



THE FORESTS DIALOGUE

TFD STEERING COMMITTEE 2007

Mubariq Ahmad
Worldwide Fund for Nature
Indonesia

George Asher
Lake Taupo Forest Trust
New Zealand

Mohamed Bakarr
World Agroforestry Centre
Kenya

Marcus Colchester
Forest Peoples Programme
United Kingdom

Inviolata Chingaynara
Building and Woodworkers
International
South Africa

Gerhard Dieterle
The World Bank
United States

William Ginn
The Nature Conservancy
United States

James Griffiths
World Business Council for
Sustainable Development
Switzerland

Sharon Haines
International Paper
United States

Peter Kanowski
Australian National University
Australia

Matti Karjula
Stora Enso
Finland

Mikhail Karpachevskiy
Biodiversity Conservation Center
Russia

Lars Laestadius
World Resources Institute
United States

Stewart Maginnis
World Conservation Union
(IUCN)
Switzerland

Viv McMenamin
Mondi
South Africa

Cassie Phillips, TFD Co-Leader
Weyerhaeuser Company
United States

Per Rosenberg
Global Forest & Trade Network
(WWF)
Sweden

Carlos Roxo
Aracruz Celulose
Brazil

Stefan Schenker
Private Forest Owners Association
Austria

Roberto Smeraldi
Friends of the Earth
Brazil

Manoel Sobral
International Tropical Timber
Organization
Japan

William Street, Jr.
International Association of
Machinists and Aerospace Workers
United States

Justin Ward, TFD Co-Leader
Conservation International
United States

Amelia Wright
Family Forest Owner
United States

Gary Dunning
Executive Director
The Forests Dialogue

'Mini' Dialogue on Poverty Reduction through Commercial Forestry in Indonesia

4 March 2007 – Pekanbaru, Indonesia

Co-Chairs' Summary Report

Peter Gardiner, Bill Street, James Griffiths

On 4 March, 2007, The Forests Dialogue (TFD) met with representatives from community groups, business and labor to discuss approaches to maximize commercial forestry's potential to reduce poverty. Representing forest companies, NGOs, IGOs, labour, development agencies, and research institutions, participants shared knowledge and experience to highlight some of the key challenges and opportunities of pursuing commercial wood production (hereafter called 'commercial forestry') as a mechanism to lift people out of poverty within the context of Asia in general with Indonesia as a case study.

While the meeting was global in scope, learnings and challenges from Indonesia featured prominently through field visits and presentations. Local initiatives, such as corporate/community based fiber schemes, large scale intensively managed planted forests, and meetings with small holders, both local and trans-migrants, enriched discussions by offering pragmatic examples of 'pro-poor' forestry which participants could discuss, challenge and assess.

The meeting's objectives were to:

- ➔ Examine illustrative cases and identify obstacles to replication elsewhere;
- ➔ Clarify the stakeholder roles, commitments and actions necessary to realize the potential of commercial forestry to reduce poverty;
- ➔ Advise TFD's full Dialogue on forests and poverty reduction in development for mid 2007.

Background

A TFD scoping dialogue on poverty was held in South Africa in 2006. This one day "mini" dialogue was convened in Indonesia to test the applicability of observations, frameworks, and possible ways forward derived from the South African dialogue to a global context.

A TFD background paper by James Mayers (IIED), concluded:

- Commercial forestry has the potential to offer ways out of poverty –above and beyond poverty mitigation or using forests as 'safety nets'.
- Through well intentioned design, pro-poor forestry can enable steady income generation, promote access to markets and economies of scale, clarify land rights and ownership, advocate worker safety and rights, and contribute holistically to improving the lives of poor people and their communities.

The paper also identified key barriers to commercial forestry's ability to be pro-poor. The Indonesian dialogue explored those limitations as well as furthered its investigation into pro-poor models and various forms of community partnerships.

The participants explored a number of cross cutting issues including: land tenure, the role of national governance, and the reach of large scale corporate plantation forestry to absorb or internalize a vast array of social and environmental costs. These topics were in addition to more traditional questions around the issues of the poor's access to assets, distribution of benefits, and the application of international guidelines, conventions, certification schemes and other instruments designed to promote the social, economic, and environmental components of sustainable forestry.

Local Context

Holding the meeting in the Riau province of Indonesia, enabled participants to gain insight into the complex socio-economic conditions facing rural communities and the context within which forestry companies like APRIL and APP operate. Rural poverty in Indonesia is more than double the rate of urban poverty exceeding 30% of the rural population based on the countries last reported data which is several years old. Rural communities in the region have limited opportunities for: education, access to basic services such as drinking water, sanitation, or redress of grievances through a normal structured legal system. Forest companies must internalize the costs of providing what in other countries are basic public sector functions. For example, companies maintain kilometers of roads, bridges and ports, generate electricity for surrounding villages, provide housing for thousands of workers, operate education centers, numerous health clinics, have strong "police" presence and distribute food and water to workers and contract employees on a daily basis

There are a large number of contracted services providing not only traditional support services but also direct production functions. The ratio of about 15,000 contract workers for 3,000 company employees poses many challenges. A substantial portion of the areas' workforce are trans-migrants brought in by a combination of past public policy, company driven recruitment activities, and the economic magnet of employment in a country still in the process of industrialization.

