Executive Summary

Improving Market Access for Central American Certified Forest Products

Case Study: Nicaragua

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Executive Summary

Certified wood products from qualifying companies and forestry projects in S. Mexico and Central America have not significantly entered international markets. Preoccupied by this fact, USAID contracted IRG to analyze how to improve the organization of certified wood producers and processors in the region, perhaps through formation of a sellers’ group of wood product vendors certified by organizations accredited by the Forest Management Counsel (FSC). As Nicaragua has no company with certification to date, a team was sent to analyze the viability of incorporating Nicaraguan producers within the group.

In the last 50 years, Nicaragua has lost an estimated 4 million hectares, at a rate of about 100,000 hectares a year. Poor oversight of foreign concessions, sectoral policies favoring agriculture, and a “mining” mentality caused by uncertainties over land tenure has caused the near extinction of dry tropical forests in the eastern region and a drastic reduction of humid forests in the north and Caribbean regions of the country. Forest certification is seen as a potential partial answer to address problems caused by poor forest management under an uncertain policy framework and weak government institutions.

Political, Legal and Institutional Framework

Pre-Sandinista (before 1979)

The decades prior to 1979 were characterized by effectively uncontrolled forestry concessions to foreign corporations that economically benefited only corrupt government officials. Moreover, the idea of sustainable forestry management was not prevalent, rather forests were to be mined for valuable timber to make way for agriculture and livestock ranching.

Sandinista (1979–1990)

Partly as reaction, the Sandinista government modified existing laws with no less than a dozen decrees with the status of law that annulled all concessions prior to 1979. The Peoples’ Forest Corporation, among other new government institutions (See Table 1), was created to direct the new nationalized state forestry companies, largely obtained by confiscation or expropriation of foreign holdings. Attempts were made to improve forest management through Swedish technical assistance and the strengthening of training. IRENA took steps to create a System of National Parks and Protected Areas, which was unsuccessful due to the military situation. Forests continued to disappear, however, due to the growth of state cattle companies...
and African palm estates and the policy of agricultural reform that took 3 million hectares to benefit 100,000 farm families.

**Post-Sandinista or Privatization (1990–1998)**

The government of Violeta Barrios viuda de Chamorro (1990–1996) reversed the decisions made by the Sandinista government. State-owned enterprises were privatized, the economy was reoriented toward open markets and state monopolies over exports were eliminated. The 1993 Forestry Rule, promulgated through Executive Degree No. 45-93, created the National Forest Service (NSF) to execute forest policy, promote and regulate the sector and the Administrator of State Forests (ADFOREST) to administer forest lands and state forests. (See Table 1.) Some important strides were made during this time, including:

- An increase in the number of protected areas to 70, representing nearly 17 percent of the national territory, and
- The initiation in 1991 of the Forestry Action Plan of Nicaragua and the Environmental Action Plan, and their declaration as official policy in 1993, and (iii) the introduction by NSF of forest management plans, which laid out some technical norms and administrative procedures. ADFOREST was ineffectual in their role due to the lack of a formal and recognized land inventory. This uncertainty as to policy and the status of various lands continued to subdue substantial investment and long-term thinking in the forestry sector during this time.

**Modern (1998 to the present)**

In the middle of 1998, the National Assembly approved the Law of Organization, Procedures and Areas of the Executive Power (Law 290) which separated the production and conservation functions of the government and yet again reorganized forestry institutions. (See Table 1.) The NFS (or DGF) disappeared into MARENA whose sole function became environmental protection, protected areas and biodiversity. This division is expected to resolve the conflict of interest within MARENA, which previously also had financial oversight and income from forest utilization as well as the protection role. Many uncertainties remain, however, such as the lack of a clear definition of forest ownership: i.e., which lands belong to the state, are privately owned, or belong to indigenous communities, and the autonomy of coastal regions. It is anticipated that approval of the Law of Forestry Development and Promotion, to be reintroduced in 1999, would clarify these issues.

**The Current Forest Industry**

The annual permissible cut in 1996 was 386,050 cubic meters. Eighty percent of the authorized cut came from just three districts: 43% from the Autonomous North Atlantic Region
(R.A.A.N.), 21 percent from the Autonomous South Atlantic Region (R.A.A.S.), and 16 percent from Las Segovias. The most harvested species are pine (50%) and some 17 species of hardwood, with 35 percent of these represented by royal cedar and mahogany. Average income per cubic meter of roundwood harvested is only about 22 Cordobas or less than $2.00.

A management plan is still considered a formal requirement for access to forest resources, and it is common to hear that only large companies can pay for the process. The forest area subject to a management plan in 1996 was 160,000 hectares. The principal obstacles to better forest management are considered the lack of a clear forest policy (including land tenure) and the development of a commercial market for a greater number of species, making better forest management more viable economically and ecologically.

Reforestation of high potential areas is considered the optimal route for development of the Nicaraguan forest sector. A total of 2.5 million hectares is considered with high potential for forestry, with 50 percent considered to possess agricultural quality soils. One company (PRADA) is contemplating contracting with land owners to involve them in reforestation activities on their lands. Experience in reforestation in Nicaragua to date has been small due to the lack of an adequate financing program for the activity.

