facilities to understand the REDD system and effectively participate more equitably with project developers (whether from their own national governments or Annex I country based investors). An example of the type of issue such institutions will need to grapple with is in negotiating the length of any contractual obligations. A community may need to keep this short enough to retain the flexibility to change land use just in case circumstances change, whereas a buyer will want a more long term commitment to secure its access to carbon emission reductions. Another issue will be managing the risks of non performance and permanence and how this is shared between buyer and seller. Solutions to the risk of forest loss through fire or illegal logging

used in A&R schemes include keeping a buffer and/or taking out insurance for fire and associated risks.

Issues of power imbalance and transaction cost are both good arguments for having well designed existing systems of community forestry already in place that address local needs and priorities and with which carbon project developers can work and amend without the need to start from scratch.

One potential problem in accessing carbon incentive payments may arise if the pilot community forestry projects prove to be economically sustaining without carbon monies. In short, community forestry projects don't pass the additionality test, i.e. are unable to prove that by making payments, the carbon emissions generated by this activity are additional, i.e. would not have happened anyway. The problem is compounded by the fact that carbon monies may be a very small part of the economics of a carbon forestry system. The argument for additionality can only be made if the economics of timber and NTFP production do not work, or if a community agrees to undertake less logging or take additional measures to curb illegal logging from community lands. In reality the costs of scaling up from pilots to national take up means there will be a need for start up costs, say to build the capacity of local institutions, develop systems of land and carbon rights recognition and technical capacities in sustainable timber production and forest management. This should make subsequent projects additional.

### **C3 National versus local – a role for civil society?**

Much of the above discussion is based upon the assumption that sub-national efforts connect with international carbon markets. As capacity and transaction costs of individual projects may well be prohibitive, and more importantly, because REDD is envisaged as a nationally led process with nationally coordinated large scale policy initiatives and resource flows, it is probably more likely that carbon monies will be used to fund sub-national implementation of community forestry say at a provincial level or below. Actual implementation could be handed over to local territorial councils or even groupings of community forestry projects if such producer groups evolve. Developing a system of community forestry involves substantial amounts of time and expense. The successful experiences in the Guatemalan Maya Biosphere Reserve have been achieved over 10 years with donors contributing US\$109 million on independent support projects over this period (Macqueen, 2007). This suggests that the majority of monies generated, certainly over the first few decades, will be used to defray these types of community development start up costs rather than feature directly as income streams available to community members. Enhanced livelihood opportunities will come from the main business of community forests, namely the sustainable production of timber, commercialised NTFPs and other agricultural crops. Emissions credits will be due because forestry communities act as good guardians of the forest curbing illegal or unsustainable logging.

An alternative scenario is also possible, but will need to rely on groups of community forestry organisations coming together to achieve economies of scale in their interaction with the international commercial market. Management could still be national but as a light touch brokerage or supervisory role, to ensure the initiatives are taken into account in national baselines and targets. This decentralisation may reduce the layers of administration costs that could build up in a centralised national system making more money available directly for community forestry. It would also offer a counterpoint to whole-scale control by national agencies and a source of power to challenge potential lack of transparency, corruption or poor management and policy making by the state. This is a key strategic consideration in countries with weak governance.

In each scenario the problem of payment on performance will necessitate the involvement of either donor or government funding to cover these up front development costs. Hopefully on successful performance they can be recovered from the first set of carbon sales moneys that are received.

Once the number of variables are reduced in the REDD discussions, and a better idea about the types of community forestry systems that are appropriate to DRC, and the costs of

implementation are known, then sensible projections of how to link large scale community forestry within a REDD system can be made. In the short term, philanthropic funding from the corporate social responsibility side of the voluntary market could be used to explore and test some of the issues discussed in this section, such as building civil society's awareness of REDD and developing methodologies for REDD baseline measurement and monitoring. It will however be important that any such project learns from the lessons of A&F CDM type projects, many of which were also experimental. It is important that they do not make commercial commitments to deliver credits or other conservation type objectives so that they can remain flexible enough to change as lessons emerge. Whether the pilots developed by FM and its partners finally recommend such a tie up will be highly dependent on both national and international progress on REDD.

### Conclusion and Summary

Given the uncertainties and challenges raised in this chapter the assumption must be that the chances of community forestry projects connecting with emerging international markets in REDD over the next 5 years is small to moderate. The following reasons apply.

- There is as yet no agreement on whether there will be an offset market for REDD. As an alternative, monies may be available to the DRC from an international donor fund, although there may be the possibility of a state led market based incentive scheme under such a system. There is even the chance that the complexities and potentially perverse outcomes inherent in the design and implementation of an effective incentive scheme cause the very idea to be rejected and replaced with increased funding for traditional approaches to reducing deforestation in which success is monitored by less stringent calculations and criteria, perhaps through an international donor fund like GEF.
- Even if formal REDD incentive schemes become part of the UNFCCC international process, management will be at a national level. For the DRC this will mean tremendous amounts of policy and institutional development as well as capacity building before a REDD strategy is developed, and a national level architecture to implement it, is put in place. In the context of the huge demands on the DRC to reform basic state functions such as security, infrastructure and good governance from the position of a failed state, this will be an enormous and possibly impossible job in the short and medium term. It may mean alternative options to reduce deforestation are developed for DRC and other states facing this difficult challenge.
- DRC also faces the difficulties of developing policies that actually can reduce deforestation and being able to implement them. There are limitations upon the proposals to introduce new types of agricultural practices and curb population growth. Since payments are national, a failure in one area may reduce the types of rewards available to community forestry activities that are successfully managing forests sustainably.
- Community forestry does not appear in the first thoughts on DRC's policy ideas for reducing deforestation, though a well managed forest estate and private sector do. Work will have to be done to introduce the concept as discussions continue and appropriate policies are formulated.
- Community forestry projects that are able to offer carbon emissions reductions to the REDD market may not be allowed until a national level REDD strategy and management architecture is in place because of the problem of leakage. As discussed above, this will take time. A voluntary market interested in corporate social responsibility or to serve the retail market may emerge, however at present this remains at the development and pilot stage and depends on the outcomes of formal REDD discussions. In any event experience from the CDM market suggests that the size of the voluntary market will be too small to base an entire community forestry sector. Although the voluntary market is growing, it is considerably smaller than the regulated one. When one adds the unattractive risk profile of the DRC compared to other global project offerings it can only be regarded as a small niche for certain community forestry enterprises. Also without a

national level approach, forest conservation schemes may well incur serious credibility issues around leakage which will impact heavily on price. The existing forest carbon sink market has already suffered credibility attacks.

- Problems of additionality may mean that community forestry initiatives in some areas may not be able to access carbon payments as the forests are not under threat in any way. If the DRC's REDD strategy is one in which there is an equitable sharing at national or sub-national levels then the sums available may be spread thinly.
- Experiences from the CDM market suggest that there may be limited economic value and big market access issues to resolve if community enterprises are to obtain carbon offset monies directly from international buyers.
  - They suggest that the level of carbon monies available are too small to warrant the costs and hurdles that need to be jumped in order to enter into a supply contract for carbon offsets. As far as REDD is concerned, there is not enough certainty about the size of the carbon market, nor prices for credits to make meaningful business case projections. Further it remains a manufactured market where there is little re-assurance about price stability. Price fluctuations could come from credibility attacks on a range of grounds from inequity, failure to properly address climate change and better scientific understanding of the relationship of forests and carbon storage. This has already had negative implications on the forestry CDM market. On this basis, project efforts need to be combined with alternative livelihood opportunities and it therefore makes sense to focus on the timber, NTFP and agricultural aspects of the project.
  - The costs of providing certified emissions reductions at a project level and the risks such a project has to take on and manage can make it an unviable business option. The types of additional costs are front end loaded and can include project verification, as to the technical aspects of accounting for carbon emissions reductions and sometimes the social and environmental value the project provides, external verification, and providing buffers or insurance for loss of forest. Projects will need to access financing to cover these costs and carry loans until final delivery of the carbon.
  - Community forestry enterprises will need to develop robust technical and negotiating capacity before engaging with international carbon buyers and project developers. A cadre of local advisors, from civil society or an emerging private sector will also need to develop. Experience from CDM projects shows a failure to take into account basic local economic, social and environmental needs through extreme power imbalances between community enterprises and project developers who have provided too much focus on competing concerns for either conservation or carbon provision over community development. This capacity could be developed on a 'learning by doing' basis that focuses on developing other less complex enterprises such as NTFP, agricultural and timber production.

These problems suggest that any REDD monies will in the first instance be paid to state sub-national entities unless a form of cooperative working between forest enterprises emerges.

