Research Report

TOWARDS SUSTAINABLE MANAGEMENT AND FINANCING OF THE DEMOCRATIC REPUBLIC OF CONGO'S FORESTS

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Summary

This paper considers the challenges that need to be addressed within the Democratic Republic of Congo's (DRC) forest sector if innovative models for the management and financing of the country's forests are to be successfully implemented. These challenges include those related to broader forest governance, i.e. the policy, legal and institutional conditions. It also considers the conditions required to facilitate forest business and enterprises.

The DRC context

The DRC possesses immense forest resources and substantial governance challenges. To date, by far the most significant use of forests in the DRC is in the informal sector, including subsistence farming, hunting and gathering, and artisanal logging. There are a number of logging titles currently in operation, but the legal status of many of these is questionable and they are currently under review. The difficult access to large areas of forest and the logistical challenges of exporting timber have limited logging activities in many areas.

In terms of forest governance and establishing sustainable management systems, there is a lack of clarity about forest land tenure and control, and this has led to conflict between stakeholders. Forest communities consider most forest lands in the country to be under the control of one or more traditional systems. Superimposed on this is the formal legal system, under which allocations have been made for conservation, logging and other land uses.

The legislative structure itself is incomplete: many application decrees are still required in order to make the 2002 Forest Code operational. In addition, there are contradictions between the Code and other legislative instruments.

Added to that, the forest sector, both public and private, can be characterized as under-resourced and inadequately trained. The country as a whole is recovering from many years of civil conflict and all state structures and systems are weak.

Forest governance

Forest governance is assessed in relation to the following elements:

- foundations and roles;
- institutional frameworks and roles;

- policies and laws;
- instruments;
- extension efforts;
- verification processes.

While progress has been made in many of these areas, there is still a long way to go to achieve a functioning and effective forest regime that would enable the development of alternative models of forest management.

Experience from other countries highlights the need for a multi-pronged and hierarchical approach to reform. Thus, institution building and policy development must be accompanied by field-level interventions, which should also facilitate the engagement of local communities, the private sector and civil society. In addition, capacity building and the provision of political space for civil society are key, to enable these groups to feed into policy development, and to expand their activities relating to training among rural communities and information dissemination.

A process of decentralization is to be implemented in the DRC, as provided by the Constitution. Previous experience in the DRC and other countries highlights the need to clarify the roles of the central and the regional authorities, and to ensure that the latter have sufficient capacity and resources before powers are devolved.

Also crucial is a solid basis of geographical land use planning which recognizes community rights to forest lands and resources and offers security of tenure. An essential step which must be taken in the DRC is to develop a process of land use planning that works from community level upwards.

As concerns extension and verification, the basic building blocks of these are provision of and easy access to information by all actors in the sector. Some good initiatives have been taken by Congolese civil society, but on the whole the availability of information at every level in the DRC is extremely limited and needs substantial improvement.

Supporting sustainable forest business

The importance of encouraging the many local small and medium forest enterprises (SMFEs) into formal and sustainable practice is highlighted, as these are known to offer better prospects for poverty reduction. In order to develop such enterprises, considerable investment in forest institutions, policies and instruments will be required. Experience from elsewhere suggests some key building blocks that would be required:

- provisions for secure, community-based land tenure with commercial rights over the forest;

- strengthening local forest enterprise organizations with equitable benefit-sharing mechanisms;

- developing disaggregated business structures that treat separately ownership, forest management, certification and processing activities;

- opening market access and mechanisms that distinguish and reward social and environmental models of SMFE business;

- facilitating independent markets for financial services and business development services provision.

Also required is a shift to a clear and effective rules-based system. A range of tools is available that can be used to encourage such a shift, and these are outlined. Serious efforts will also be needed to facilitate the development of the necessary financial and business development services support structures to build the capacity and technical competence needed for sustainable forest use.

Foundation market or financial services

The financial sector within the DRC is very weak. Experience from elsewhere suggests that the following steps will help to encourage more flexible financial services and build a market for them:

- generating information about small and medium enterprises, and developing credit-scoring systems to reduce the perception of risk;

- spreading understanding of business-to-business financing and microfinance and potential collaborative links with the formal financial sector;

- campaigning for legal land titling, resource access and the use of resources as collateral for loans;

- studies and awareness campaigns that increase awareness of the exclusion of women or minorities and that propose responses;

- undertaking a financial services 'lens' in value chain analysis, to improve understanding of financial services needs;

- improving financial provision for forest enterprises, e.g. through advisory services, use of cooperatives, and so on.

Foundation market for business development services

Consideration is given to how best to develop a market for business development services, for example by ensuring access to technologies, training staff, complying with legislation, and so on. A key initial step is to clarify what the key service needs are and what options exist for filling any gaps. To facilitate the development of a thriving business development service market the following approaches are proposed:

- providing information;
- catalysing collective action;
- strengthening business linkages with embedded services;
- facilitating technical assistance to business development services suppliers;
- arranging voucher or matching grant programmes;
- supporting participation in trade shows or import promotion programmes.

Conclusions

There are substantial weaknesses in every aspect of forest governance in the DRC, meaning that a precautionary approach should be taken in making decisions about forest use. However, the fact that all actors in the sector have recognized that these challenges are real and that action has to be taken to develop a different model of forest management offers a real opportunity for the DRC's forests.

Key Recommendations

- **Security of tenure for forest-dependent people:** recognition of community rights and security of tenure for forest-dependent people are essential. Evidence from around the world suggests that ensuring security of tenure for communities is the crucial first step to any sustainable model of forest management. In addition, rural people must have not just subsistence rights but the right to exploit forests commercially. Security of commercial tenure is also needed to convert community forests into tradable assets that can be used as collateral against loans.

- **Rural people's livelihoods:** the informal forest sector within the DRC accounts for an estimated 80% of forest revenues at present, and the vast majority of the rural population depend on these livelihood opportunities. Therefore, any interventions in the forest sector must take account of this, and seek ways to facilitate and develop those activities that are sustainable and, where appropriate, bring them into the formal sector. The support and facilitation of small and medium forest enterprises is essential as they can offer the best prospects for poverty reduction.

- **Forest sector investment:** considerable investment in forest institutions, policies and instruments will be required, and this will be necessary over the long term. Coordination between donors will be key – and in no area is this more important than in the prioritization of community forestry enterprises.

  Investments to facilitate reform in the sector are best made slowly at first, but building over time. This allows for lessons to be learned, and successes to be built on as they take root. This approach would be consistent with the precautionary principle – keeping alternative forest-based options open for future generations when they may be more readily applicable.

- **Reform of the forest sector:** reform and development of the forest sector needs to continue along a number of approaches – with a combination of institution building, policy reform and field-level programmes. The latter enable policy to be tested in the real world, and enable the engagement of the private sector and civil society. Piloting new approaches also enables testing on a small scale, learning from mistakes and building on successes.

  Forest sector reforms should be integrated into broader financial, economic and political reform efforts, and linked to broader development priorities, such as economic growth and security.

- **Decentralization:** decentralization should only proceed once the roles of central and regional authorities have been clearly defined, and there has been significant capacity building and investment at the provincial and local levels. Existing institutions should be built on wherever possible, rather than new ones created.

  Decentralization must be accompanied by an improvement in transparency, with better information dissemination and the creation of institutions and/or processes to enable public participation and to facilitate local accountability.

- **Building effective institutions:** for the delivery of forest reforms, the institutions in place must be effective and flexible, and have well-trained staff. In many cases, reform will entail a change in role, and so staff will need training in new skills; as important as technical capabilities are skills in negotiation, communication and extension.

  There must also be effective accountability and oversight systems within the institutions, and mechanisms by which they can be held to account.

- **Multi-stakeholder approach:** a diverse partnership must be involved in the development of the forest sector, including host and donor governments, international institutions, private and banking sectors, civil society and rural communities. This will help to ensure buy-in from all sectors. The involvement of rural communities and indigenous peoples in forest governance needs particular attention, as they are often excluded or marginalized from participation when they, as rights holders, should be central.

- **Precautionary approach:** a precautionary approach should be taken to developing new forest management systems. This should include maintaining the moratorium on the allocation of new forest concessions until a process of land use planning and a robust system for consultation with forest communities has been established. Likewise, the allocation of new protected areas must be preceded by the recognition of community rights and by a thorough consultation and consent process.

- **A long-term view:** a final but crucial point is that a long-term view is needed. There are no quick fixes. The establishment of an environmentally and economically sustainable and socially acceptable forest sector will require a long-term commitment – from both the DRC government and donors. Reforms will be slow, and the establishment of sound and effective alternatives will take many years.

1. Introduction

The Democratic Republic of Congo (DRC) is at an important point in its history: emerging from decades of poor governance and civil war, it is faced with urgent decisions about how best to manage and utilize its immense and diverse forests.