Key observations included:

- The competition for land is intense: Palm oil and crops compete with forest plantations for land contributing to encroachments conflicts;
- There is a significant lack of a public sector infrastructure;
- Land tenure issues dominate the landscape and no clear legal process exists to resolve these conflicts;
- Employment demands draw (and/or entices) workers from neighboring regions as well as neighboring countries
- The scale and short time frame of the change in the region is enormous. In less than a decade the population and labor force has increased from a few hundred residents and workers to tens of thousands;
- There is extensive use of contractors for all aspects of production;
- There is a wide variety of technology, from state of the art pulp and paper mills, shipping depots, and nurseries, to extensive manual labor in the planting, harvesting, and hauling functions;
- Economic growth and the increase in outgrower schemes and employment have been substantial. Economic development has not kept pace with the growth of the region;
- Demand for company products is robust and is creating pressures for expansion of production;
- Social discontent is high and a clear authoritative conflict resolution process or procedures are lacking;
- Benefit sharing is highly problematic and uneven. Significant portions of the workforce earn below the country's Minimum Living Needs (MNL) but are at or slightly above the legal minimum wage;
- Trans-migrants and local populations tend to live in isolation from each other and have very different needs, aspirations, and live styles.

These observations raise a number of questions:

1. How do the different groups express their poverty or wealth, and what indicators do companies and governments use for measuring livelihood improvements?
2. Can one strategy for poverty reduction be applied across the entire social landscape? For example will creating employment opportunities provide the same degree of poverty reduction for local land based traditional communities as for trans-migrants who move into the area specifically seeking employment?
3. In the absence of the public infrastructure required for markets to function (i.e. information, government regulation, transparency) what forces determine the prices paid to small holders for their fiber?
4. What difference do small grower schemes make to communities at large? Do they provide sufficient income for participants to escape poverty? How accessible are they, and how can barriers to participation such as land ownership be overcome?
5. What is the relationship between wages and minimum living needs and in the absence of an effective labor market how and who determines wages?
6. Does the reliance on contractors for a high percentage of production functions encourage entrepreneurship and development of a complex economic and social structure, driving benefits deep into the workforce and communities?
7. Does this model create substantial opportunities for “asset creation” and ownership by the poor? Or, does the reliance on contractors on such a scale contribute to:
 - ➔ Abuses and conflicts between workers, communities, and the companies?
 - ➔ Loss of quality control?
 - ➔ Decreases in training functions?
 - ➔ Avoidance of international and national labor rights and the resulting problems that arise?
 - ➔ OSH problems with contractors and sub-contractors?
 - ➔ Environmentally destructive practices by contracted workers and or communities?

Main Conclusions of the Scoping Dialogue

1. Commercial forestry has real potential to produce wealth

The potential of forestry to produce wealth was clearly exhibited. The value-added production has contributed to the transfer of state of the art technology from Europe to Indonesia. Being able to exploit this technology and control of the entire fiber production supply chain gives these companies some of the lowest cost fiber in the world. This competitive advantage creates demand for expansion of the enterprises. The companies in this region are vibrant and thriving by almost any measure of business success. The wealth of the forest that is monetized is substantial.

As was observed in the South Africa scoping dialogue, success on the business level does not automatically insure poverty reduction or equitable benefit sharing. The way that commercial forestry is operated is key to determining whether benefit sharing occurs and to whom the benefits accrue. Factors such as efficiency and effectiveness are important, but careful consideration of equity in structuring, corporate-community partnerships and formal/informal employment relationships must also be addressed. In the absence of both a social safety net and vigorous enforcement of social and worker protections such as OSH regulations, ILO core labor standards, and a formal authoritative dispute resolutions process abuses occur and the companies' risk exposure rises. In

this case, the risks include: community-transmigrant conflicts, community-corporate conflicts, land encroachment by all parties, high social costs in the form of occupational injury, sizeable frictional unemployment created by high turnover, and as was experienced social unrest and demonstrations in urban areas.

In addition, the scope of commercial forestry projects and the time frame in which they are capitalized and realized must take into account the society's ability to absorb change.

2. Pro-poor commercial forestry can take many different forms

Regardless of the model of pro-poor commercial forestry used, it can not be divorced from the culture or society within which it occurs. Without the balance of power between all stakeholders sub-optimum outcomes seem guaranteed. Unlike the South African dialogue where government is a strong "referee", in Indonesia the "match" is being played without a referee allowing all participants to change the rules at will. This contributes to a playing pitch uneven for all.

A clear outcome from South Africa was that finding a balance between profit optimization and equitable benefit sharing between poor people and forest companies is essential to realizing pro-poor forestry. This dialogue would add that an authoritative dispute resolution process is critical to insure that a balance of power is maintained in order to insure a non-violent conflict resolution process.