The largest traditional export markets for Nicaragua are the Dominican Republic and El Salvador, which accounted for 63 percent of total exports between 1992 and 1995. Exports are concentrated in four species: mahogany, pine, royal cedar and strong cedar. Between 1990 and 1994, the value of exports totaled US$14.1 million and imports, largely paper and carton products, reached US$106.3 million. In 1995, the trade deficit was US$26 million.

In the ‘70s and ‘80s, exports of plywood used to be more than double that of roundwood exports. Plywood production has begun to recuperate only slightly and has nowise recuperated to earlier levels. The secondary wood transformation subsector (furniture, etc.) is currently poorly organized and developed, although it is an important source of employment. Nicaragua has around 500 such companies at the national level, 300 of which are in Managua.

**The Environmental Movement**

The Nicaraguan environmental movement started in the seventies with groups of professionals and university studies in biology and like sciences. The environmental movement has not traditionally done well in Nicaragua due to a lack of civil liberties in the pre-Sandinista socialist government and due to scarce human resources that were placed in government posts rather than in civil society during the Sandinista government. The defeat of the Sandinistas in 1990 effected a surge in the number of NGOs, due in large part to the large number of
professionals left without work after the change in government and as a reaction to some of the new policies being implemented. Because of professional jealousies and competition for scarce resources, however, these NGOs did not consolidate to form an effective force. They did succeed in sensitizing the media and the public to environmental issues, but in general they were not seen as offering practical solutions. The National Initiative for Voluntary Forest Certification, promoted by an NGO called, Nicaambiental, is an exception.

**The National Initiative for Voluntary Forest Certification in Nicaragua**

Forest certification consists of recognition by a third independent party that forest products have been obtained from a “well-managed” forest—economically, socially and environmentally. In addition, it certifies that forest products have been tracked and documented (Chain of Custodianship) from the forest to the market, permitting differentiation between certified products and non-certified ones. Recognition can take the form of a formal certificate, or a green stamp, or both, telling the discerning public at the moment of purchase that the goods have been produced according to social and environmental norms. Forest certification is generally, as proposed here, voluntary, market-driven, elastic to company size, and independent of both the private enterprises and the government. The national objective of forest certification would be to improve forest management, open new markets for national production, and further educate the public about the values of forests, their products and services.

In Nicaragua, the National Initiative for Forest Certification began in April 1996 when a member of Nicaambiental was invited to a course in forest monitoring, evaluation and certification through a program called Smart Wood hosted by the Rainforest Alliance, a US NGO. In August 1996, Nicaambiental and the Network of Sustainable Development (SDN) convened the first “National Workshop to Inform and Promote Forest Certification: Toward an effective management of Nicaraguan forests” with exhibitors and speakers from other parts of Central and South America and the USA, and participants from all parts of Nicaraguan governmental and civil society. From this workshop sprang a temporary working group (later restructured) to promote the process in Nicaragua. The Initiative has achieved a new consensus between environmentalists, private enterprises, social organizations and government bureaucrats.

**Beneficial Factors to Successful Certification in Nicaragua**

- **Favorable Political Climate:** Nicaragua receives a lot of technical assistance from international organizations which support good forest management and social justice, and even utilize forest certification as part of their environmental audit. Private international financial organizations that operate in Nicaragua also require forest certification before giving credit. Certification
would be a cost effective method for the state to effect an independent audit, promoting good forest management with minimal intervention and international credibility. During 1999, it is hoped that a forestry law permitting more secure land tenure and establishing a basis for better long term forest management will be reintroduced.

- **Favorable Social Climate:** Nicaragua has a strong social conscience and a relatively active environmental movement that demands social and environmental responsibility. Various Nicaraguan organizations (the working group of the FSC, Nicaambiental, etc.) now actively promote forest certification.

- **Favorable User Predisposition and Readiness:** There is an interest on the part of the three Nicaraguan firms interviewed to implement good forest management and certification. One had already sought technical assistance to this end and could be certified in the short to medium term. Certification lends credibility and demonstrates good forest management beyond legal requirements to the government and to society. Certification may also allow the opening of new markets for new species in Europe and the US.

**Principal Limitations**

- **Unfavorable Policy Climate:** Generally, the legal and policy framework does not demonstrate the consistency and stability necessary to attract investment in the sector. A relatively obsolete body of law and regulation discourages an acceleration of sound sector development. This includes top down planning and policy making, and laws not harmonized with forestry. In addition, uncertainty over the stability of long-term concessions and land tenancy (private, indigenous, state, community) fosters a mentality of short-term mining rather than long-term planning, management, and investment.

- **Unfavorable Economic Climate:** Uncertain land tenure leads to illegal or informal harvesting that results in market distortions, lowering the price below which good forest management is no longer economic.