There has been growing recognition that the existing models of forest management being implemented in the Congo Basin, based primarily on industrial timber exploitation, are not achieving either poverty reduction or forest conservation (for example, Counsell et al., 2007). This raises the question of what the alternatives could be: what other models could be employed that would promote equitable and sustainable development within the DRC, while helping to conserve the country's forests and the environmental services that they provide?[1]

Evidence from other parts of the world has highlighted the need to enable rural communities to be fully engaged in forest management. Community-managed forests and community forest enterprises have a particularly important role to play in the development of a model of forest management that will meet the long-term needs of the DRC's people, and not the self-interest of a few.

There also exist a range of alternative mechanisms for the financing of a more diverse forest sector. These include the development of payment for environmental services (PES), carbon finance (including mechanisms for Reduced Emissions from Deforestation and Degradation, REDD), ecotourism and bioprospecting.

These options all hold potential for the DRC. However, the successful development and implementation of any such mechanism are dependent on the existence of an enabling environment, i.e. one with supportive policy, legal and institutional conditions. Experience from other countries has shown that such an enabling environment includes the following elements (De Ferranti and Ody, 2007; Kozak and Canby, 2007; Marshall et al., 2006; Mayers et al., 2002; Molnar et al., 2007; Richards, 2007):

- political and social stability;
- consistent, clear and supportive legislation;
- secure forest tenure and access rights;
- effective institutions;

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[1] This issue was debated by a Roundtable Review established in 2006 by the UK's Department for International Development (DFID). The Review was a consultative process aimed at identifying innovative forest management models and financing mechanisms for sustainable forest use and conservation in the DRC.

- good transport and communications infrastructure;
- good financial infrastructure and access to finance;
- strong community and producer organizations;
- access to training and support;
- market information and accessibility.

Unfortunately, as a result of the country's recent tragic history, the current situation within the DRC is far from an enabling one. In the following sections, this situation will first be described, setting the context for discussions about forest management options. The forest sector, as well as the broader governance context in the country, will be described. The key issues that need to be addressed in relation to forest governance are considered next, and the legislative, policy, financial, institutional and social conditions necessary to pursue an alternative approach are examined. Finally, a particular focus is given to the financial and market conditions that are necessary to facilitate the development of sustainable forestry enterprises, whether these are community forest enterprises, payments for environmental services or other initiatives.

2. The DRC Context

The DRC faces huge challenges in its forest sector and more widely. After a decade of war, the economy and political situation remain fragile. National institutions are weak, with extremely limited resources and capacity, legislation is patchy, and the transport and communications infrastructure is poor or non-existent in many areas. Some parts of the country are still experiencing violent conflict and remain under 'rebel' control. A number of reports have highlighted the serious flaws in governance, including an entrenched culture of corruption, and also the role that natural resources have played in promoting and prolonging conflict (Baker et al., 2003; Global Witness, 2005; Kodi, 2007; UN Security Council, 2002). Any analysis of the forest sector has to bear these overarching governance challenges in mind.

The contribution of the formal timber sector to the country's development has been minimal. Rather, it is the informal sector on which the vast majority of the DRC's rural population depend for their livelihoods. Informal forest activities contribute far more economically than does the formal sector, and non-timber uses are of much greater significance than timber extraction (in both the formal and the informal sectors) (Debroux et al., 2007).

Although timber revenues remain a significant potential means of funding development within the country, the challenge is how to limit the formal timber sector to areas where it can make a positive contribution to sustainable development. At the same time, the diverse informal

activities on which people depend must be allowed for and, where appropriate, brought within the formal sector to enable their development and sustainable growth. In addition, there is the fundamental challenge of improving governance, both within the forest sector and more widely, to help ensure that the exploitation of forest resources does in fact result in sustainable development and poverty reduction.

2.1. The DRC's forests

The forests of the DRC represent an immense natural resource, both for the country and its people and for the global community. They cover about 145 million hectares, of which about 86 million hectares is rainforest – the second largest area of rainforest in the world (Debroux et al., 2007).

These forests play a vital role in the livelihoods of millions of forest-dependent poor people, their resources providing food, medicines, fuelwood and a source of income. They also have a critical role for the local, regional and global environments. The forests are an immense reservoir of biodiversity, the DRC being the fifth most biodiverse country in the world. Furthermore, they play an important role in regulating global climate processes: through the exchange of water and energy with the atmosphere they influence atmospheric circulations. These forests also represent an immense carbon store, and so have a potentially crucial role in international efforts to combat climate change (Hoare, 2007a).

The deforestation rate for the 1990s was relatively low compared to other countries, at about 0.4% per annum (FAO, 2005a). However, it is increasing and is predicted to accelerate with growing political stability and recent investments in infrastructure. Satellite imagery shows that there was an acceleration in the expansion of the road network from the late 1990s to the early 2000s (Laporte et al., 2007). Forest degradation and fragmentation are also significant, largely due to selective logging: across the Congo Basin as a whole, it is estimated that 30% of the forests have been affected in this way (Laporte et al., 2004).

2.2. Forest tenure and use

Across the DRC's forests there exists a complex pattern of traditional ownership and use rights. In 2002, it was estimated that about 35 million people, 70% of the country's population, were living in rural areas and dependent on forest resources (World Bank, 2002). These include Pygmy and Bantu peoples.

Bantu farmers are believed to have lived in the country's forests for up to 3,500 years. They migrated to the region from the west (Vansina, 1990), at which time Pygmy people may already have been present. Their 'territories' are overlapping, and form a complex pattern of ownership and use rights. This has been further complicated by a history during which

successive governments (colonial and post-colonial) have moved communities from their traditional lands and there has been significant migration. Consequently, today people often have rights to cultivate land far from their current villages.

Among Pygmy peoples, the degree of dependence and use of the forest varies hugely (see Hoare, 2007b). However, even among those who are more engaged in agriculture or wage labour, strong cultural links with the forest are often maintained. Traditional 'territories' of Pygmy groups may be very extensive; at the level of a lineage these often extend for several hundred and even thousands of square kilometres. However, members of other lineages often have access rights within these territories, and a particular individual may have such rights linked to a number of lineages. The boundaries of these territories are not clearly fixed, and there may be overlap with those of neighbouring groups. Further, these territories also overlap with the tenure regimes of Bantu peoples.

Forest dependence also varies hugely among the Bantu. Shifting cultivation is the main system of agriculture. It is a broadly sustainable land use, and indeed there is some evidence that it is linked to forest regeneration and establishment (see, for example, Ickowitz, 2006; Maley, 2001). Fishing, hunting and gathering make an important contribution to the livelihoods of many Bantu communities, as does trade with Pygmy peoples. Traditional property rights are based on kinship and descent: a lineage has rights to an area of forest, within which its members have usufruct rights. Typically, villages are surrounded by an area of fields and fallows within 5-10km of the village, and hunting and gathering activities are undertaken in the forest lying beyond this. The area of forest claimed by a community varies hugely, but typically is a few hundred square kilometres, although there are often overlapping claims to the more distant forest areas.

Decisions about the allocation of land use for those areas controlled by lineages tend to be taken by the chief of that lineage, sometimes in consultation with other elders. (Pygmy peoples, whose traditional systems of organization are acephalous – without a hierarchy or any single decision-maker – are normally excluded from this more formal decision-making system.) Numerous cases have been observed in the field where this traditional system of decision making is distorted: in theory, the chief takes decisions for the good of his community and oversees the equitable sharing of benefits that his community receives. In practice, though, a number of chiefs have used their decision-making powers for personal enrichment. Consequently the representation of communities by their chiefs is losing its legitimacy in certain areas as they are perceived not to be fulfilling their role, a situation that has serious implications when it comes to decision making about lands and forest use.

Overlapping and often conflicting with these land use practices of the rural population are those areas of forest that have been designated for timber production or conservation. The total area under timber allocations was estimated to be 20.4 million hectares at the end of 2007, although 156 of these allocations are currently under legal review.

An estimated 8% of the country's land area, 18 million hectares, has been designated as protected areas (Debroux et al., 2007), with a further 3 million hectares allocated for protection in November 2007 (Ministerial Decree No 045/Cab/Min/ECN-EF/03/PDB/07). Four of the country's ten national parks are listed as UNESCO World Heritage sites (ITTO, 2006). However, many of these parks are only notional, with insufficient resources to protect them. This situation has been exacerbated by ongoing conflict in some areas which has resulted in large-scale population displacements – currently an estimated 3.5 million people are internally displaced (Debroux et al., 2007). Refugees and also armed militia groups have moved into some national parks, the latter in particular often having a devastating impact on game populations (Mpoyi Mbunga, 2006; Ngongo Kilongo and Muchuba Buhereko, 2003). Added to the problems related to the armed conflict are local conflicts between communities and protected area managers. These are the result of a lack of consultation when these areas were created and the restriction of access to resources and land that this entailed (see, for example, Barume, 2000; Cernea and Schmidt-Soltau, 2006).