3. Enabling conditions and key drivers steering commercial forestry towards poverty reduction

Through discussions and working groups, participants identified a number of enabling conditions, key drivers and barriers that are helping or hindering commercial forestry's potential to reduce poverty. Significant progress could be made when several of these conditions and drivers are more strongly linked.

Enabling conditions and barriers identified through discussion

Policies and Institutions

The inability or lack of political will from governments to insure a conflict resolution system is a clear required enabling condition. Without strong and effective public policies and institutions, social partnerships and benefit sharing becomes problematic. It is difficult to balance the company's role as "government in absentia" and its role as an economic institution whose primary purpose is to generate returns to shareholders and owners. Expecting companies to do both roles is unrealistic.

Social and Labour Movements

The absence of strong community structures as well as small holder and labour organizations substantially diminishes commercial forestry's ability to engage in equitable corporate/community partnerships. The lack of a strong and legitimate governance system places extreme pressure on other all other stakeholders. Independent internationally affiliated forest certification systems that have strong social components and enforce minimal standards such as the ILO's core labour standards become more important tools for workers and communities to engage in self organization when traditional institutions are either not present or ineffective. It remains to be seen whether customer driver market pressures can empower either non-national certification systems or national community and labour organizations to become effective social partners.

Long-term partnerships

Developing and maintaining alternative and strategic partnerships among key actors improves knowledge sharing and understanding, builds empowerment and trust, and spreads costs, benefits and risks more equitably. Strong and equitable social partnerships are important for promoting pro-poor policies and for maintaining a corporation's social license to operate in both the developed and the developing countries. Where lacking, it seems impossible to have pro-poor commercial forestry regardless of the intentions of any or all of the social partners.

Key drivers identified through discussion

Effective Leadership

Pro-poor forestry emerges through clear vision, innovation and leadership amongst actors and across sectors. When absent, it can not be created unilaterally by a single social partner.

Advocacy

Recognizing the economic contributions of forestry to poverty reduction requires continued research and advocacy, improved transparency, and greater sector-wide awareness of opportunities for pro-poor initiatives in supply chains. Heightened awareness to social issues can lead corporations to develop and enforce social contracts with policies balancing economic returns with social and economic equity. The presence of a strong environmental advocacy organization has led to significant pro-environmental corporate policies and actions. Likewise the absence of similar countervailing forces in the social arena has not.

Markets

Demand for a wide range of non-sustainable forest products places considerable demands on the environment. The competition for land contributes to sub optimal social and environmental outcomes. The benefits accruing to local populations for non wood production are greater than for growing wood fiber. The range of alternative eco-system services including: fibre and wood, conventional non-timber forest products, biomass and "green energy", clean water, recreation, carbon sequestration and biodiversity are absent and may not be able to be capitalized until governance and tenure issues are resolved.

Clear Indicators

Measuring progress towards poverty reduction requires a clear picture of goals from a forest sector point of view, a strong articulation of social standards as they relate to forestry, measurable indicators, baseline livelihood data, and continuous monitoring. The development of universally agreed to matrix and pro-poor indicators is necessary especially where strong social partners are absent. Incorporating such social criteria and indicators into certification schemes may be a short cut for improved benefit sharing in the absence of adequate governance where the certification scheme is international and independent.

The Way Forward

The scoping dialogue confirmed that there are enough positive trends to warrant a major push to scale up pro-poor commercial forestry. The Indonesia dialogue clearly articulated the challenges ahead.

Given these conclusions, this dialogue recommends that future dialogues address:

- ➔ The development of guidelines and matrices of behaviors and prerequisites to assist commercial forestry be more pro-poor;
- ➔ Exploring international cooperation to better link drivers and overcome barriers when national institutions are lacking in capacity;
- ➔ Continued generation of compelling ideas for subsequent promotion and action;
- ➔ Expressing these in terms of business models.

Acknowledgements

TFD wishes to thank SIDA, BWI, WWF, APRIL, and IIED for generous financial and in kind contributions for this meeting. We also thank all participants for a fruitful exchange of information, experiences and views. TFD offers particular thanks to all the Indonesian participants for their thoughtful contributions and generous hospitality, and in particular to this dialogue's host, APRIL.

Dialogue Participants

Mubariq Ahmad	WWF Indonesia
Khoirul Anam	Kahutindo
George Asher	Lake Taupo Forest Trust
Jim Carle	FAO
Marcus Colcester	Forest Peoples Programme
Gerhard Dieterle	The World Bank
Gary Dunning	The Forests Dialogue
Peter Gardiner	Mondi
James Griffiths	WBCSD
Peter Kanowski	Australian National University
Skip Krasny	Kimberly-Clark
Moray Macleish	IFC
William Street	International Assoc. of Machinists and Aerospace Workers
Apolinar Tolentino	Building and Woodworkers International
Jouko Virta	April
Rulita Wijayaningdyah	Kahutindo