In the present state of uncertainty and in the face of the negative prognosis presented above, it is nevertheless important that the pilot developers monitor the position as it develops piece by piece. If REDD goes ahead in a way that national and sub-national incentives schemes are to be developed and/or an attractive regulated or voluntary market emerges then efforts should be made to capture benefits at the community level where they are available. Focusing on community forestry will hopefully build community structures, provide more certainty as to property rights, and establish nascent business ventures and skills that provide a useful foundation for community forestry projects to work with the additional requirements of the carbon markets. Chapter 2 sets out some thoughts on how community forest projects and producers can work together to achieve economies of scale. If this type of initiative is

pursued it may also be a suitable institution or model to achieve similar economies of scale and project bundling in the carbon market.

In the short term, the project developers and all relevant stakeholders need to influence the DRC government to develop a REDD strategy that puts community forestry at its heart. This will require learning on the part of all such stakeholders about the possibilities, limitations and features of an issue that will no doubt be in flux for some time to come, so they can all successfully follow the debate and contribute meaningfully to national strategy ideas. This could occur as part of the work of the community forestry learning group. Alternatively, links could be built with the other forums discussed in the R-PIN such as the cross ministerial multi-sectoral working group.

## **Chapter 2: Connecting community producers with international markets in timber and non timber forest products.**

### **Introduction**

Chapter one painted a picture of various scenarios that could emerge under a possible REDD regime. It also considered the potential for community forestry initiatives to exploit opportunities to sell carbon credits or take advantage of other types of incentive payments. It argued that the sale of carbon services should not be the principal driver of efforts to develop community forestry in the DRC. The many uncertainties that will determine the shape of REDD will take years to resolve, as will putting in place a workable national REDD management system. Nor is there any guarantee that on the ground initiatives will be able to access monies. In that time efforts should focus on developing a system of community forestry based on a more known and certain market, i.e. timber combined with more traditional activities in agriculture and non timber forest products. This, in itself, is a considerable task for the DRC and will take years to establish. If carbon payments emerge as a viable business opportunity, then such initiatives may place community forestry enterprises in a better position to access these markets.

Forests Monitor's original concept note put forward the idea of a "clearing house" to respond to the dual challenges of scale and information in the relationship between potential international buyers at one end of a value chain and the myriad of small, medium and micro enterprise producers (SMMEs) at the other end. This is much the same problem as that posed by the relationship between agricultural commodity buyers and small farmers throughout the world. SMMEs are based in scattered and multiple locations distant from major urban centres and produce small volumes of varied qualities and standards. On the other hand, buyers have a need for volume, quality and a standardised product at a reasonable cost. That challenge results in two problems for both buyer and producer. The obvious one is that it costs too much for a buyer to deal with so many parties to get the volumes and quality required. For sellers the problem is lack of access to market information and market opportunities and to the type of services that would help it to tackle these barriers such as credit, marketing, technical skills, design etc.

The clearing house idea sought to bring small producers together by providing a platform in which they could be coordinated to respond to international buyers' needs for timber, NTFP and potentially carbon and where the necessary business and financial support for SMME producers could either be provided directly, by contracting them in or by facilitating the provision of them directly to SMME producers. The extent of the clearing house, or platforms, role as a middleman was not defined. This paper therefore seeks to take that idea as a starting point to explore a number of ideas around coordinating SMME producers so they can access international buyers in such a way that the best return is achieved based on the capabilities of community producers and the prevailing environment in the DRC. It will argue that of the many ideas presented, all probably have a place in a country as vast and varied as the DRC and that where there are downsides they are not necessarily offered as permanent solutions but as stepping stones to develop community capacity. That said, the long term aim would be to develop a model where there are far greater opportunities for SMMEs to capture value from supply chains in the forestry sector and to create forward and backward linkages to other sectors of the country's economy in order to contribute to more widespread and sustainable economic growth. This paper will also seek to put these ideas into the broader context of the road map to develop community forestry in the DRC.

This chapter is organised into four sections. The first looks at the reasoning behind this long term aim by considering how the existing industrial concession model for timber has responded to the demands of the international market and what a model based on community producers offers the DRC economy and poverty reduction. The second considers the roadmap ahead and goes on to focus on developing community enterprises that are able to work in cooperation with each other and/or work within other types of coordination platform type models. The third section works through a number of ideas for coordinating small community based enterprises and the final discussion and conclusions section considers how to proceed in the DRC.

## **A Why change the present system and what benefits does a model of forest management based on a SMME sector provide?**

At first sight, the industrial concession model responds to the problems of scale and information by providing a simple solution. The large industrial company is able to raise capital to provide its own infrastructure and produces high volumes of a standard quality from large mono concessions and through employee training and supervision. It also has the size and resources to undertake international marketing efforts. There are multiple downsides however that have been well documented.

- The intractable problem of monitoring concessionaires operations. If done properly it requires considerable expense and expertise on the part of the state. As a failed state it is evident that the DRC does not currently have this capacity. Even in producer countries that are not in a post conflict condition, monitoring is less than perfect with consequent environmental and social abuse.
- The limited percentage of the timber price that is kept within the DRC in the form of tax revenues and often low paid casual jobs. The majority of the international retail value is captured overseas and not reinvested in DRC. There is also limited potential for backward and forward linkages to other sectors of the economy.
- The transitory nature of concessionaires that means they have no long term stake in keeping the forest intact.
- The detrimental effects logging can have upon forest peoples and their livelihoods (for example see Forests Monitor, et al, 2007).

Historically in the DRC local communities have theoretically benefited through the signing of *cahier des charges* or social responsibility agreements in which the timber company provides social goods such as roads, schools and health care facilities in place of state provision. A number of case studies in the DRC demonstrate the unsatisfactory nature of these arrangements. Problems include imposed agreements foisted upon communities using the disparity of bargaining strength and sometimes co-opting so called representatives in return for personal gifts, returns in the form of salt, soap and manufactured goods that bear little resemblance to the forest value and a failure to honour promises to build infrastructure (Greenpeace, 2007). The Forest Code 2002 seeks to formalise this system and strengthen its weaknesses by having set parameters within which the parties can negotiate. However, despite sometimes being initially popular with forest dwellers for the immediate returns promised, there still remain some serious negatives. It maintains a type of patron client relationship and by replacing state functions it makes it difficult for the concept of a state citizen relationship to develop. As Brown points out, 'the infrastructure provided rarely fits in with any social sectoral planning strategies with the result that the outcome is often tokenistic and very short term – roads that go nowhere, log bridges that rot and collapse with the first rains, clinics and schools with poor facilities and no staff and so on' (2008:19). Where the overall governance environment is more conducive and communities are better organised with accountable representatives, *cahier de charge* may be appropriate for arrangements between communities and industrial loggers and this will be explored later in section 3.

As an overarching aim, putting community owners in the driving seat and developing a strong and varied SMME sector can address these downsides. There is potential to retain more of the product value in the DRC and for it to be distributed more widely throughout society and to benefit forest peoples directly. Job creation can spread more widely than merely timber cutting and processing. It can also be in the sectors providing necessary support functions for financial services (FS) and business development services (BDS). FS can include credit, leasing and insurance. BDS are, "the non financial inputs that enterprises need to be able to find customers, design products, access the right technologies, train staff to use them and thereby meet customer quality, meet quantity and delivery demands, manage and administer the business efficiently, develop and communicate effectively with partners and customers and comply with legislation" (MacQueen 2008:26). The types of additional enterprises that could be created include transport, storage, accounting, marketing, legal advice, technical advice, design etc. Communities also have more incentive to keep their forests healthy and to undertake sustainable exploitation making the costs of forest governance cheaper, though

varying experiences suggest that careful thought needs to be given to the design of appropriate regulatory provisions and measures to support community capacity to reduce negative outcomes such as the rush to quick gains and environmental damage caused by inexperience, poor management and exploitation by elites and industrial operators (Oyono, et al, 2007; Filer et al, 1998 and Belcher, 2001 in Scherr et al, 2004:40). The more enterprise creation based on SMME development the greater the opportunities to spread economic growth more widely and to address issues of poverty. Section C will explore how a SMME forestry sector can be developed. However it is first useful to consider where this features in the overall roadmap.

## **B The Road Map – developing a community forestry model**

The paper presented to the Chatham House Roundtable meeting on, “Developing Innovative Management and Financing Models for the Forests of The Democratic Republic of Congo”, set out a useful list of the necessary elements that will need to be developed to bring about a model of community forestry that provides greater opportunities for SMMEs. In summary these were: (1) developing a supportive governance and business environment (including the regeneration of appropriate infrastructure in the power, transport and communication sectors); (2) securing community based land tenure with rights to commercially exploit forest resources; (3) strengthening local forest enterprise organisations; (4) developing disaggregated business structures that split out ownership from management, certification and processing; (5) developing a market niche within the buying community that rewards community produced and environmentally sustainable forest products; and (6) facilitating the provision of the financial and business support services needed to help community producers access markets (Hoare et al, 2008).