2.3. Legal situation

Since 2002, the DRC has made some progress towards defining its forest policy. The first two important steps towards this end have been the development of the 2002 Forest Code and a Priority Agenda for Relaunching the Forest Sector (*Agenda prioritaire pour la relance du secteur forestier*).

The Priority Agenda was initiated by the DRC's government in 2002. It outlined a set of corrective and framework-setting measures, emphasizing enforcement of laws and contracts, as well as transparency. Important changes have included: the cancellation of some non-compliant logging concessions and the launch of a legal review of 156 of the remaining logging allocations; the establishment of a moratorium on new concessions; the gradual increase of the annual forest rental fee; and the approval of the 2002 Forest Code (Debroux et al., 2007).

The aim of the Forest Code (Law 11/2002, 29 August 2002)[2] is 'to foster rational and sustainable management of forest resources to increase their contribution to the economic, social and cultural development of today's generations, while preserving forest ecosystems and forest biodiversity for future generations' (Art. 2). It provides the basic legal framework governing forest ownership and user rights in the DRC. Forests are classified according to three broad categories: 'gazetted forests' (primarily for nature conservation), 'permanent production forests' (prioritized for the production of timber or other forest goods and services),

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[2] The following section is drawn largely from Debroux et al., 2007.

and 'protected forests' (for local development, conversion and other uses). A target of 15% is set for the area of gazetted forests.

The Code includes a number of significant improvements compared to the previous legislation. Of particular relevance here is that it calls for the development of non-extractive forest uses and for rewarding environmental services, for example through ecotourism, conservation concessions and bioprospecting. It also allows for community forests, but as yet there are no procedures to enable these to be legally established.

With respect to timber concessions, changes include a requirement for forest management plans, and new social and fiscal responsibilities are placed on the private sector, including mandatory social responsibility contracts (cahiers des charges) (Art. 89). The Code also provides for 40% of the annual area fee to be transferred to provinces and territories, and specifies that these funds must be used for community infrastructure (Art. 122).

The Forest Code gives greater recognition to the rights of local communities. It requires, for instance, that the Environment Minister consult local people before a forest is classified (Art. 15), and it provides that the user rights of local people living in or near a forest are those that result from the local customs and traditions provided that they are not contrary to the law (Art. 36). Communities are also able to obtain concessions for community-based management for forests to which they have customary rights (Art. 22).

However, a major weakness of the Forest Code is that it does not provide for sanctions against violations or non-implementation of its measures. Further, while the Forest Code provides a basic legal framework, it requires Implementation Decrees to become operational. To date, only eleven decrees, out of a possible 40 that may be required, have actually been adopted and none of the decrees concerning community rights have been drafted. Thus, the forest legal reform has been only partial, and has yet to have an impact on the ground.

There also remains a lack of clarity over land tenure. The Forest Code confirms state ownership of all forest areas, as provided by the 1973 Land Tenure Law. Land tenure in the DRC is in fact governed by two laws: the so-called Bakajika Law of 1967 and the 1973 Land Tenure Law. The Bakajika Law abolished private ownership of the land and provided for the 'full ownership rights of the State over its domain and full sovereignty in conceding rights to land up to 20 square kilometres, forests and mines through the extent of its territory'. This was relaxed somewhat under the 1973 Land Tenure Law which made provisions for some types of 'permanent private concession' and allowed that customary laws be applied to user rights over 'non allocated lands in rural areas' (Counsell, 2006: 11). However, the relevant Implementation Decrees of the 1973 Land Tenure Law have not been passed to date, and there remain inconsistencies between these two laws.

One important process that should be highlighted is that of decentralization. The Constitution of the DRC provides for the decentralization of powers from the central government to an

increased number of provinces (from the current 11 to 23) and decentralized territorial entities, including sectors (*secteurs*) and chiefdoms (*chefferies*). Over the years, there has been an increasing concentration of powers (at least in theory) in the central government in Kinshasa, including those relating to the forest sector. At the same time, the provincial services have been deprived of the necessary resources to effectively fulfil their roles. Decentralization would reverse this process and has been hailed as a step towards bringing decision making closer to the people and, therefore, providing possibilities for better governance and accountability. However, there are major concerns about this process, as outlined further below.

3. Forest Governance and the Situation in the DRC

Achieving sustainable forest management – whether this involves timber extraction, community forestry, protected areas, PES or other mechanisms – is dependent on good forest governance. Forest governance can be broken down into a number of different elements,[3] as follows:

- **foundations** such as the socio-cultural context that defines business attitudes, the provision of basic communication and transport infrastructure, macro-economic policies such as property / tenure rights and constitutional guarantees, market and investment conditions, mechanisms for engagement with extra-sectoral influences and the recognition of lead forest institutions (in government, civil society and the private sector);

- **institutional frameworks and roles** for the coordination of regulation, promotion, monitoring and representation among forest stakeholders – including rights holders, communities and businesses – and how these are negotiated;

- **policies and laws** that translate those frameworks and roles into practical guidance – and how these are developed;

- **instruments** that provide a coherent set of 'carrots and sticks' to ensure that people abide by the policies and laws;

- **extension efforts** that promote the above to forest businesses and their customers – translating them into local languages and contexts as may be necessary;

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[3] These elements were developed as part of a 'pyramid' of good forest governance, a tool developed for assessing and diagnosing forest governance, which is used as a framework for the following analysis. For details, see Mayers et al., 2002.

- **verification processes** such as auditing, certification or participatory reviews that reward those who play by the rules and penalize those who do not.

These elements will be used as a framework to analyse the key challenges that the DRC faces in striving to develop its forest sector and explore alternative models.

3.1. Foundations, institutional frameworks and roles

The foundations that should be in place for good forest governance include, most fundamentally: the recognition within society of the **roles and policies of the lead institutions**; acceptance of the **rule of law and human rights**; and recognition and engagement with the full range of **international obligations and conventions**. Further, **land and property tenure** should be secure and clear and **socio-cultural interactions** with forests should be understood. The forest sector must also be integrated into **other policy areas** – including macroeconomic policies, labour, agriculture, transport and energy.

The institutional roles related to forest governance are diverse and concern a wide range of stakeholders. For good governance, the various rights, and the responsibilities and relationships which these entail, need to have been negotiated and be clear to all, and the basic forest institutional architecture and decision-making rights and powers must have been agreed and be in place. There also needs to be a system which allows for the participation of all rights holders and stakeholders in decision making, from local to national levels, with opportunities for collaborative forest management where there are multiple or conflicting rights holders. Also important is that there is a clear and shared vision of the role of forests in land use and livelihoods.

Recent developments within the DRC have resulted in progress in a few of these areas. For example, the Forest Code does start to outline the responsibilities and roles of the state, rural communities and private sector, while the Priority Agenda has contributed to a widening debate as to the future direction of the forest sector. However, there is still a long way to go.

The roles and responsibilities of institutions and key actors remain unclear, in part because much of what is prescribed in the Forest Code has yet to be fully implemented. Further, the capacity of the relevant institutions to fulfil these roles is extremely limited (Trefon, 2006). Within government, the Environment Ministry has the main responsibility for implementing forest policy, but it has limited capacity. Most of the staff are based in the central offices in Kinshasa but their roles are not clear, with overlapping responsibilities between departments. At the provincial and local levels, human and financial resources are extremely limited. Civil servants are irregularly paid, not properly equipped, and often not adequately informed about legal developments in their sector (Greenpeace, 2007; Sakata, 2007). The lack of basic

technical skills at all levels of the ministry is another major hindrance to the proper administration of the sector and the implementation of the relevant laws and policies (Counsell, 2006). In order to successfully implement reform of the forest sector, the Environment Ministry also needs the continued commitment of non-sector ministries and, in particular the President's Office and parliament. Unfortunately they also have limited capacity and technical knowledge of the sector (Debroux et al., 2007).

With respect to the role of civil society, its influence on policy has been limited to date (Gouzou and van der Schoot, 2006; Trefon, 2007). NGOs have been providing input into the draft Implementation Decrees for the Forest Code, and in November 2003 they gained increased representation in the *Comité de pilotage* (the Steering Committee which is required to approve these decrees) but unfortunately this has not met since March 2007 (Counsell, 2006; Gata, 2007). More needs to be done to allow Congolese civil society to play an effective role in the drafting of the Implementation Decrees for the Forest Code, the legal review of forest contracts and land use planning.

