FSC certification for Smallholders - a tool for access to finance?

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Joachim Meier-Dörnberg
What are smallholders?

- those who own, manage or use forests which are considered “small” in size (regional differences!)
- those who apply low intensity harvesting practices to timber and/or non-timber forest products.
- those who practice community forestry, where ownership and management are community controlled.

- Small Forest Enterprises (SFE) = smallholders = small and community producers, small growers, woodlot owners, family forests,…
- community forestry operations, and non-timber forest product (NTFP) harvesters are some examples. Collectively they face cost and barriers to their business.
Why are smallholders important to FSC?

- They hold worldwide about 25% of forests (Europe about 55%).
- They live for a long time in and from these forests.
- Smallholders have a strong interest in protecting their forests.
- Smallholders are a high priority for FSC to accomplish its mission to care for the world’s forests including economic, environmental and social aspects.
- In 2011 the Smallholder Support Program, to create support tools for smallholders getting certified and to enhance their business.
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Why do smallholders want to get FSC certified?

- Market access and price premium
- Diversification
- Adding value to products
- Increase influence on the supply chain
- Capacity development through the certification process
- Organization development
- Respect by FSC to their cultural way of living.
What is missing to smallholders?

• Access to finance to enhance their business
• Seed money, loans, microcredits…
• Investment
What are the main problems SFEs face to access finance?

Banks perspective:
• Depending on the world’s region, smallholders have
  • low financial and administrative capacity (business plan, accountancy, budget planning…)
  • Unclear land tenure and property situation
  • Lack of credible financial assets as collaterals for loans
  • fixed cost of investment is too high to justify smaller loans
  • Lack of track record

SFEs’ perspective:
• High administrative barriers for smallholders
• Remote localization
• Reluctance towards loans due to overheads and high interests
Why is FSC certification a good screening tool for Socially Responsible Investment (SRI)?

Risk assessment tool, setting a credible baseline.

Credibility amongst socially responsible financial Institutions, e.g.

- Nikolakis et al (2012), Study by the University of British Colombia
  - Risk management: legitimacy of socially responsible investments are safeguarded by using FSC as a screening tool
  - FSC seen as most credible forest certification system amongst survey respondents (in North America)
- WWF/GFTN – strategies to include FSC as a safeguard for Investors
- PwC report- ethical banks use third party certification for screening.
What about FSC certified SFEs in the tropics?

- **Almost half** of all Smallholders’ FSC certified area worldwide is in the tropics.
- Overall is less than 20%, so FSC is especially successful in the tropics with smallholder certification.

**Smallholders’ FSC certified area by forest zone**

<table>
<thead>
<tr>
<th>Forest Zone</th>
<th>Area (ha)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tropical</td>
<td>5,017,573</td>
</tr>
<tr>
<td>Subtropical</td>
<td>652,836</td>
</tr>
<tr>
<td>Boreal</td>
<td>963,535</td>
</tr>
<tr>
<td>Temperate</td>
<td>4,315,054</td>
</tr>
<tr>
<td>Total</td>
<td>10,948,999</td>
</tr>
</tbody>
</table>
But is FSC certification also a good screening tool for Smallholders in the tropics?

- COOPERFLORESTA in Acre, Brazil
- 50,000 hectares certified or in the process of certification
- Six certified communities (FM/CoC) under one group manager (CoC-certificate)
- Certified for 10 years with high increase of sales and business
- Investment by BNDES (about 625,000 USD for 2010/11) for forest equipment, executing proper forest activities like harvesting and timber transport, enhancing business portfolio
- Support by TAA for new certificates (High certification readiness)
Brochure - How can FSC certification contribute to a positive investment climate?

- best practices, benchmarking worldwide
- commitment by companies to high social and environmental practices
- proactive dialogue e.g. national standards
- Encourages transparency and accountability
- Clarify land tenure and property rights
- Enhances professional skill development
- Demands workers rights, health and safety
- Encourages local processing and participation in the value chain
- Enhances organization and structure of groups (e.g. of smallholders)
How can FSC help financial institutions invest in small forest enterprises?

- Pro active global advocacy for SFEs
- FSC as a support for enterprise development and market access for smallholders
- Innovative policy mechanisms to encourage better forest management
- Long-term strategy for support smallholders through our global network
- Engagement with Partners like the Finance Alliance for Sustainable Trade and IDH, specifically- The Amazon Alternative
Thank you!
Joachim Meier-Dörnberg
Smallholder Support Project Manager

Email: j.meier-doernberg@fsc.org

Charles-de-Gaulle-Str. 5
53113 Bonn, Germany
T +49 (0) 228 367 66-0
F +49 (0) 228 367 66-30

www.fsc.org
SNAP SHOT: the business case for smallholders

FSC cert is financially viable for smallholders who
• have access to markets that demand FSC
• run viable business enterprises
• Have recognized legal management plans
• Do not have to compete with illegal wood on price
• Have access to adequate financial products

New ways of communicating social, environmental benefits are needed to make the business case. How?
• Link to fair trade schemes
• Small and Community Label Option
• Public procurement
• Better impact data and information flow to key accts
• Link to impact investment opportunities