Some progress has been made on forest tenure reform in the Forest Code 2002 but there are many fundamental issues that are yet to be resolved. As mentioned in the previous chapter, policy makers are yet to come to grips with key questions such as how to define the limits of community land and how to deal with the recognition of overlapping customary systems, the right type of a legal holding entity and the form of institutional structure to undertake management (Long, 2008; Mpoyi, 2008, both in Forests Monitor, 2008). The work of a number of projects (including those of FM and FAO) aim to assist legislators in this difficult task by providing a better understanding of land use systems and customary law, as well as field testing the implementation of ideas on how to tackle these issues (Forests Monitor and GRET, 2008). Other issues concern the relationship of state enforcement and management, for example what type of institutions will enforce community rights and to what extent will exploitation be controlled? (Mpoyi, 2008, in Forests Monitor, 2008) Unfortunately, there are still concerns that when combined with zoning plans, too much power will rest with the state creating a dual system of ownership which does not give the requisite certainty to communities or investors (Oyono, 2007).

As discussed in the previous chapter, the PRSP sets out ambitious targets for improving the governance environment and for developing infrastructure, including the building or regeneration of roads and the electrification of rural and urban areas as priorities. The country assistance framework (CAF) rightly sets a tone of realism in questioning the ability of the DRC government and donors to tackle all of DRC's needs at once and stressing the need for sequencing. One must therefore assume that the many issues concerning the business environment such as friendly business laws and the ability to enforce them, appropriate taxation systems etc. will take significant time to become a reality, as will a fully functioning road system. It notes that road development will initially focus on connecting urban centres and mining enterprises (Government of DRC, 2006; World Bank, 2007). However, for the purposes of this discussion, the paper assumes that these issues will be successfully addressed in parallel. Roadmap items 3 and 4 from the list above are highly relevant to this paper and form the basis of discussion in the following sections.

### **B1 Developing well managed local forest enterprises**

At present there are no formal community forest enterprises in the DRC as the detailed law on community concessions is yet to be developed. If customary lands are within concession boundaries then there are sometimes social agreements, which take a variety of forms,

between industrial operators and customary community leaders. Also, informal licences are sometimes granted from community chiefs or elders to artisanal operators for limited returns in addition to the permissions provided by local authorities (despite this being contrary to the law). These operators work to serve the local markets or overseas buyers in regional markets of Uganda, Kenya, Rwanda and Burundi where logging of natural forests has been prohibited (Lumbwe 2001; Baker et al 2003; Djire, 2003 all in Debroux et al, 2007; Forests Monitor, 2007).

Developing the form community enterprises will take is part of the experimental pilot work envisaged in the FM proposal and of others working on community forestry in the DRC. As forests are a shared common asset, experience from other countries suggests that timber exploitation is best managed by appropriate administrative structures that represent all of the forest community or communities within a geographic area. For the commercial exploitation of other assets, say timber grown on private woodlots or NTFP collection, enterprise associations may consist of only certain members within a geographic community and look more like the producer organisations in the agricultural sector. Lessons learnt elsewhere suggest that in all cases, moving enterprises from formation stage to well managed organisations requires external support of varying types which in turn requires time and money.

In the DRC, ascertaining the appropriate structure for forest management is not without its difficulties given the overlapping nature of different types of forest communities and users, such as Pygmy hunter gatherers and the settled Bantu farming villages that sometimes host or co-exist with recent migrants. The work of the pilot programme and of others looking at this issue will need to tackle some challenging and complex questions that will require an excellent understanding of local dynamics and drivers of change as well as those occurring at national levels. Hobley flags the difficulties of creating management mechanisms outside the state administrative system or leaving them within the purview of sectoral authorities such as the forestry department, rather than incorporating them within the general administrative systems of governance. Community centred approaches have failed to adequately appreciate the heterogeneity in 'communities' and have resulted in elite capture over poor and marginalised groups such as women. A proliferation of local sectoral institutions has increased opportunities for corruption (Hobley, 2007). However, developing representative pro-poor decentralised government is also a challenge for countries such as the DRC. This is recognised in the CAF which highlights the limitations of a highly depleted and run down state system. As a short to medium term strategy it proposes to support those community groups that have tried to plug the gap during the years of an absent state, acknowledging that a hand over to a fully functioning state sector is unlikely to occur in the near future (World Bank, 2008).

The generally pessimistic view of how community forestry in Cameroon has developed provides some guidance. There the concept of management institutions was hurriedly prepared, poorly thought out and ignored existing customary systems. The result was conflict and schism between management committees and traditional systems of authority. The management committees were not democratically accountable to community needs. Rather members owed allegiances to NGOs or higher administrative authorities or external elites who provided a variety of: permissions, start up costs and support that was not otherwise available. In the worst cases this resulted in highly corrupt deals in which management committee members enriched themselves and in others, without a history of collective action, without technical expertise or start up capital, bad deals were struck between management committees and logging companies. Overall, despite income benefits, excessive amounts of corruption and lack of responsiveness to community needs has been the result (Oyono et al, 2007; Oyono, 2004a). This suggests that much greater support needs to be provided to communities to help them develop structures that are not only democratically accountable but that also fit or are based on existing structures. Further, that support on issues of micro governance, management and information about commercial options and support with long term planning processes need to be provided, in relation not just to timber but also to NTFP and agriculture. A number of case studies in Cameroon point to the over reliance on timber and the desire for quick short term income over long term planning and the need for support that protects communities from their own short term horizons (Fomété and Vermaat, 2001,

Kenneth, 2007). Oyono suggests developing a framework of support involving state, NGOs and private operators. It “should be designed to monitor the hand-over process from the central government, through the regional level and down to the village level. This framework would have clear indicators and mechanisms for monitoring weaknesses such as poor local capacity, opportunistic behaviour by elite groups, inadequate collective action, corruption and the lack of local democratic functions”, (in CIFOR undated; 2004b).

Clearly extensive work will also have to occur in the DRC on developing representative and capable structures for collective action preferably based on the lowest tier of the overall political administrative system. Challenges come from working with heterogeneous communities with a lack of history of collective action, serious capacity constraints around education and experience of political engagement and finally a decimated local governance system with difficulties interacting with remote rural communities. Nevertheless, thinking long term, and assuming these issues can be resolved, experience of community forestry enterprises elsewhere provide a wealth of ideas about the type of support required and how it can be delivered, particularly around enterprise development.

Successful producer enterprises are ones that separate management of the commercial enterprise on one hand, from the social aspects of the community and how returns are to be shared and/or reinvested on the other. They also need well developed rules and conflict resolution systems to deal with social conflicts that may arise (Scherr et al, 2004).

In terms of enterprise support and connecting communities with market opportunities:

- Support from NGOs needs to be carefully managed to ensure the NGO vision and agenda does not unwittingly dominate. One way of achieving this is to undertake a careful needs assessment to establish where capacity building is required. At the start up phase the support will probably relate to awareness raising and facilitating access to information about commercial options.
- Examples from the farming sector shows that a long term and phased learning-by-doing approach can be successful in building capacity over time both in internal management and production and marketing. Expecting communities to undertake complex commercial production and marketing enterprises in timber could overwhelm capacity. Long notes the capacity constraints of many DRC forest communities that have close to zero experience with cash and often are only able to work in their local language (in Forests Monitor, 2008). In this approach, at each stage the type of support can be adjusted (Bienabe and Sautier, 2005). In the case of DRC, depending on the options available and aspirations of the community, the decision may be to focus on their own artisanal production of wood or enter into an agreement for extraction by a commercial operator. In each case, the type of capacity building needs will be different. In the former it will be fairly demanding, perhaps including technical training in extraction, business planning and marketing skills etc. In the latter, the support may be more in oversight of the operator and in brokering an acceptable deal and managing the resulting income. Undertaking a phased approach suggests that initially the focus should be on local markets in timber (Sherr et al 2004) and perhaps building capacity around the commercialisation of NTFP. However given the substantial values of timber and some of the difficulties associated with NTFP (discussed later) this may not be entirely realistic.

Considerable investment of resources and time will be required to build effective capacity and this will need to come from public funds. Often NGOs are relied upon having skills in participative working with communities, however long term, it may be useful to look at developing these skills as a business service or generating them within the state structure at local government or forest service levels. The former will be considered in the next section.

### **C Achieving economies of scale: the market system development and chain champion approach**

As well as achieving economies of scale in relation to marketing to overseas buyers there is also a need to think about how these can be achieved in the provision of FS and other BDS.