With respect to some of the other foundations of forest governance, the DRC also falls short. For example, international norms and agreements are not integrated into the policy structure, acceptance of the rule of law is limited, and there is little integration of forestry with other sectors. Further, the tenure situation within the DRC remains largely unclear. There is a self-evident need for fundamental reform, both within the forest sector and more widely.

Lessons could be learned from countries such as Guatemala where recognition of the incapacity of the state to effectively enforce forest legislation in remote provinces led to a new approach. In 1994 the Guatemalan government began to implement a process by which large tracts of forest were given over to community forest control on condition that they achieved independent third-party certification. By 2005, 13 community and two industrial concessions had brought 560,000 hectares under sustainable forest management certified by the Forest Stewardship Council (FSC). This approach effectively devolves enforcement to third-party certifiers, with the government holding powers to cancel community concessions should they fail to achieve certification in a pre-agreed period (Macqueen et al., 2008).

Whether or not such an approach is pursued, experience of reform in other countries suggests that a multi-pronged and hierarchical approach is necessary if reform efforts are to be effective. Indeed, the failure of those efforts that have focused purely on technical assistance resulted in donors shifting to the policy arena, as with the FAO-led national forest programmes. Conversely, focusing only at the policy and government level will not necessarily result in change on the ground, for example if reforms are not practicable or do not have widespread support. Interventions at a range of levels will help to ensure that any actions will be mutually reinforcing. For example, in Uganda, DFID support led to new policy, legislation and institutions. This was complemented with EU support for field-level actions on conservation and management of natural forests and establishment of timber plantations on

degraded land. Despite severe setbacks on the institutional and policy side, such as the resignation of all top staff of the National Forest Authority as a result of political pressure for the conversion of some forest areas to agriculture, the EU field programme has maintained some impetus and provides a nucleus from which the situation might yet be remedied (Uganda Forest and LTS International, 2005). (And it could be argued that the fact that staff resigned rather than implement an illegal order was a success in terms of promoting good governance.)

Within the DRC, institution building will be crucial because of the low level of capacity and this must be a priority for reform. Experience of institutional reform from other countries highlights the need for a clear understanding of what is being aimed for and a clear strategy of how to achieve it. Furthermore, to overcome resistance to change within institutions and instil a new working culture, a complete renewal of personnel, with new skills and paradigms, may be required (P. Hardcastle, personal communication).

Institution building also needs to be accompanied by other interventions, including field-level programmes. Such activities can provide an important mechanism by which the commercial sector and local communities can be engaged in improving practices as part of wider governance initiatives. They also provide a means of testing policy reforms, helping to ensure that they are grounded in reality and have wide support. For example, one of the factors for the rapid progress of devolved forest management in Tanzania was apparently that this process was initiated through village-level projects (Wily, 2003). An approach based on pilot testing can also facilitate progress since it helps to 'remove the doubts and anxieties which often colour theoretical debates as to how to move forward and what is workable and what is not' (Wily, 2007: 222).

Reform must also be based on a credible multi-stakeholder process, to get buy-in from all sectors. This was one of the lessons learned from Liberia's process of forest reform. The existence of a strong civil society in this country was identified as a key element in raising awareness about ongoing reforms and also in maintaining pressure on the government to see these through (McAlpine et al., 2006). Support for civil society and the recognition and inclusion of rights holders should be a priority for the donor community, as well as encouraging the opening of political space in which civil society can operate effectively. However, this needs to take place in parallel with political reform: evidence from Cambodia suggests that a strong focus on the development of civil society can risk slowing the development of political society (Hobley, 2007).

Another key lesson is that forest sector reforms should be integrated into broader financial, economic and political reform efforts. For example, in Guyana, a process of forest policy andlegal and institutional reform was found to have been less effective than it could have been because of wider governance failures (P. Hardcastle, personal communication). In Liberia reform is being implemented across the entire government, and is also encompassing

other sectors (e.g. mining). This broader process was found to provide a positive and self-reinforcing context for reform (McAlpine et al., 2006). On the basis of experiences here, the following recommendations were made:

- Forest sector reforms should be integrated into broader financial, economic and political reform efforts.

- Forest reforms should be linked to broader development priorities, e.g. economic growth, and security.

- A diverse partnership must be involved, including host and donor governments, international institutions, private and banking sectors, civil society and forest communities.

- There must be good donor and partner coordination.

3.1.1. Decentralization

Decentralization will have a major impact on the various roles and responsibilities of forestry institutions. As is the case in the DRC, it is often favoured as a method to improve governance on the assumption that local representatives are more likely to be responsive to local pressures than a remote administration. However, this will only be the case under certain circumstances.

Its implementation in the DRC is already turning out to be a major challenge for the country. A decentralization law that defines the modalities of the implementation of the relevant constitutional provisions was submitted to parliament in early November 2007 by the Minister of the Interior. The contents of the draft law have raised a lot of concerns (Sakata and Ruhana Mirindi, 2007). Many of its provisions allocate powers to the Minister of the Interior that reinforce the controls of the central government over the provincial and local entities. With respect to the forest sector, concerns have been expressed that the draft law does not adequately take into account the provisions of the Forest Code regarding the responsibilities of the provincial and local authorities with respect to sustainable forest management and protection of the environment (Mwarabu, 2007).

There are also other concerns. It is difficult, for instance, to envisage how the complex reform of public administration is to be carried out in parallel with the devolution of responsibilities to provincial and local administrations that, in most cases, do not exist or are extremely weak. How will funds be transferred by the central government to local communities in a country where the banking system does not exist outside major urban centres? Who will monitor the

transfer of such funds and their expenditure? How will the local people fully participate in the decision making and monitoring of the projects on which these funds will be spent?

Experience in other countries shows that effective decentralization requires a clear delimitation of regional powers, and the development of technical capacities at the provincial and local levels. It also needs to entail a transfer of sufficient resources and powers. For example, experience in Uganda found that if local authorities have the right to control forest revenues and to impose sanctions for those breaching forest regulations, this can help to build collective responsibility for forest protection and sound management, and so improve governance (Turyahabwe et al., 2007). However, with the transfer of such powers to local bodies, mechanisms for control and monitoring must be in place.

In Indonesia a process of decentralization created uncertainty over the authority of the central and regional governments and a lack of clarity in legislation. This resulted in a loss of control over the forest and an increase in disputes over forest rights and in illegal logging (Casson and Obidzinski, 2007). Part of the problem here, and also in Kenya and Uganda (until decentralization was partially reversed in the latter), was that there was insufficient control of the regional authorities, with local governments being able to set their own rules. Also, in Uganda excessive layers of government were created: of the five layers, only three had a significant role, and the excessive bureaucracy meant that most revenue failed to reach the village level (P. Hardcastle, personal communication).

Fundamentally, decentralization entails a change in the role of the central forest authority, away from managing and policing to a more facilitative and advisory capacity. This is a difficult transition, and one that requires a change in attitudes and new skills, for example in training and communication skills (Blomley, 2006; Pulhin et al., 2007; Wily, 2007). New skills and capacity will also be needed within the devolved institutions. Experience highlights the importance of building on existing institutions. While these may not necessarily be fully effective or equitable it is often better to work to adapt and restructure these institutions, because of their local acceptability and recognition, than to create entirely new bodies (Larson, 2004; Wily, 2003).

To help ensure that there is effective monitoring and control of regional authorities, greater transparency and involvement of the public in the forest sector are necessary. These were the recommendations of an analysis of decentralization in Benin, which suggested that if decentralization is to improve governance, then it needs to be accompanied by improved information dissemination, for example through the mass media. In addition, the creation of new institutions for participation can promote the involvement of a wider group of actors, for example locally accessible court systems and new institutions for collaborative management (Siebert and Elwert, 2004).

In the DRC there is a need to specify that any provincial forestry plans must reflect national forestry policy. Further, the DRC's implementation law should include clear rules and procedures for the retrocession of forest revenues to provinces and local communities, and for accountability for these revenues by local entities. The law should provide for the disclosure of revenue flows from the forest sector in order to allow local communities, with the assistance of civil society organizations, to monitor their use and hold the relevant authorities to account for their management. Consideration should also be given to whether all forest-based revenues need to be collected through centralized authorities, or whether localized collection might be more effective in promoting rural development.

Local government bodies have been found to be far more effective at collecting natural resource revenues than central authorities. This was the case in Tanzania, for example, where the responsibility for licensing of forest activities and the collection of revenues were transferred from district to village level (Blomley, 2006). Part of the reason for the success of this approach was thought to be that the village governments retained a significant proportion of the revenues collected, whereas previously they had been remitted to central government.

However, a high level of transparency is essential to combat corruption and misuse of revenues. The public need to be aware of their rights to forest revenues, and they need to know the amounts actually collected or transferred. For example, public meetings at which forestry funds were handed over to community organizations helped to improve accountability in Cameroon (Larson, 2004).

