

ITTO Tropical Forest UPDATE

A newsletter from the International Tropical Timber Organization to promote the conservation and sustainable development of tropical forests



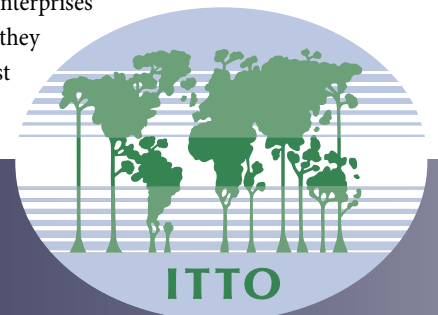
How deep does your cash flow?

MANY TIMBER ENTERPRISES in the tropics walk a narrow plank between profitability and bankruptcy. They have to buy equipment, pay employees and meet dozens or hundreds of monthly expenses. Sometimes, though, there's not enough money to go around. Maybe a customer forgets to pay, or a vital piece of equipment, such as a saw, breaks down. When the cash stops flowing, small businesses can end up in a deep black sea of debt and despair.

Economic viability is one of the three basic tenets of sustainable forest management (SFM). SFM might be perfectly feasible technically, but it will

still fail if the enterprises that are supposed to be implementing it struggle to make ends meet.

One of their big problems is the availability of finance. Banks are reluctant to lend to timber operators, particularly small ones. The bottom line is that small businesses stay small, with the ever-present possibility of shrinking away to nothing. Larger enterprises might be more resilient, but they might also find best forest practice elusive if they



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Cover image Indonesian workers unload timber from a ship out of Kalimantan. Photo: © Paula Bronstein/Getty Images

continually have to pay high rates for their capital.

Who is going to invest in natural tropical forest management? Articles in this edition of the *TFU* explore this question. Kerstin Canby (page 4) lists some of the problems faced by small and medium-sized forest enterprises, many of which hinge on access to reasonably priced capital. She also describes ten different kinds of private investor, sets out the factors that influence the investment choices of international investors, and makes several recommendations to encourage more investment in natural tropical forest-based enterprises.

Peter Vind Larsen (page 8), who works for a major forestry investment broker, says that institutional investors such as pension funds have huge sums of money ready to sink into the tropical forest sector. However, such investors must be convinced that the risks and uncertainties often associated with natural tropical forests can be managed.

James Mayers draws out issues associated with investment in small and medium-sized forestry enterprises. He says that these businesses play a huge role in tropical forestry; they are not going to go away and deserve much more attention from policy-makers than they've received in the past. He suggests that governments and development assistance agencies should support the formation of enterprise associations to help reduce transaction costs and shape the policy environment and that judicious subsidies should be applied to support the little guys.

Adrian Whiteman (page 32) takes a broader look at the changing nature of investment in natural tropical forests. He says that the management of secondary tropical forest—or logged-over primary forest—is barely profitable, particularly compared to other land-uses such as tree crops and other forms of agriculture. Compounding the problem is the low level of funding of forestry administrations in many countries, the delegation of responsibility over forests to lower levels of government (which might lack the capacity to support SFM), and other factors. Therefore, he says, there is little scope for increased commercial

investment in long-term natural tropical forest management. If such management generated additional sources of revenue, perhaps for the ecosystem services the forests provide, it might be more viable, but that possibility seems remote. He suggests that investment in natural forest management should focus on small and medium-sized forest enterprises to meet local demands and supply niche markets.

Closer to the ground, the ITTO diagnostic mission to Mexico presents a summary of its report on page 12. It found evidence that SFM in community forests struggles on economic grounds, reporting that “forest communities find themselves in a vicious circle: the income derived from forest activities is not sufficient to justify the investments required to add value to products or improve the efficiency of operations”. The mission sees scope for an increase in payments for ecosystem services such as carbon sequestration and the provision of clean water.

Tropical Africa has lagged behind Asia and particularly Latin America in certification, but this might be about to change. Bjorn Roberts reports on the certification of a timber concession in Congo (with assistance from ITTO and others) and the possibility of more certification in the reasonably near future. In this case, there seems little doubt that the company's need to maintain its markets in Europe has been a prime motivating factor in its pursuit of certification. Such a motive, however, doesn't always apply to the smaller operators that supply domestic markets, and other incentives need to be found.

SFM remains one of the best bets for sustainable development in tropical forest landscapes, but it will not survive on love alone. It needs money, lots of it. The international community must continue to seek ways to ensure that the revenues generated by SFM justify investment in it.

Alastair Sarre