In the agricultural production system the problems of scale and information were historically addressed by coercive state coordination in the form of marketing boards. In effect they acted as the coordination platform providing centrally purchased inputs, credit for inputs, storage, transport and international marketing. In return small farmers were obliged by law to sell the product to the marketing board at a nationally fixed price, to subsidise producers further away from export hubs and from international price fluctuations.

In working with community producers, NGOs and publicly sponsored interventions can replicate such a system or parts of it, especially where markets for the supply of FS and BDS are undeveloped, by acting as service providers of these functions. A more modern approach is one called market system development (“MSD”). At its core is the aim of developing a web of complementary SMMEs that can serve the needs of community forest enterprises through a process of facilitation rather than direct provision. Public provision tends to crowd out market based enterprises, or stifle their development, and donor interventions have a poor record of sustainability after funding has ceased. Additionally private demand led provision is more able to be responsive to the needs of producers.

Facilitation can also involve thinking about how enterprises can form alliances with each other or with entities both within and outside the existing value chain in order to achieve economies of scale.

The idea of facilitation is a difficult concept and is yet to be taken up by many of the successful interventions that have managed to connect community forest producers to international markets. Whilst they have focused on getting community producers into the value chain they have been less successful in developing SMME support functions (Macqueen, 2008). There are also similar challenges and problems with NGO interventions in the agricultural sector. To take it forward, greater skill levels in business analysis and facilitation will need to be nurtured amongst NGO field workers (Best et al, 2005).

The ideal is for facilitation by a neutral party at a national level rather than someone already involved in the supply chain. It is effectively performing the function of a business development unit and could be a team in the government, a donor or NGO (or a combination) depending on the circumstances. A neutral facilitator has the specific aim of creating change in a relevant trading and production sector. Neutrality can help to overcome the mistrust that can exist between relevant players in the sector and ensure that the interests of all stakeholders are considered, not just specific interest groups.

A number of useful tools help the facilitator to identify entry points and to understand the sector, where it needs to develop and the type of support SMMEs may need. The first step is to use value chain analysis to map the chain (in this case for timber production or NTFPs) from producer to end customer looking at where value is added and who receives this. Questions as to efficiency, reasons for blockages and how to achieve a more equitable distribution of value in favour of those gaining least in the chain, can yield interesting ideas for change. Another dimension of this analysis should also ask where FS and BDS are available, who is providing these and what are the barriers or blockages? For example, the facilitator could suggest ideas for connecting producers so that they can cut out intermediaries from the chain or negotiate better terms with them or achieve economies of scale in BSD or FS provision.

An additional aspect of MSD analysis considers how the business environment (BE) helps or hinders SMME development. As mentioned earlier, good governance (e.g., transparent institutions, entrepreneurial friendly laws and taxes that are fairly enforced) and infrastructure are a pre-requisite for SMME development. However, any enabling BE will continually need to be monitored to support its further evolution. The MSD concept again departs from previous development efforts in this area. It promotes the idea of supporting relevant stakeholders to undertake their own advocacy for change and efforts to build the capacity of government administrations to make appropriate reforms. In the past, NGOs and donors made direct calls for policy change which has proven to be unsustainable in the long term.

The MSD approach also recommends continued monitoring and evaluation of the impact of relevant interventions to ensure they are in fact addressing the intended goals and reducing poverty (MacQueen, 2008).

Another useful tool is to identify a “chain champion”. This is a higher order player in the chain, ideally from the private sector with self motivated incentives to achieve enhanced chain performance and with a vision and energy to identify new opportunities and relationships and drive them forward (Woods, 2004 in Best et al, 2005). The chain champion can be identified later on in the process of value chain analysis perhaps by the facilitator or other interested stakeholders (Best et al, 2005). A recent study on the commercialisation of NTFP in Latin America identified the role of entrepreneurs in the value chain as a key factor in its establishment or in sustaining it. The study revealed that entrepreneurs provided information about the market to producers on issues such as price, quality and quantity, found new market niches, provided training in production and social organisation, helped to get the product to markets and provided credit (Schreckenberget al, 2006).

### **C1 Some initial thoughts on the application of the MSD and chain champion approach in the DRC**

#### Value chain analysis

Very little existing analysis on value chains in the timber sector of the DRC exists. A recently commissioned study directly on this point by RRI in West Africa was unable to complete its section on DRC (White, 2008 pers comm.). A recent study by Forests Monitor of cross border trade in the timber sector in the east of DRC revealed one industrial operator, Belgian owned ENRA, harvesting from its own concession. It served local furniture and building enterprises, European, Ugandan and South African markets and added value by producing products such as parquet in its own DRC based processing mill. It also revealed high levels of regional trade in “illegal” artisanally logged timber serving the demands of Kenya, Uganda, Rwanda and Burundi. Those value chains start with traders based in these countries who provide finance for chain or pit saws, the costs of transport and hiring operators and bombeurs (carriers of the wood planks). Safety concerns have forced them to use local DRC intermediaries. Local teams operate with the permission of licences granted by the local authorities and sometimes the consent of the local chief. In addition some artisanal logging is done independently and is taken to markets on the border with Uganda or Rwanda for sale. Some timber stays in local markets. The affected communities see little financial rewards and sums paid to local chiefs are nominal and few local people are employed as bombeurs. BDS involve transport from the forest to roadsides by bombeurs and to the border by lorry, and also storage and the negotiation of customs formalities. Local furniture producers and bombeurs are organised into associations to undertake production for large contracts and to advocate for better working conditions respectively. Interestingly, the study revealed the DRC importing plywood from Kenya whilst exporting raw timber to it. Whilst there is no evidence the same wood is being processed in Kenya it illustrates that there is a local market that could be served by locally logged timber if the processing capacity was developed in DRC (2007). Other studies suggest that there is an informal artisanal sector using portable sawmills serving the demands of local urban markets for construction and fuel demands. It has increased rapidly over the last decade due to the insecurity that has resulted in limited government oversight and has made it difficult for large scale operators to function (Debroux et al, 2007; CREF, 2005 in Hoare, 2007). An analysis of the DRC’s forest sector priority agenda notes the difficulties of accurately assessing the extent of artisanal and small scale timber exploitation. For example, the Congolese Association of Small Scale Loggers estimates that there are around 8,000 small scale loggers and Djire calculates informal timber production at 1.5 to 2.4 million cubic metres per year. There are also many small sawmills lumber markets and wood processors (2005 in Debroux et al, 2007).

There are few studies on value chains for NTFP, and more work needs to be conducted in this area (Hoare, 2007). One study in the provinces of Bandundu and Equateur reveal sales through a number of brokers to wholesalers and retailers for products such as: caterpillars, mushrooms, gnetum, palm wine, charcoal and medicinal leaves. Products find their way to urban consumers through this chain within the provinces, Kinshasa and in some cases, export destinations (Ndoye et al 2007; Toirambe, 2007) Caterpillars, gnetum and palm wine

are the more lucrative products and are sold in large amounts in Kinshasa. Caterpillars and gnetum are also exported though there is no useful data on export volumes (Mampunzu, 2002; Clark et al, Toirambe Bamonginga et al, all in Hoare, 2007). Charcoal is also a lucrative product and serves local urban markets (Ndoye et al 2007). Given the heavy reliance of urban populations on this as a fuel source it is estimated that 72 million cubic metres of harvested wood serves these needs (Debroux et al, 2007). Bushmeat and fish also features heavily as a tradable rather than subsistence product (De Merode et al, 2003).

#### Value chain analysis with reference to BDS and FS

Hoare et al (2008) pointed to the undeveloped nature of the FS and BDS in DRC. However, for the future, the agricultural strategy review proposes, in areas of high agricultural potential (some of which coincide with pilot sites in the FM proposal), to develop similar services to those required by small scale forest enterprises. These include efforts to provide small agricultural producers with access to rural credit, to increase the capacity of the state to provide research and extension services for better and new crop types, and to promote and support the development of new forms of farmer and producer organisations (World Bank, 2006). Examples of producer organisation and cooperative activity already exist in the DRC from which skill transfer and lessons learnt can potentially be shared. In addition to the previously mentioned furniture producers in the Forests Monitor survey, another example is CDI a development organisation in the north-western part of Equateur province, that works with small coffee producers to market their products and which has benefited from its relationship with the Max Haavelar fair trade organisation (Eshuis and Harmsen, 2003).