- **Unfavorable Technical Climate:** Sound forest management incorporating environmental, social and economic principles has never been demonstrated in Nicaragua. Existing management plans are for the most part considered a bureaucratic procedure and not a technical and legal instrument that informs and restricts operations. The plans do not generally incorporate consideration of non-forest products, local communities, or the protection of biodiversity. The plans are not informed by the basic necessary scientific data on growth
rates, mortality, etc., that would normally be used to calculate annual permissible cuts and to project the impacts of harvesting. None of the firms visited relied on a system of monitoring of forest management practices.

- **Lack of Human Technical Capacity:** Sound forest management practices (like directed cuts, minimum diameter cuts, protection of watersheds and streambeds, better road design, minimization of road density, and protection of the remaining forests, flora, fauna and endangered species, etc.) were little known and practiced. Norms for every aspect of forest practice were generally lacking, including post-harvest evaluations.

- **Weak Governmental Monitoring and Support:** State field offices do not have sufficient human and material resources with which to provide technical support or to monitor forest management practices. The offices do little more than review forestry plans and grant permissions; and without monitoring, these are simply bureaucratic formalities. The state currently has weak capacity to monitor extraction, purchasing, processing and merchandizing using documents of control so as to distinguish between illegally and legally obtained (much less certified versus non-certified) forest products.

- **Manufacturing and Market Limitations:** The high cost of production in Nicaragua limits competitiveness in international markets, and that is without the added cost of certification. One reason for high costs is the low efficiency of low yields compared to harvest rates. Investments are needed for training, new equipment and modernization of industrial parks. This, combined with the relative lack of long term financing in the forest sector, make changes for improved competitiveness difficult. Also, Nicaragua has limited development of secondary species, partly due to lack of secondary manufacturing of wood products and persons specialized in this area.

**Key Observations Affecting Certification**

- **Model: Subcontracting for Forest Services and Forest Products.** Instead of investing in permanent staff, land, equipment, etc., at least two larger firms have set a precedent of subcontracting with smaller individuals or firms for services and material necessary for operations. This reduces capital requirements and risk, improves community relations and employment, opens markets for material from plantations established by smallholders, and leaves the firms to concentrate on their primary and secondary manufacturing operations, marketing and financial management.

  **Sub-Model: Co-investment in Industrial Plantations.** The firm PRADA is planning to make arrangements with small landholders to establish
plantations. In this arrangement, it is foreseen that they will provide the technical assistance and the basic funds to establish the plantation, and the small-holder will provide the labor and the land. The standing wood will be bought at a pre-arranged price.

- **Heavy social responsibilities of large firms.** Nicaragua may be an exception in Central America that the social rights of indigenous and campesino communities are viewed as important as those of the large companies. As the government has not been able to adequately provide health, education and other social services, the private sector has not only been historically looked upon to take up the slack, but has generally been conditioned to do so. Demographic pressures and the poverty of rural areas place burdens on forestry companies to play a major social role, while most firms are not sufficiently profitable to cover all the demands placed by society.

- **Instability in the Atlantic zone.** Heavy migration to the Atlantic zone has been causing major deforestation and pressure on the established populations. These conditions have fostered the proliferation of wood contractors who resell the fallen trees in newly cleared agricultural areas. The most valuable timber is being extracted, undermining long term forest management.

- **The status of large concessions.** The concession model appears to be becoming obsolete in Nicaragua due to the ever smaller areas available to confer. Large areas that are still contiguous are under mounting pressure by regional organizations and populations.

**Recommendations**

Key recommendations from the working team include the following:

1. Identify a working group to implement and follow up on the certification process. (I thought they said that one existed?)

2. Develop markets for certified products in countries that buy from Nicaragua, starting with international hotel chains, architectural and construction firms, educational organizations, tourism offices and others that export to Europe and the USA. Suggest a two stage approach: (i) the natural markets of the Caribbean, Nicaragua and the rest of C. Am., and (ii) the markets of Europe and the USA together with the firms in the process or with an interest in certification.

3. Develop markets for value added products to promote lesser known but abundant species. Coordinate this activity closely with the development of a market for the certified products.

4. Promote mechanisms to develop the small forest industry.
5. Formulate some type of Group Certification that could incorporate small landholders and users of the forest,

6. Promote models of territorial normalization for indigenous populations and communities, like that used by the Nature Conservancy.

7. Provide technical assistance for simple operating and management plans that are technically correct, yet incorporate principles for certification.

8. Establish a mechanism to raise the income per area of forest managed by capturing the rents from non-wood products and services.

9. Form groups and associations to facilitate vertical and horizontal integration.
   
   Establish associations of commercial enterprises that would share risks of forestry development and social responsibilities.

   Create a group of forest producers who promote sustainable forestry and forest certification.

   Create a Central American forum to promote certification that involves international and national financial organizations, and firms involved in primary and secondary transformation.

   Promote commercial associations between those involved in the various levels of the chain of production, i.e. between the owner or tenant of small forest plots with the firms involved in primary or secondary transformation, between commercial retailers and wholesalers, investors, etc.

   Promote the integration of large, medium and small firms for economies of scale in the contraction of services.