Communities can play an important role in monitoring forest revenues. In Cambodia, Laos and Nepal, training in bookkeeping and systems of auditing have enabled their effective participation in these roles. Important elements of these projects have been working on a very local scale, with active engagement and support to provide the necessary training within the communities. These examples relate to communities monitoring their own projects and revenues, who tend to be better engaged in direct management rather than in monitoring and controlling outsiders. If communities are to be successful in monitoring others, support from public forest services and the judicial system is essential. Also important is that effective institutions and structures are in place within the community (Hardcastle, 2001; SUFORD, 2006); for this to be achieved extension efforts and capacity building are often necessary (see also section 3.3).

3.2. Policies and Instruments

The third and fourth elements of governance to be analysed here are those linked to policies and instruments. Mayers et al. (2002) suggest that policies for good governance would entail: **forest legislation** being in place; the **national forest estate** being designated; stakeholders being **aware of their rights**; and **forest communities' rights** being recognized and

respected. For instruments, there should be **clear and practical rules and sanctions** in place, sound **market instruments** to ensure the equitable distribution of costs and benefits, and systems in place for **sharing information** among stakeholders.

Although the Forest Code represents a significant step forward, it has yet to be fully implemented and so the DRC cannot as yet be said to have its forest legislation in place. Further, as highlighted above, one weakness of the Forest Code is the absence of sanctions for violation or non-implementation of its measures.

The Forest Code includes important provisions recognizing the user rights of rural communities over forest resources, and the need for their involvement in forest management. In reality, however, rural people, especially the Pygmies, remain marginalized and are usually unaware of legal developments relating to forests. Nor does the Code provide a specific framework for artisanal loggers and small-scale enterprises, an essential element for the development of this sector (see also section 4).

Substantial assistance is needed for rural communities if they are to be able to participate in forest management on an equal footing – whether this is timber extraction by outside companies, community forest enterprises, subsistence use or conservation initiatives. Within the DRC, civil society has been playing an important role in this respect, for example providing training in the negotiation of equitable social responsibility contracts (*cahiers des charges*) with logging companies. However, these activities need to be expanded, and donor agencies could provide financial and political support for this.

The national forest estate has not been designated in a clear or equitable way. At present, there is no basis for geographical planning or zoning for forest management. Permits to exploit forests, as well as strictly protected areas, were formerly issued by national or provincial officials, and any overlap with existing forest users was largely left to negotiation between the newcomers and those already present. The existing official maps of forest 'concessions' are extremely crude, allowing vast scope for interpretation and abuse. The majority of the forest remains under customary usage, which sometimes is formally set down on paper but more often is simply divided according to verbal agreement and tradition.

The need to have a comprehensive forest zoning system has been highlighted by international agencies, in order to clarify land rights and access to forest resources for all stakeholders. Ultimately, the legitimacy of any geographical basis for forest policy in the DRC will depend on the meaningful participation and involvement of local people in establishing a zoning plan, such that traditional and customary land uses and rights are fully taken into account. Clearly, in a country the size of the DRC, this is a long-term prospect, but one that is essential to underpin the legitimacy of the Forest Code.

Market instruments refer to elements such as: a system to allocate concessions, permits or other property rights; disclosure requirements for information on the market (e.g. prices,

supply); and a strategy for financing the sector. These are all at best embryonic within the DRC, while systems for sharing information among stakeholders are non-existent. Strategies for addressing this situation are considered in section 4 of this paper.

3.3. Extension and verification

Good governance should mean that: the general public has **good communication** with forestry institutions; that forest authorities have access to **accurate, recent information** on all relevant forest management practices and that it has **capacities to communicate** this; and that forest producers are able to receive and share information. There should also be a system of **verification** for sustainable forest management, including the existence of **multi-stakeholder groups** to ensure standards are met.

In the DRC, access to information is severely limited. To illustrate the extent of the problem, it is thought that many local administrative officials, including those of the Environment Ministry, do not even know of the existence of the Forest Code (Counsell, 2006). Local people are even less informed about the various legal measures that affect their livelihoods. In an environment where corruption is rampant, the uninformed local population is at the mercy of local administration and logging enterprises. Experience elsewhere has shown that one of the main factors in improving local governance is to raise awareness among the public of their roles, rights and responsibilities (Blomley, 2006; Cotula, 2007).

Improving the generation of, access to and use of good information has proved invaluable in improving governance elsewhere in Africa (Cotula, 2007; Mayers et al., 2006). The media can also play a valuable role in raising awareness of policy developments and legal rights, and in helping to tackle corruption. The establishment of extension programmes and advisory services is also important. However, it is essential to ensure that the right information is provided: for example, oversimplified messages can create misunderstandings and may result in bad decisions. Communication of policy is particularly important. Modern forest policies and legislation are often very complex and detailed, and so are difficult to understand, especially for those with little formal education. So efforts are needed to disseminate them in a clear and concise format.

Civil society can have an important role to play in this respect. In many countries innovative programmes have been established by NGOs to improve 'legal literacy'. For example, a 'literacy for empowerment' ('*alphabétisation conscientisante*') programme implemented in Mali has been providing training in adult literacy, dispute resolution and the law (Cotula, 2007).

Similar schemes have been initiated in the DRC, and there is increasing capacity within Congolese civil society for this type of intervention. For example, the Natural Resources Network (*Réseau Ressources Naturelles*, RRN) is a network of civil society organizations coordinated by CENADEP (*Centre National d'Appui au Développement et à la Participation*

Populaire) which has effective presence on the ground in most regions. Its members are playing an important role in raising awareness among local people of their rights and of the Forest Code. This work has included rewriting the Forest Code in plain language and translating it from French into the four main national languages. However, such efforts must be built on and strengthened, and there remains a need to develop expertise within the DRC's civil society and also to improve the representation of women and minorities.

Expertise required by civil society includes not only technical knowledge but also communication, advocacy and negotiation skills, so that representatives can take action when necessary. Also important are good organization and management skills. A key lesson of civil society engagement in other countries is that organizations must have a clear mandate. This could involve questioning policy-makers and legislators, representing a specific group of stakeholders, or perhaps working with donors to deliver development assistance. While civil society organizations can undertake a wide range of roles successfully, these can come into conflict – for example, an advocacy role and engaging with national governments and donors. Hence, there is a need for clarity (Hardcastle, 2001).

4. Supporting Sustainable Forest Business[4]

This section considers the conditions that are required to support sustainable and responsible forest business. Of most concern to this paper are forest businesses such as community forestry and environmental service provision, although of course the same conditions will also be relevant to large-scale commercial logging.

Making forest business work long term is a complex task that requires a long-term mindset. It requires matching economic viability with social acceptability and environmental sustainability – with serious attention given to each of these three pillars. However, it should be highlighted that nothing will work, long term or short term, unless it is economically viable.

The prevailing context is critical in defining whether the development of a forest business is or is not socially acceptable and environmentally sustainable. This context can be broken down into the following constituent parts, which will be analysed in turn:

- the business environment – the governance context which shapes what forest business can and cannot do;

- the core market and issues of scale;

- the foundation markets for:

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[4] The text in this section draws heavily on Macqueen, 2008.

    o financial services

    o business development services.

4.1. The business environment

As noted in section 3 on governance, there are a number of elements that may be considered part of the business environment (Mayers et al., 2002; White, 2004): foundations, institutional roles, policies and laws, instruments, extension efforts and verification processes.

There is such a high degree of overlap between governance and the business environment that we will not repeat the basics of section 3 here. Nevertheless, it is worth noting that any attempt to develop forest businesses that are economically viable, socially acceptable and environmentally sustainable almost always requires the following elements (Wältring, 2006):

- provision of basic communication and transport infrastructure;

- macroeconomic stability;

- transparency in the supply and demand of institutions that provide information and advocacy at the meso level;

- transparent and entrepreneurial-friendly policies and laws at the macro level;

- access to information for improving entrepreneurial competitiveness at the micro level.

In post-conflict DRC, many of these elements are at best embryonic. While mobile telephony is solving some communication problems, transport infrastructure is inadequate. Macroeconomic conditions are in flux. Forest institutions and market information structures are virtually non-existent on the ground. The Forest Code is largely unenforceable due to the lack of defining regulations. Concession allocations are non-transparent and highly contested. Local forest business capacity is variable, mostly informal and inadequately versed in the technical understanding required for sustainability. These conditions pose an enormous challenge for the economic viability of forest business.