From the limited information set out in this section, the assumption must be that overall any value chain analysis exercise will reveal that there is limited SMME activity in the timber value chain that involves communities in any meaningful way and also little by way of FS or BDS providers. It does suggest that there will be opportunities to tap into and develop synergies with parallel efforts in the agricultural sector, particularly with regard to the type of supports needed for NTFP or forest type agriculture such as coffee production or to learn from existing successful cooperative and fair trade enterprises. However, a word of caution in relation to NTFPs needs to be noted. Historically, little priority is given to promote NTFPs and few resources are applied to research issues such as domestication and sustainable management of an open resource. Research from elsewhere reveals that as markets in NTFPs develop, overexploitation frequently occurs (Schreckenberget al, 2006; Hoare, 2007). Hoare points out that whilst many studies list the difficulties in marketing NTFPs there is little information on initiatives to resolve them (2007). The problems facing the NTFPs sector are very similar to those facing the small farmer sector. These are lack of access to markets through poor infrastructure, limited storage, poor coordination between producers and traders in the form of cooperatives, lack of information on market possibilities and lack of credit. Additionally, in West Africa the availability of NTFPs seem to be declining suggesting that new methods of undertaking sustainable wild collection and domesticated cultivation need to be researched and developed with collectors and farmers. Research is occurring for gnetum, rattan, fruit trees and caterpillars in West Africa (Hoare, 2007). One observation from a current FAO project that is working on NTFPs was the strong interplay of NTFP collection with agriculture in people's livelihood strategies (FAO, 2007). Efforts should therefore be made to encourage the DRC government and its donors to develop strong links between a strategy for NTFPs and the agricultural strategy, perhaps including a section within it rather than have it operate separately.

In circumstances where there is little SMME activity, the facilitator will be looking at making a market by creating new value chains and undertaking enterprise start up, rather than altering existing patterns within an already established value chain. Where markets are less well developed, such as in the DRC., this may not be feasible over the medium term. Stringfellow (1997) classifies producer groups as either linkage dependent or linkage independent depending on their relationship with the private sector. Linkage dependent groups are characterised by a strong arrangement between the group and an outside agency that has a central role in market access and frequently takes on supervisory activities concerned with the group's commitment to deliver its product under predetermined terms and conditions. It has low bargaining power but needs less managerial and entrepreneurial skills to access markets. Linkage independent groups have more freedom to determine how they access

markets (in Bienabe and Sautier, 2005: 80). For the DRC, practical solutions may then have to be in the nature of linkage dependent ones and come from within the value chain. This will include exploring alternative business models that work with existing industrial operators, both large international concerns and smaller local operators. It may be difficult to attract new and perhaps more progressive international operators, possibly as chain champions to the DRC given the difficult business environment. Existing industrial operators have at least become comfortable and are better able to manage the attendant risks. This is an area to which this paper will turn next before looking at possibilities that are more in the nature of linkage independent solutions, i.e. where community producers seek to bypass existing industrial operators to connect with international markets more directly.

#### **D Working with the industrial sector: more equitable partnerships**

Alain Karsenty, in his recent review of the West African concession system and alternatives (2007) proposes that given the high cost of logging and transport for remote communities it is inevitable that they will need to form a partnership with an industrial operator. This could take a number of forms, but if it is to deliver more substantial benefits than the present system then each system will have to reflect a more equitable relationship than the current social agreement concession arrangement set out in the Forest Code 2002. This can be achieved by ensuring clarity of land rights so that a community can negotiate whether an industrial operator can log on its land, rather than just the terms under which logging will take place. Ownership enables a community to set the terms on which the operator can carry out its activities. An example of where this situation applies is Papua New Guinea, which has the strongest community land rights over forests. However, problems with the governance structure have led to limited accountability of community representatives who sign deals with companies. Corrective initiatives to resolve this problem are trying to tackle a number of inherent problems in achieving effective collective action and democracy (Mayers and Vermeulen, 2002).

Three possible forms a partnership can take are considered.

##### **D1 Permission at community level and enhanced social agreement negotiation, including phased transfer of technical skills**

Community management could involve the contracting out of technical extraction to a more qualified industrial operator on a variety of terms. A highly positive outcome would be one where the industrial operator provides a form of knowledge transfer and training to community members so over time they can conduct artisanal low impact extraction activities independently. Equipment and finance for it could be provided by the operator or alternatively leased to it and shared with other community enterprises operating under a similar system with the industrial operator. Evidence has shown that commercial operators work with communities where they have little alternative if they want to continue operations. For example, in South Africa where land rights were being renegotiated in a post apartheid political system and plantation land was limited, commercial operators started to work with local out-growers as a way of increasing their timber supply. They acted as a coordinating platform by providing technical expertise, credit and acting as the buyer of their products (Mayers and Vermeulen, 2002). In the DRC a similar opportunity may be available with ENRA if it is unsuccessful in its request to have new concessions granted to it in return for it giving back half of its present concession. Its relinquishment of parts of its concession presumably followed tensions with local communities and immigrants in the concession area, and degradation by agricultural expansion and artisanal logging. ENRA has a history of working with local communities and has established a conservation organisation to reduce incursions into its concessions and negotiate a social responsibility agreement and is applying for FSC certification (Roux and Hoefsloot, 2008).

The obvious downside is the unbalanced bargaining position between industrial operators and communities. This is compounded in the DRC by a historically inequitable relationship (for some examples where relationships have been abused, see Greenpeace, 2007). There will be a need to find methods that prevent inequitable deals that damage livelihoods and the environment as has occurred in Cameroon. In this respect there may be a strong role for the facilitator to broker a fair arrangement. The role of NGOs and/or the state will also be

important to support the development of well managed community enterprise structures that are better placed to develop long term strategic plans, of which any such agreement forms part, and to oversee fairer deals. DRC's Forest Code proposes a basic framework to govern deals between communities and industrial concessionaires. This is similar to the system used in Ghana where the law sets out minimum expectations that such agreements need to include with oversight ratification by government forest offices and a central evaluation committee (Mayers and Vermulen, 2002). However, a law of this type is of limited value unless it is matched by efforts to develop capacity for community representatives to act accountably and to negotiate effective deals.

The main problem in this type of arrangement is that income opportunities are limited, since value addition will stay with the industrial operator in both extraction and processing in the first instance. Even where extraction is transferred to community operators then processing value is still captured by the industrial operator. There is also less scope for the empowerment that community forestry can provide as noted by Ezzine de Blas and Ruiz-Perez (2006, in Karesenty 2007) commenting on the Cameroonian experience of community forestry.

However, whilst the arrangement may not be perfect it does provide an opportunity to deliver economic returns and broader livelihood benefits within the reality of what is achievable given available capacity. It need not be permanent and monies generated could be reinvested by community institutions into other livelihood opportunities such as agro-forestry, agricultural activities and NTFP collection which in turn could help develop capacity in community planning, management and distribution sharing. Over a longer term horizon as capacity grows and lessons are learnt, agreements can mature into stronger partnerships of the types discussed below. However an IIED study in private and community partnerships saw only a few examples where greater cohesion and organisation amongst community groups had occurred and little affirmative evidence that bargaining power had increased. Perhaps as these authors suggest this is as a result of third party facilitators having limited support to assist communities with capacity building and to broker equitable deals. Canada offers an interesting example of where state support to indigenous groups helped them form strong alliances with industrial operators (Mayers and Vermeulen, 2002).

#### **D2 Joint venture companies between industrial operators and communities**

Mayers and Vermulen (2004) noted that the arrangements that worked best were those where efforts were made to strike equitable business deals between equals as opposed to exploitative or public relations exercises. Canada provides some interesting examples of indigenous communities and private logging operators jointly own a company set up to commercially exploit indigenous forest lands. An example is in British Columbia where a deal was brokered with the assistance of government (local and federal), environmental NGOs and unions. It took two years to agree and substantial subsequent work to develop plans for three business segments covering the extraction of cedar sawn-logs; NTFP collection and ecotourism; and finally carbon storage and conservation. Clearly this type of arrangement offers greater prospects for financial reward and more active involvement of local communities in business planning and operations. They provide a vision of a longer term potential for community/company associations. Much still needs to be learnt about the steps needed to arrive at well-functioning agreements (Scherr et al, 2004), however some interesting lessons have emerged that are relevant to the DRC context and which are also relevant to all types of community company agreements.

- Partnerships work well if there are parallel efforts by the state or other third parties to assist communities to participate. In Canada this comprised activities by the state authorities such as securing matching capital, helping to support facilitation of the process of negotiation, providing training, help with securing market access and undertaking research to better understand issues around creating successful partnerships
- A long term perspective and commitment is required. Efforts need to be made to ensure good communication and full knowledge of each others cultures and ways of working on either side, as well as expectations of respective returns, both economic and social. Also both parties, and especially communities, need a full appreciation of the business venture, including short and long term business prospects, what happens if things go wrong, who is doing what and bearing risk? Often this is best if it takes the form of an

independent assessment and such issues are clarified in the relevant formal agreements (adapted from, Mayers et al, 2000 and Esmond and Race, 2000 in Scher et al, 2004).