To implement an alternative model of forest management and use, there will have to be considerable investment in forest institutions, policies and instruments. A particular focus will be needed on encouraging the many local SMFEs into formal and sustainable practice, as these are known to offer better prospects for poverty reduction (Macqueen, 2007; Mayers, 2006). Serious efforts will be needed to facilitate the development of the necessary support structures for financial and business development services in order to build the capacity and

technical competence required for sustainable forest use. This will take time and involve significant up-front investment.

It will also require moving away from systems based on personal contacts and patronage towards those based on rules, with a focus on optimizing the efficiency of those rules (Donor Committee for Enterprise Development, 2005). Approaches to improving the business environment usually involve one of two tactics (Miehlbradt and McVay, 2006):

- stimulating demand for improvements among key stakeholders; or
- building knowledge and capacity to implement reforms.

Methods to stimulate demand for an improved business environment need a mechanism to draw attention to the constraints to business in comparison with neighbouring countries. A common tool is benchmarking., A good example of this is the World Bank's 'Doing Business' report, which gives annual assessments of how easy it is to do business within the regulatory framework of different countries (World Bank, 2007a). In 2007, it put Singapore and New Zealand top and East Timor and the DRC bottom.

Another way to stimulate demand for business environment reform is to publicize research findings that highlight failings such as excessive bureaucracy or corruption. Detailed value chain analyses often provide a wealth of information about such policy bottlenecks. Sectoral reviews can also highlight key reasons why forest enterprises struggle and fail to deliver their social and environmental targets. For example, the recent World Bank Inspection Panel report highlights the way in which policy failings are reducing the potential for forests to contribute to poverty reduction (World Bank, 2007b). Benchmarking exercises and research findings clearly point to the need to improve the business environment in the DRC, although implementing reform in a post-conflict situation will take time.

As regards approaches that help to build knowledge and capacity for business environment reforms, there are now well-known methods for evaluating the costs, benefits, impacts and the distribution of new policies and regulations (or their removal). These are commonly referred to as Regulatory Impact Assessment (RIA). RIA can help governments understand the real world impacts of their policies. It can help to integrate various policy objectives and weigh any trade-offs in new legislation. As a process it can also improve government transparency and consultation and help to make governments more accountable to business (Rodrigo, 2005). Approaches have been developed specifically for the forest sector in developing countries, for example the Good, Average, Bad (GAB) 'power tool' that was developed to assess the quality of official forest legislation in Mozambique. The aim was to distinguish between failures due to poor implementation and failures due to poor legislative design (Johnstone et al., 2005). In the DRC such tools may be premature, given the lack of most of the regulations needed to implement the Forest Code.

What is critical with or without tools such as RIA is a constructive public–private dialogue that encourages government to listen more carefully to and respond to the needs of the private sector. Among the key challenges are the needs to tackle vested interests, to avoid capture by large enterprises, and to avoid becoming a political talk shop. These can be addressed by keeping the dialogue base broad and by setting clear agendas that are open to politicians of all parties (Herzberg and Wright, 2005).

Once the targets for improvement of the business environment have been identified through specific research and consultation, individual changes can be made. In some cases these changes can be dramatic, for example using a 'regulatory guillotine'. This means specifying a time by which all regulations in force must be placed on a register. After the allotted period, any legislation not placed on the register is declared invalid (Jacobs and Astrakhan, 2005). In other cases, however, less draconian measures may work best and good toolkits exist to help teams work through a process of simplifying legislation (e.g. IFC, 2006a). These tools are particularly effective at simplifying procedures such as business start-ups and can have a disproportionate benefit for small and medium enterprises or for those wishing to move from the informal to the formal sector.

Tax frameworks are a key element of the business environment, as it is taxes that ultimately finance improvements within it. The DRC's tax code has been assessed as 'complicated, problematic and needs improvement at all levels' (Isern et al., 2007). Businesses need to be encouraged to pay tax, and a culture of taxation created. However, the motivation to pay will only exist if there are benefits from formal tax registration, e.g. because other financial and business services then become available, which is currently not the case in the DRC.

Of course, any process of reform requires substantial time and willing champions or agents to force change through. In many cases laws have been established with big business in mind and are inappropriate for small and medium forest enterprises (Carter et al., 2007). Unless legal rights enshrined in the broader business environment are compatible with local commercial harvesting of forest resources, sustainable forest use is likely to remain a distant dream. Recent overviews of reform in the forest sector show how complex the policy response needs to be; it is not amenable to macroeconomic reforms or single agency solutions and requires levels of inter-agency cooperation and implementation that are not immediately obtainable in many countries (Hobley, 2007).

Facilitating an enabling business environment cannot be achieved in isolation. It requires at the very least a process that includes key government and industry representatives. Realistic objectives will depend on the strength of any facilitators' alliances and finances. Nevertheless, measurable progress can be planned for on any budget, ranging from simple advocacy work using other people's data to involved processes of analysis and public–private dialogue. Making real progress will only be possible over a long time frame.

4.2. The core market and issues of scale

The economic viability, social acceptability and environmental sustainability of what happens in the DRC forest sector will largely depend on what happens to its timber. Increasing global consumption is driving increasing demand for timber (Wood Resources International, 1999). Unless there is a radical shift in favour of payments for avoided deforestation, timber is too valuable a commodity to be dismissed as anything other than the core market. This will probably be true even if a model is adopted which allows for sustainable timber and non-timber forest product (NTFP) extraction, allied to alternative revenue streams such as avoided deforestation and PES, ecotourism or bioprospecting.

Consequently, the question is how to shift to a model that would give greater opportunities for local SMFEs, conditional on responsible practice. This model is predicated on the growing realization that SMFEs are the norm in most developing countries, accounting for 80-90% of enterprise numbers and more than 50% of forest sector employment. They offer better prospects for poverty reduction than the industrial timber concession model because they tend to accrue and reinvest wealth locally, they develop local entrepreneurship, they strengthen important social networks and they engender greater local accountability (e.g. for environmental performance).

Therefore, such a model would bring long-term prospects for poverty reduction, sustainable forest management and government revenue streams for the DRC. Developing such a model in the country's prevailing context would not be straightforward, but experience from elsewhere suggests some key building blocks (beyond an improved business environment) that would be required:

- provision for secure, community-based land tenure with commercial rights over the forest;

- strengthening local forest enterprise organizations with equitable benefit-sharing mechanisms;

- developing disaggregated business structures that treat ownership, forest management, certification and processing activities separately;

- opening market access and implementing mechanisms that distinguish and reward social and environmental models of SMFE business; and

- facilitating independent markets for financial services and business development services provision (see sections 4.3 and 4.4 below).

Secure, community-based land tenure and forest access rights are important foundations for any approach to pro-poor market system development for the forest sector. Without tenure

and rights it is impossible for SMFEs to develop secure businesses or negotiate financial terms with external resource users (such as concessionaires). Many examples of community forest development show a commercially catastrophic differentiation between rights to land and rights to commercially valuable products (such as timber and some NTFPs). For example, the excellent Mozambican land law gives self-defined communities land rights by virtue only of their historic occupation of self-defined areas. But their potential to develop forest businesses is completely denied by the forest law which grants them only subsistence rights over the trees. To date, the same has been true in the forestry tenure laws of other Congo Basin countries, which exclude all but 'traditional' activities from the 'Permanent Forest Estate'. Nepal stands as a shining example of where land, NTFP and timber rights are conferred on communities – with major resultant successes in the formation of viable and often sustainable SMFEs (RECOFT, 2007). However, it is worth noting that the consultative process necessary to draft workable land tenure and forest access legislation in areas with strong patterns of traditional land use can take years.

Strengthening local forest enterprise organizations is a further necessary step towards realizing an alternative pro-poor model of forest use. SMFEs face many scale-related difficulties in meeting the volume, quality and delivery specifications of buyers. Associations or groups can help to reduce transaction costs, finance strategic market adaptations or linkages, and increase their market bargaining power (Macqueen et al., 2006a). The most important precondition for commercial community successes through forest certification was deemed to be the strength of the local organization that was managing the business (IIED, 2007). Developing a robust organizational structure can take considerable time and money. A much touted example of community forest success is the ACOFOP association (*Asociación de Comunidades Forestales de Petén*) in the Peten, Guatemala. But this success story took a decade and an estimated US$109 million of external investment to reach the stage at which it is beginning to be a commercial success (Macqueen et al., 2008).

Developing disaggregated business structures is often a key to SMFE success. The unfounded assumption that communities do not have the capacity to run a forest business can be overcome by separating out those functions that communities can run alone from areas of business where more specialist expertise is needed. For example, in Papua New Guinea, extensive forest areas with poor infrastructure have been addressed by the not-for-profit company FORCERT. This forest management and product certification service works to link community producer members with a series of regional central marketing units (CMUs) and then with overseas buyers. FORCERT takes on the complex certification and marketing functions needed for dealing with overseas buyers, CMUs handle the technically challenging sawmilling and drying operations and the community producers manage simple log extraction and initial sawing and transport. Similar structures are common to many successful examples of community-based SMFE success, such as FORESCOM in Guatemala, the Cooperfloresta

model in Acre, Brazil, or various Ejido structures in Mexico (Macqueen et al., 2008). In Papua New Guinea as elsewhere, it may take years to develop these robust business models.

Opening market access and mechanisms to distinguish and reward responsible SMFE business is a central issue. The main voluntary market mechanisms to date in the forest sector (e.g. certification, eco-labelling, social auditing and fair trade) have yet to find ways of identifying 'community forest products' for ethical buyers (Macqueen et al., 2006b). Building a credible brand for locally responsible forest businesses is especially important if they are to be able to compete with larger competitors with lower transaction costs. This is now receiving serious attention in major certification schemes such as the FSC and in the Fair Trade Labelling Organizations (FLO). It may soon be possible for the DRC to develop national pilots for sustainable and fair local trade (IIED, 2007). Nevertheless, the development of new options for standards in institutions such as the FSC or FLO and their successful application in the field may take years.

Facilitating independent markets for finance and business development services provision will be another vital area for the successful emergence of a pro-poor model of forest business in the DRC. International progress in understanding such provision has advanced considerably in recent years (as described below and, in more detail, in Macqueen, 2008). Competitive markets for this do not really exist at all in many of the areas in the DRC where SMFEs are operating. Recently founded institutions that give training in managing financial loans are not yet operational outside Kinshasa. Basic training in bookkeeping and business planning is not widespread. Technical training in forest management and timber processing is restricted to a few large firms. Facilitating the emergence of competent service provider institutions is not a small task and will take many years.

4.3. Foundation markets for financial services

In recent literature, approaches to developing core markets have increasingly turned their attention to foundation markets, the service building blocks that are essential if core markets are to be developed. Such foundation markets include: basic consumer services (health, education, telecommunications, etc.), feeder value chains (such as light engineering or tools), feeder services (such as extension, certification services) and investment climate services (such as marketing, information technology and financial services markets) (Miehlbradt and McVay, 2006). In effect, attention has switched from the core market towards the development of good financial services (Tanburn and Kamuhanda, 2005).

Financial services provision can come from either (Fries, 2005):

- financial institutions – often tailoring finances for particular value chains – in partnership with value chain businesses;

- businesses within the value chain to one another.

In weak economic contexts such as the DRC, formal financial service providers are often limited to main cities and are vulnerable to collapse. For example, in the DRC most of the centre of the country has little banking cover at all and only 0.01% of the population have access to a bank account (Isern et al., 2007). Emphasis on financial institutions alone may not deliver solutions. Weak economic situations are often characterized by the domination of public financial institutions to the detriment of more flexible private financial services. Public institutions frequently fail to engage with productive enterprises and charge high interest rates when they do.

Especially in such weak economic contexts, many financial services in rural areas are provided by value chain finance – that is, the flow of financing within a sub-sector, among value chain actors, for the purpose of getting products to market. For example, value chain finance includes credit from dealers, processors and traders who have close market links with small producer enterprises. Short-term trader credit (between buyer and supplier) is a very significant source of finance for many small enterprises (Steen et al., 2005).

In cases where financial service provision is a major perceived barrier to market system development, failures often include the following (EDIAIS, 2003):

- inadequate information about potential small and medium enterprises, which undermines the belief that providing financial services to such enterprises can be profitable;

- lack of knowledge about and of capacity to regulate, and consequent reluctance to promote, microfinance institutions and business-to-business financing that may be better placed to provide financial services;

- lack of legally recognized collateral (e.g. land, standing forest resources) and enforceability on loan repayments or calling in of collateral;

- discrimination within communities against the poor, women or other social groups that limit their engagement with financial service providers.

Fortunately, many of these failings can be addressed by careful facilitation. For example, each of the bullet points above has a corresponding response that facilitators can help to bring about:

- generating information about small and medium enterprises, and developing credit scoring systems to highlight profitable

investment opportunities and reduce the perception of risk (UNCTAD, 2001); complementary efforts to train SMFEs in risk self-assessment can also be useful;

- spreading understanding of business-to-business financing and microfinance; also raising awareness of potential collaborative links with the formal financial sector that involve better prudential regulation and supervision, for example strengthening forest sector participation in the new *Programme d'Appui National au Secteur de la Microfinance – PASMIF* (Isern et al., 2007);

- campaigning for legal land titling, resource access and the use of resources as collateral for loans; helping to establish associations that can back loan applications with mutual guarantee schemes and help to offset risk;

- special studies and awareness campaigns that raise awareness of the exclusion of women or minorities and propose responses.

A starting point for facilitating better financial service provision is to include a financial services 'lens' within value chain analysis. This can be used to map out the various value chain actors, and to ask specific questions relating to the provision of financial services. For example, in India this approach was used successfully to identify what the main financial service needs were in litchi and honey value chains, and the information was used to negotiate with the financial service providers (Kumar, 2006).

Beyond the development of better information about SMFEs and methods of reducing risk, there are also a number of generic ways in which financial service providers can improve their interactions with small and medium enterprises. For example, they can offer advisory services especially to recent start-ups (often the highest-risk category), they can sensitize staff to the particular needs of small and medium enterprises and they can explore new ways to offer financial services through intermediary businesses or cooperatives.

For agricultural financial service provision, Christen and Pearce (2005) combine the most promising elements of traditional microfinance, agricultural finance and other approaches into a hybrid defined by ten generally successful features:

- Repayments are not linked to loan use but take account of the complexity of small (often household) enterprises and their multiple income-generating activities and coping strategies.

- Character-based lending techniques are combined with technical criteria in selecting borrowers, setting loan terms and enforcing payments – for example, group guarantees are used, or close follow-up on late payments is made by people who understand the production system in question.

- Savings mechanisms (not just loans) are provided; experience shows that saving for lean times can greatly improve loan repayments.

- Portfolio risk is highly diversified; microfinance institutions spread lending across many different types of business and crop.

- Loan terms and conditions are adjusted to take account of cyclical cash flow and investments, for example following the harvesting seasons.

- Contractual arrangements enhance production quality, reduce risk and help guarantee repayment, for example combining credit and technical assistance.

- Financial service delivery piggybacks on existing institutional infrastructure or is extended using technology.

- Membership-based associations facilitate rural access to financial services or provide it themselves – there are often much lower transaction costs in dealing with an association than with multiple individuals.

- Area-based index insurance helps to protect against the risk of rural lending, linking payouts to specific regional levels of rainfall, commodity prices and the like.

- Insulation is maintained from political interference, such as moratoriums on loan repayments or other meddling in well-functioning systems of rural finance.

Numerous different cases show the potential of being more flexible in thinking about how financial services are supplied. This facilitation of strategic alliances or partnerships between financial service providers and businesses in the value chain is a core theme of the ongoing practitioner learning programme funded by USAID (Villeda and Hansel, 2005). It is also a feature of many other successful attempts at financial service provision. For example, in Croatia, the largest dairy, Lura, used referrals based on multi-year contracts with producer farmers to secure them bank loans (Steen et al., 2005).

Many of these best-practice mechanisms for the provision of financial services are equally applicable to the forest sector. A recent overview of microfinance and SMFEs detailed some examples of emerging strategic alliances to improve SMFE financing (FAO, 2005b). For example, in Nepal, the government's Micro Enterprise Development Programme (MEDEP)

helped to assure the quality of loan applicants (an average of US$60 per applicant) to the Agricultural Development Bank of Nepal (ADBN). This helps ADBN make better use of its existing branch and sub-branch network across Nepal. By 2005, approximately 36% of the loans related to forest-based enterprises, these totalling US$15,300.

While financial service provision is often handled separately from business development service provision, there are possible synergies to be had by linking them in voluntary partnership or parallel provision arrangements (Sievers and Vandenberg, 2004). While it is important that this does not lead to a loss in competence in either service, there are obvious advantages to both sides if financial service providers are able both to 'grow' and to keep their more successful small enterprise clients through business development service provision. One example comes from Peru, where Financiera Solución decided to offer the ILO's Improve Your Business (IYB) management training to existing clients as a marketing instrument and reward for client loyalty. Now bought out by Banco del Crédito del Perú, Financiera Solución has opted to continue to provide this training on a commercial basis as it had proved such a good idea.

The option to link work in financial and business development services may be particularly important in the forest sector where long-term financial viability is so dependent on sustainability, which in turn is so dependent on good forest governance. Recent meetings of the Forest Investment Forum, for example, note that access to the vast private investment funds within the forest sector requires substantial improvements to forest governance and technical assistance in developing countries (World Bank, 2003).