- Partnerships may be more equitable if the industrial operator is an international concern and therefore subject to high levels of scrutiny, rather than a local politically connected operator (Fuge 2001 in Scherr, 2004). However, if efforts focus around partnerships with global operators, particularly those interested in exploiting a potential green market in developed countries, then this may detrimentally exclude small and medium sized industrial operators who are unable to afford the types of verification associated with accountability standards (Mayers and Vermeulen, 2004). These latter types of operators appear to be a feature of the DRC forest sector (Debroux et al, 2007) and need to be considered as part of a thriving SMME economy. Any support functions such as facilitation or efforts to connect communities with industrial operators should also think about extending training and support to small and medium local operators in principles of corporate accountability and fair partnerships (Mayers and Vermeulen, 2004). This could be developed in parallel with a combined fair trade and FSC standard.

### **D3 Permission and control at decentralised administrative levels of government**

Finally, an alternative idea is to move away from the concept of community forests as isolated entities undertaking artisanal extraction and to leave logging to industrial operators in a form of country wide tri-party system of co-management between national government, local government and industrial concession holders in which both management and the bulk of revenue collection occurs at that local level. The significant financial flows will enable local government to develop social and economic goods relevant to that area of which industrial logging will be one component. Artisanal production may be useful to create youth employment but should be seen as an adjunct to industrial logging (Brown, 2008).

Necessarily this will form part of a wider system of decentralised governance reform which is starting in DRC. This is a proposal for Liberia which has unique circumstances that don't occur in the DRC. Most notably rural communities are relatively homogenous with clear boundaries, chieftaincies are usually elected and representative of community interests and integrated into a pre-existing system of local governance and there are established conflict resolution mechanisms. Clearly none of these are features of DRC forest life at present and, as mentioned earlier, are the challenges that must be considered in addressing questions as to the form communal land rights are to take, the demarcations of community forests and the nature of representative institutions. However, the idea should not be readily discounted given that these are issues that need to be tackled whatever system is developed in the DRC and also because substantial work will occur on decentralisation over the coming years. An equally important long term factor is the connection between ideas on the REDD institutional framework and local governance (Brown, 2008). Strong local management of forests within a local democratic system would have more synergies with a REDD framework of national management than the creation of a further layer of community forests that need to be in turn managed (in various forms) by the state in any REDD system.

## **E Working outside the existing industrial sector**

### **E1 Second tier cooperative structures**

As mentioned earlier, a crucial first step is for SMME timber producers to achieve appropriate economies of scale: (1) to meet the demands of international buyers for volume and quality; and (2) to acquire FS and BDS at affordable costs. This can be achieved by SMMEs coming together in a form of association instead of being coordinated by a commercial entity in the value chain, such as an industrial operator as discussed above. These are referred to as, "second tier", enterprises. They can bring together in one place a number of key activities such as processing, marketing, and also the provision of information about business and financial services. In Guatemala an umbrella organisation called FORESCOM was set up to enable its 13 community forest concession members, that had previously undertaken their own logging and sawing, to work together on forest certification, processing and marketing (Macqueen et al, 2008). In the Latin American study on NTFPs, only 15% of the cases had achieved full horizontal collaboration of this type. An example was a group of communities collecting wild mushrooms in Mexico who had joined together in a cooperative to buy drying equipment so it could supply dried and packaged products directly to the local market (Schreckenberget al, 2006).

As with community forest enterprises discussed above, cooperative systems require high levels of capacity building around internal management skills, governance structures, leadership and enterprise business training. Again a 'learning by doing' incremental approach is the best way to build experience and competence. Many features have been identified as predictors of success for second tier organisations and these have been well documented in relation to both forestry enterprises and those in the agricultural sector. Some of these are:

- Groups work best where they come into existence to respond to new opportunities and have an autonomous existence from state or donors. They struggle where they are artificially created, say by donors or governments. In the DRC, this suggests that donor efforts need high levels of skilled facilitation rather than direction and which focus on building a good understanding of a group's needs and the opportunities available to it, from which the concept of working together in an associative venture can take root.
- To overcome collective action problems second tier organisations need to keep goals simple and to maintain the commitment of members they should provide benefits that outweigh the costs of participation.
- Producer groups initially thrive with good leadership, often from people with a history of social activism. But as they grow need clear rules and procedures, especially covering financial dealings and the benefits due to members to discourage forms of free riding. Groups can be undone by conflict, so groups that have rules that provide mechanisms for conflict resolution also fare better as do ones with structures to hold leaders accountable and remove them if they are performing unsatisfactorily. Support agencies can help groups develop this capacity. An example is leadership training, and governments can assist by developing an appropriate legislative environment that encourages the adoption of basic governance structures that protect members from corrupt and incompetent managers.

Overall, the history of producer groups suggests that external support has to be carefully thought through so as to not distort a groups aims and members' interests. The dangers are that supporters overload a group's goals with their own agendas and expect quick results. Support therefore needs to be based on a groups needs (based on Macqueen et al, 2006; Chirwa et al, 2005; Bienabe and Sautier, 2005).

In relation to NTFP and speciality agricultural products aimed at global markets (for example coffee) a facilitator and market champion may come from the fair trade network. Fair trade offers a service that can help with developing community structures for cooperation and second tier development. For example, in the agricultural sector a UK based tropical wholesaler has identified niche markets for fair trade dried tropical fruit and conveyed this information to farmer groups in a range of African countries and Pakistan. It also helped them to access credit, technical assistance and training (Best et al, 2005). Fair trade organisations such as Max Haavalar of Holland, can act as a facilitator very much in the MSD model by working on the ground to (a) help producer organisations within communities get organised to achieve economies of scale in such as way that it meets environmental and social criteria required for certification, and (b) connects producer groups with others providing FS and BDS. Sometimes they undertake their own market analysis of prospective niche markets, but their role is usually to connect and build direct links between producer organisations and retailers in developing country markets and facilitate the provision of fair trade certification. Often fair trade has provided a useful stepping stone into more traditional markets. The supplementary fair trade premium and forward payment options allows business and organisational capacity to develop so that producers can tackle some of the inequalities in more traditional markets more effectively (pers comm., De Clercq 2007). An example is the coffee chain facilitated by Max Havallar mentioned earlier, the coordinating organisation has now diversified its products outside the fair trade system to include production of maize, soy, rice and palm trees and processing for the Kinshasa market (Eshuis and Harmsen, 2003). However, as mentioned earlier, work on developing NTFPs for commercial exploitation is in its infancy with many deficiencies still unattended to. Considerable work will need to occur to identify possible market niches with no guarantee that existing NTFPs currently sold in European markets will develop beyond the expatriate community. Similar advantages of working with fair trade may be available in the timber sector, subject to the joint working of the FSC and fair trade organisations on appropriate standards.

A further advantage in coming together is an increase in collective bargaining power both to advocate with government for better support and business environment but also to negotiate with those higher in the value chain. In the DRC timber sector, developing an association of community enterprises in a particular area may provide opportunities to work with the existing industrial sector with a stronger hand. For example, in the case of the idea of working with an operator like ENRA proposed above, an association may be able to negotiate more effectively with the industrial processor and act as the coordinating platform, thereby reducing the operators function in this area and therefore its transactions costs. Needless to say it could also provide an effective stakeholder voice in subsequent legislative work undertaken by the government which is currently being undertaken by a mosaic of NGOs.

### **E2 Disaggregated business models**

Karsenty suggests using a decoupled or disaggregated model in which international industrial operators within the existing value chains restrict themselves to processing functions based around ports or other transport hubs and to marketing to international buyers. In effect they become the coordinating platform and chain champion. They can then be served by smaller community concessions in contrast to the current trend for large concession areas (2007). Clearly in DRC this will require an upgrade in the road systems that have in many places disappeared over the last three or four decades. In this model, those smaller concessions could be managed and operated by communities themselves. This is in effect the model a company like ENRA could work to if it were to take supplies for its mill from community producers.

Alternatively that second tier coordinating role could be another actor in a newly created value chain. An example of the latter comes from Papua New Guinea, a country facing similar constraints to those in the DRC. It has limited infrastructure and low capacity levels within forest communities. In this example the chain champion was a group of conservation NGOs who were interested in finding ways to sustainably harvest wood by working with communities. The value chain has four parties. Community producers undertake logging and, because there is limited road infrastructure, they carry out simple sawing and then transport the planks to a regional central marketing unit (CMU) for processing. International sales, marketing and certification is then done by an organisation called FORCERT (set up by the collective of INGOs) who arrange the sale of timber from a network of CMUs directly to buyers who are interested in certified and sustainably managed timber. FORCERT works with the CMUs and community producers by dividing up aspects of production according to respective capacities (Macqueen et al, 2008). As with deals with the corporate sector, in this type of model there is limited opportunity for communities to increase their share of the sale value of the wood. To do this they would need to become involved in the processing. Further it does not forward the proliferation of SMME businesses in FS and BDS beyond the existing set up. In contrast the Guatemalan cooperative model has managed to add value through drying processing and producing items such as decking and flooring for the local and US markets (MacQueen et al, 2008).