Examples show how financial and business development services provision can go hand in hand. For example, the International Finance Corporation's (IFC) work in Indonesia has not only helped *Acacia mangium* forest plantation owners to pursue forest certification, but has also financed technical training for furniture SMFEs on how to use Acacia wood and on the benefits of certification markets. In addition, the IFC has promoted Acacia products with 16 manufacturers at international trade fairs to open up market access (McLeish, 2007).

Another example comes from Nicaragua, where WWF and IFC have together provided technical and financial assistance to two community forest businesses (to become certified) linked to five carpentry businesses (to target high-end international furniture markets sourcing environmentally sustainable wood). The aim is now to facilitate the formation of a 'Forest Management Company' to continue to provide technical assistance on a commercial basis together with a capital fund for local carpentry firms (IFC, 2006b).

4.4. Foundation market for business development services

Business development services (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, quantity and delivery demands, manage and administer the business efficiently, develop and communicate effectively with partners and customers, and comply with legislation. As in the case of financial service provision, the providers of such services can be thought of as a foundation market – a market that provides feeder services such as extension and business linkage services to the core market. Thus, the emphasis is on the creation of a well-functioning business development services market, rather than direct service provision.

Business development services may be provided either by lead businesses within the value chain, especially where markets for these are poorly developed (embedded services) or by hiring in fee-based contractors to deliver services (stand-alone services). Experience suggests that a combination of both embedded and stand-alone services is required if competitive rates are to emerge in ways that serve poorer groups (Emerging Markets Group, 2006).

Once again, a key initial step in any facilitation process is to include a 'business development' lens in any value chain analysis. This analytical step helps to clarify what the key service needs are and what options exist for filling any service gaps. A good example of the effective use of such an analysis in the forest sector comes from the furniture sector in Bangladesh. By mapping the sub-sector actors and value chain, existing service providers and sub-sector dynamics, a number of interventions could be prioritized (Katalyst, 2005, 2006). These interventions included a wide range of services, including the facilitation of:

- better communication channels to link furniture producers with machinery and power tool suppliers;

- training and skills development, e.g. in accounting and access to finance;

- business advice and counselling for exporters through the creation of an 'Exporter's Forum';

- the formation of a joint company to upgrade products;

- new local furniture design businesses to provide services to the growing local furniture sub-sector.

In some cases, university or technical institutes can provide training in technical, marketing or knowledge transfer skills (Adhikary and McVay, 2006). Alternatively, mentoring arrangements can be used to build the capacity of potential specialist service providers (Gibson, 2005). Where small stand-alone consultant firms need capacity building to provide business services, it can be useful to develop a 'train-the-trainer' approach in which an experienced firm provides training for less experienced service providers – for example, accounting,

finance and tax training in Bangladesh (Katalyst, 2007). Alternatively, facilitators can develop more off-the-peg tools that can be picked up by local providers (e.g. Gagel, 2007).

A number of approaches can be used to facilitate the development of a thriving business development service market, depending in part on the resources at the disposal of the facilitator. Each of these approaches is a major field in itself (see Miehlbradt and McVay, 2003), but some of the most pertinent features of different approaches are summarized below:

- **Providing information** – it sounds simple but the trick lies in getting the format and content right. For example, a facilitator might start a 'business-to-business' magazine of service providers, a radio programme or regular series of meetings to improve awareness both of the scale of a particular small and medium enterprise sub-sector, and of the service providers who can address particular constraints. A good example is the FIT Zimbabwe's *Business Connect* magazine (Hileman and Tanburn, 2000; ILO, undated).

- **Catalysing collective action** – often the quantity of business development services that are required by a single small or medium enterprise are too small for providers to bother with. But this can be overcome if enterprises are linked through an association. For example, the Federation of Rajasthan Handicraft Producers in India organizes an annual symposium to share designs and invites experts to give seminars (Bose et al., 2006).

- **Strengthening business linkages with embedded services** – for example by providing events at which lead enterprises and potential small suppliers can interact, identifying opportunities for contracting out and service provision. It can also help to lay out best practice for lead enterprises (e.g. UNCTAD, 2004).

- **Facilitating technical assistance to business development services suppliers** – a first option is to identify standardized products that can be used for more generic purposes, for example the ILO Start and Improve Your Business courses (ILO, 2007) or GTZ's Competency-based Economies through Formation of Enterprise (CEFE) training course (CEFE, 2007). A second option is to facilitate payment for an institution or individual with particular expertise in an area of specialized service provision who could be brought in to improve less skilled local providers (the 'train-the-trainers' approach mentioned above). A critical point is that technical assistance should be designed in response to market demand, not pushed due to the availability of particular expertise (Field et al., 2000).

- **Arranging voucher or matching grant programmes** – while costly to implement, the idea here is that vouchers or matching grants can be issued to firms that do not usually use business development services, enabling them to link to providers who do not normally serve small and medium enterprises. Vouchers are more efficient to administer and can reach poorer groups quickly, but they may not have the overall success rate of matching grants, which require some financial input from the recipient firm (Angelelli and Suaznábar, 2004). Where finance of this scale is not available to the facilitator, it may be possible to develop a strategic alliance with a development bank or bilateral or multilateral donor.

- **Supporting participation in trade shows or import promotion programmes** – entrepreneurs often learn simply by being exposed to what other businesses are doing. Identifying appropriate trade fairs and sources of support for participation (and preparation) for such events can be very useful.

The emergence of new opportunities through Information and Communication Technologies (ICTs) deserves particular mention. This is partly because of the fundamental need of small enterprises for good information on markets and financial and business development services. Facilitators can link small and medium enterprises to these spheres more efficiently. But ICTs are also increasingly affordable and can open up new mechanisms for buying and selling. In addition, financial and business development service providers can use innovative ways of providing inputs through ICTs. For example, in Cambodia, the ILO distributed programmes on Video Compact Disc (VCD) through very effective rural transmission channels. Among small enterprises surveyed, 40% had bought or seen the programme in local shops or 'cinemas' (Tanburn, 2004).

ICTs include a diverse array of technologies such as fixed line telephones and fax, mobile phones, email, websites and e-commerce. While the vast majority of small and medium enterprises do not use ICTs (through lack of money, know-how, infrastructure, connected customers, etc.) this is changing (Heeks and Duncombe, 2001). Increasingly ICTs are helping small enterprises not only to access data, but to gain the means to assess and apply it.

It is critical that any facilitator should adequately understand both what data are needed by SMFEs and also what range of technologies might help to improve access, assessment and application of those data. At another level, a facilitator might try to develop an information portal that serves as a 'virtual one shop stop' for information about both small and medium enterprises and service providers (see examples in Gagel, 2007). Making such systems work is, again, a long-term process.

5. Conclusions

The DRC faces huge challenges if it is to establish an innovative framework for the forest sector that will facilitate the development of alternative models for the management and conservation of its forests. It will require concerted effort in many different areas; this will take considerable time, and investment of both resources and effort. The following points are also crucial:

- **Foundations**: the current status of land tenure and local systems of management and organization are currently only superficially understood; there is not even adequate information on how many people live in and depend on the forest and where they are. Mechanisms that would allow community enterprises to develop and flourish are currently almost non-existent and the DRC's financial sector is extremely weak.

- **Institutional frameworks and roles**: within the forest sector, both public and private institutions involved in forest management are very weak and their roles are not clearly defined. These lie within a broader institutional framework which faces huge problems of corruption, lack of transparency and impunity.

- **Policies and laws**: there is a Forest Code in place, but the legislative framework is incomplete, particularly as regards such important building blocks as the mechanisms for the recognition of community rights.

- **Instruments**: these are, as yet, almost non-existent.

- **Extension efforts**: these are also very limited, the little that has been done depending largely on civil society.

- **Verification processes**: no such processes are in place. A review of the potential for independent monitoring has recently been carried out by Global Witness (2007), which recommended that such a system is not feasible in the near future.

Given this situation, it should be recognized that great care must be taken in developing the forest sector in the DRC. Hasty decisions on forest use should not be taken until such time as the above governance challenges have been addressed.

However, there are a number of opportunities that could enable progress on these. The fact that the governance challenges have been recognized by most of the key players in the sector shows a willingness to tackle them. Civil society in the DRC is already tackling a number of these issues and is ready and willing to take on more. But there is an urgent need for the government to take a lead and show commitment to addressing the challenges within

the forest sector. There are many positive examples from other parts of the world, both of forest governance reform and of alternative models for sustainable forest management, which the DRC could examine and adapt for its own circumstances.

The discussions engendered through the Roundtable process will, the authors hope, enable the DRC's government and people to develop a system of forest management that recognizes community rights, that generates revenue for forest communities and for the state, and that ensures the protection of its forests for future generations.

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