### **E3 Unusual chain champions: corporate social responsibility investors**

A number of major international financial institutions are developing a set of ideas inspired by the corporate social responsibility movement. In a desire to contribute to efforts to encourage sustainable forest management by communities and to learn about new emerging markets and presumably the potential for carbon supply in the future, they are considering undertaking philanthropic investments in countries that have a relatively enabling business environment and a community forest sector with potential to further develop. One such idea involves the investor acting very much as a chain champion. They enter into a joint venture partnership with community forest enterprises that have formed a second tier cooperative institution. The investors provide equity capital investment to the joint venture company and the cooperative provides its forest assets and local know how. The joint venture entity is a business that needs to make money for each of its investors, i.e. the bank and the cooperative. It will seek to do this using technical business advice on one side and the forest and land assets and knowledge on the other. Using its pooled assets it will seek to provide the FS and BDS that community producers need to produce timber to the standards required by international buyers. Depending on the state of the existing market, the joint venture could set up its own

FS or BDS or help existing providers to extend the scope of their operations. The type of solutions it could adopt are varied, perhaps co-investment in a FS provider for example. It will also look for ways to capture more value from the market chain for its shareholders, including members of the cooperative, perhaps investing in mills or processing facilities. It may also advocate for targeted donor or governmental assistance elsewhere to help develop certain aspects of the value chain, especially in less developed markets. As a chain champion it is encouraging the development of effective relationships between parties within or that interact with the value chain. Rather than a set mandate to address poverty by reorganising existing value chains it is using the profit incentive to find solutions to enhance the productivity of its producer members at a price that will deliver results. It is important to stress that these types of ideas do not envisage investor capital being used to build the capacity of the community cooperative system, this being regarded as a development task more suitable to be carried out by traditional development agents. Investors will probably only be encouraged to proceed where they can work alongside parallel donor funded efforts in this respect. No doubt it will be capable of using its technical and business skills to highlight weaknesses and advocate for better support in this regard.

### **Discussion and conclusions**

Developing a forestry sector based on community enterprises and a thriving supportive SMME sector in the DRC, whether to complement the existing industrial sector or to ultimately take over from it, makes sense as a proposal that can bring more widespread and sustainable economic benefits to rural forest based communities and create linkages into the wider economy as well as delivering better managed forests. It will though require a considerable investment of time and money. Public funds will be required initially to build capacity with a view to encouraging long term private sector enterprise and investment.

One issue not discussed and which must constantly be reviewed is whether the whole endeavour makes business sense. On balance is it profitable for community enterprises to seek to access international markets? And will they even be able to successfully operate in domestic and regional markets to the east? Demand side requirements must be the driver of any initiative and in this respect initiatives will also be required that re-shape that demand. At the global level efforts to increase demand for timber that is produced under socially equitable arrangements and that are environmentally sustainable are required. Efforts are very much in their infancy in western countries but need to extend to the emerging economies of China, India, the Far and Middle East who are predicted to have a strong demand for African produced tropical timber (Macqueen et al, 2008; Debroux et al, 2007).

The dominant appeal at the global level must be to climate change and must be part of the international solution to the problem of deforestation that REDD seeks to address. Local markets are also predicted to grow, especially for lower value species. Currently domestic demand absorbs about 80% of production. Where this timber is illegally produced both for domestic and regional east African markets, efforts will need to be made to improve local governance and effective enforcement against illegal loggers so as to increase the competitiveness of community enterprise and SMME produced timber. One can anticipate initial potential conflict between logging companies, traders and buyers that have effectively been exploiting a free resource and significant resistance to sharing a profit margin with communities once they are given clear rights to ownership and exploitation and the means to enforce those rights. If the effect is an increase in price then will local and regional markets be able to sustain these? These are all complex factors which are worthy of greater scrutiny and research. An additional factor is the economic ramifications of entering the REDD market. As mentioned earlier economic predictions as to the value of REDD payment to the DRC economy are difficult until there is greater certainty on its rules.

The same types of questions need to be asked in relation to NTFPs. Experience over the last 15 years in other countries suggests that a strategy based solely on NTFPs is unlikely to yield sufficient livelihood benefits nor lift people out of poverty. It also requires considerable management to ensure environmental sustainability. Rather it needs to be part of a wider livelihood strategy. The importance of NTFPs is that they provide a safety net income in times of shortage or an additional source of income to fill gaps. Only in limited cases and at

its best, does it provide sufficient income to act as a stepping stone out of poverty to other more lucrative income generating activities (Schreckenber et al, 2006). Existing research in the DRC, referred to earlier, suggests that there are certainly domestic markets that can generate further demand especially as income levels rise. The extent of international market opportunities is less certain and further investigation on the potential for products currently demanded by expatriate communities in international markets needs to occur and whether there are opportunities for expansion into host populations as has been the case with a number of immigrant foods and products in Europe. This is the type of activity that is probably best undertaken by a chain champion perhaps with the initial assistance of public funding for research and product development.

Assuming it does make business sense, there are initial foundational steps that must be taken, or at the least a commitment to put them in place. These are most notably tenure reform with effective local forest institutions capable of undertaking enterprise activities and improvements in the governance and business environment such as transport, power and communication infrastructure and basic business laws and enforcement measures.

Thereafter proceeding with a community enterprise and SMME approach will require considerable initial public investment and coordination. Whilst there is SMME activity in the DRC for timber and NTFP sectors, bringing community enterprises into the picture and developing a whole economic sector to support them is effectively creating a new set of actors in new or greatly amended value chains. Capacity building and coordination are the dominant themes in these circumstances. The concept of a facilitator in the guise of a community forestry business development unit under the auspices of the DRC state is therefore a strong one that should be given due consideration. It makes sense for this function to occur at national and provincial levels given the size of the DRC and the move to decentralisation. Given capacity constraints it also makes sense for this to start as a joint project between the government, donors and possibly NGOs. There is also the delicate question of political will. Using external technical support initially may be a way of supporting reformers in the government that may face hostility from some in the establishment that favour retention of the status quo.

The facilitator is able to:

- ***Undertake analysis to map the dynamics of the existing timber, NTFP and forest related agricultural sector including the relevant FS and BDS sectors with a view to thinking creatively about possible strategies for developing the sector in favour of community forestry in the long, medium and short term.*** Part of that analysis can also track the extent that other relevant reforms in the road map are progressing in parallel, such as tenure reform improvements in infrastructure, the business environment etc. This paper has revealed some information about the timber and NTFP sector in the DRC but there is a need for further in depth work to plug gaps and to gain a better understanding of existing FS and BDS providers or potential providers. The research should also extend to agricultural type crops where there are overlaps in the livelihood strategies of rural communities, including those that may have fallen into abeyance such as coffee production.
- ***Assess the capacity building needs of community forest enterprises as they come into being and how and who can satisfy these.*** Establishing the right institutional structures for community forest management and enterprise development is one of the significant challenges in establishing community forestry in the DRC. Once this hurdle has been jumped, experiences from other countries, particularly Cameroon, demonstrate the need for strong and well designed capacity building measures. These need to be in social communal decision making that is accountable as well as strategic planning based on full information about the commercial options available in the short medium and long term together with technical, business and financial enterprise management. Support must be phased over time and based on a 'learning by doing' methodology so as not to overwhelm nascent enterprises. The obvious candidates to provide this service are rural NGOs, however, they often have capacity issues of their own. There is little enterprise experience within this sector and they will need to be well funded so they can develop

their own capacity to fulfil these functions (Best et al, 2005; Macqueen et al, 2008). As the long term objective of the facilitator is to build an effective SMME sector to support community forest enterprises it should think about how such support functions can over time be provided as a business development service and how to create a demand and supply dynamic. Building a cadre of grass roots enterprise facilitators that can evolve into private businesses should be a long term aim. As in the start up phase, this type of service is probably always going to have to be publicly supported it could be something that is supplied by government personnel. Another way and which is a useful method to develop a private service function is to use a publicly supported voucher system.

- ***Create opportunities to build strategic connections to satisfy the needs of community forest enterprises to effectively enter the value chain and to advocate for change or improvement in the business environment. Such strategic alliances could be horizontal ones between community producers themselves or between BDS and FS providers or vertical ones between existing players in the value chain or new entrants. The facilitator can also identify chain champions who in turn can also help in the building of useful strategic relationships.***

In the short term the reality of DRC's poor investment profile means that it may be difficult to attract external chain champions such as the group of environmental organisations that founded FORCERT in Papua New Guinea or the banking investors that are seeking to enter into a joint venture with a cooperative of community forest enterprises. However, as the position develops and the capacity of community forest enterprises develops the facilitator can start to pursue these types of options.

The short to medium term reality is that strategic alliances will probably have to come from the existing value chain. To access the international market linkage dependent solutions will probably have to be employed given capacity constraints of forest communities, for example in technical skills and the ability to access credit. These could take the form of agreements with industrial operators for either the supply of artisanal produced raw timber or for timber extraction itself. Because of the negative history in the relationships of logging companies and communities, the ideal will be for community forest enterprises to make such alliances after or while they are being supported to develop strategic enterprise thinking to avoid poor deals which exploit their possible ignorance of their rights and of the worth of their forest assets. Further, that such options are pursued as a stepping stone to develop more lucrative subsequent agreements with industrial operators that mature into joint venture partnerships or offer a way of transferring technical skill development so communities can then work outside the industrial sector. However solutions will vary according to prevailing circumstances and other opportunities available to communities, for example it maybe more profitable to let companies extract and for local producers to concentrate on agricultural activities.

Concentrating on the local market probably offers the opportunity for some communities to develop an enterprise outside the existing value chain, say by developing their own capacities by becoming artisanal producers and processors. Here the facilitator can develop links between forest enterprises so they work together as cooperatives or associations to achieve economies of scale in its marketing relationship with the local and possibly subsequently international markets but also in the acquisition of BDS and FS. Working in association makes it easier for the facilitator to encourage innovative links with the banking sector and others in the chain such as sawmills.

Once a network of community forestry enterprises has developed, there may also be a role for chain champions to enter the value chain especially to serve specialised markets in certified timber. Champions can then help to enhance the operation of a cooperative or association. An example is the fair trade scheme for NTFPs and the new system being jointly developed by FSC and the fair trade network for timber and the types of customer that sells these products.

In all of these scenarios continued public support for both targeted capacity building and to encourage private sector investments will be required. To avoid the risk of failure appropriate funding needs to be made available at each stage.

Many of the options discussed in this paper exhibit aspects envisaged by the original clearing house concept whereby producers are brought together under a platform that enables international buyers to deal with one party and for producers to access the information and support they require. However relying solely on an external agency to do this for producers, whether instigated by a conservation organisation as in the case of PNG or an industrial operator or processor wishing to gain access to timber controlled by forest communities, does not provide sufficient levels of social political and economic empowerment. Rather they should be regarded as a stepping stone. Empowerment comes from pursuing the longer term prospect of an industry owned and controlled by the producers themselves and which is able to source the support it needs, be it credit or strategic business advice from a local market of service providers and to demand appropriate levels of state support directly.

### **Chapter 3: Recommendations for a pilot project**

Each of the previous chapters considered some of the challenges facing community producers accessing potential global markets in carbon, timber and NTFPs, the types of areas where policy efforts will need to focus and their place within an overall road map to develop community forestry. The work of Forests Monitor both in a stakeholder workshop and its subsequent proposal (Forests Monitor, 2008; Forests Monitor and GRET, 2008) identified the need for an intervention lasting at least 15 years based on early efforts to build institutional systems to link stakeholders to policy development and to test ideas in field pilot sites. Many of the issues identified will have relevance to the initiative both in its early stages but also once issues of scale up and sustainability are factored in during the later stages. The following are a list of recommendations for the project implementers to consider particularly in the proposed preliminary design phase of 18 months and the subsequent first five year pilot phase.

- ***Ensure that the links between community forestry and thinking around a REDD strategy occur from the commencement of the project.***

This will involve:

- Raising the awareness levels and knowledge of programme staff and programme stakeholders, including potential partner implementers, local civil society and community leaders and representatives. The principal aim will be to ensure each stakeholder can: (1) follow the REDD debate as it develops; and (2) contribute meaningfully to the development of DRC's REDD strategy, whether through making contributions at project level or in national policy forums.
- Ensuring the FM project work is represented in policy making forums considering REDD including those listed in the R-PIN such as the proposed multi sector task group on REDD and the existing national consultative council of forests at national and provincial levels.

One way of addressing these two requirements is to make the monitoring of REDD dialogues one of the tasks of the Community Forestry Learning Group. As funding may be an issue this may be an area where additional support could be sought from other donors in addition to those made available from the Forest Carbon Partnership Fund. The Learning Group will have the opportunity to identify areas where the community forestry approach may be sidelined or put at risk and raise concerns from a poverty alleviation and rights based perspective<sup>3</sup>.

- ***Ensure periodic reviews are built into the project to re-consider the relevance of REDD to community forest initiatives.*** Whilst the collective argument of the previous 2 chapters has been that efforts should focus on developing a system of community forestry that focuses on more known economic activities such as agriculture, NTFPs and timber there may be subsequent developments that cause this argument to alter. An example would be a significant rise in the cost of carbon, say if REDD became part of an international trading scheme in which there was high demand for forest carbon<sup>4</sup>. One area that requires perhaps earlier review is the merits of working with any potential philanthropic investor (from the CSR market) on an experimental project to learn about the types of systems and community expertise required to deliver carbon emissions under a REDD framework. Chapter 2 highlighted some of the factors that need to be in place before proceeding, such as a degree of robustness in community structures and civil society that will allow a strong participatory expression of community needs and a commitment to flexibility and learning on the part of the investor. As more experimental projects get started such as the FFI project in Aceh, the project should ensure that it stays in touch with lessons learnt elsewhere. When considering Community forestry /REDD dynamics the project will need to ensure that community economic and social concerns

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<sup>3</sup> For example by raising some of the concerns discussed in chapter 1 in relation to some of the elements of the R-PIN and the WHRC proposal.

<sup>4</sup> Only likely if Annex 1 countries agree to challenging limits on their own carbon emissions.

are not relegated to a subsidiary position behind the demands to prove reduced carbon emissions.

- **Promote an understanding within policy making and particularly donor circles of the long term need for support for capacity building.** This paper has tried to provide a flavour of the many fronts on which capacity building support will be required, in areas such as the effective and transparent management of forests as a communal asset where economic benefits are divided fairly, to the capacity to undertake informed long term planning to the building of capacity in enterprise development. “Donors often have very unrealistic expectations of short term efforts to build capacity in product quality and business management ... and a very long term and gradual approach to the constraint needs to be adopted” (Macqueen et al, 2008:71). Capacity amongst NGOs themselves is also required particularly in business skills. Additionally, the market system development approach which envisages the building of a business sector in which these types of support functions can be bought in by community forest enterprises and producer groups themselves requires intervention of a type that is dedicated to a continued cascade of capacity building. To ensure sustainability it also envisages much of the work, particularly advocacy around policy development to be undertaken by those directly involved in community forestry activities themselves. Both approaches will also take more resources and should be factored into donor expectations. The various national forums developed in the proposal and the community forestry learning group will be good places to make this case.
- **Promote the concept of a national and possibly regional facilitators or business development units.** Again the community forestry learning group may be a good place to raise this concept. However the institutional links of the project that encourage joint working with the Ministry of the Environment and a community forestry team within that ministry also allows this concept to be promoted.

A number of complementary activities at a project scale should also be considered and which hinge around the role each relevant implementing NGO can play as a local facilitator, particularly to model the approach to be subsequently adopted at provincial and national state levels. These are as follows.

- An immediate activity is to think about internal NGO skills in enterprise facilitation on the ground and to start thinking about staff skill development in this area. As there are limited skills within the NGO community it cannot be assumed that appropriately qualified staff will be readily available.
- Undertake a relevant value chain analysis (including for BDS and FS) and promote ways for community enterprises to capture value. For example, to see if there are opportunities to identify chain champions. Another option may be to facilitate options to bring together various community producers in a second tier association.
- Part of this work will include continually monitoring opportunities and market demand in the overseas market. Key issues to track are the FSC/fair trade certification system currently under investigation and developed countries moves to encourage increased purchasing of environmentally certified timber products. Greater research and understanding of the drivers of local and regional markets will also be required.
- The facilitator should develop links with other sectors that are working on developing support functions for producers, particularly producer group capacity building support, and in extension, credit services. In particular in the agricultural sector. An example would be to investigate what efforts are being made to research NTFPs domestication and whether they can be added to the extension priorities developed in the agricultural priority strategy.
- As a facilitator, continually analyse how each of these activities can be carried out by community and producer stakeholders and their representatives as a way of building local capacity to advocate for change.

- Ensure that analysis and research in NTFPs is not ignored in the rush to explore options that involve the more lucrative markets in timber. Immediate concerns relate to the commercialisation of products and methods to ensure sustainable harvesting of wild products and methods to add value through storage or processing.

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