# ASSESSMENT OF THE FOREST AND TIMBER ASSOCIATIONS OF PERU: CURRENT ORGANIZATIONAL CAPACITIES AND NEEDS

**Assessment of the forest and timber associations of Peru:**
**Current organizational capacities and needs**


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# BACKGROUND

The Peruvian forestry sector has suffered a severe setback in recent years. Since the intervention and seizure of significant volumes of illegal timber in 2015 and 2016, and the alerts issued in the countries of destination such as the USA, the demand for wood products from Peru has decreased considerably. Data from the Peruvian custom services show that timber exports in January have fallen by 20% compared to January 2016[1] while reported by the National Statistical Office (INEI) volumes in primary timber processing decreased near to 35% in the same period[2]. Thus, not only timber exporters are in a challenging situation, but the entire Peruvian timber industry.

According to the INEI 26,605 companies of the timber and furniture industry are officially registered. Of these, 96.5% are micro enterprises, 3.2% are small enterprises and 0.3% are medium-sized and large enterprises. Additionally, more than 7,000 companies linked to forestry and timber extraction activities, mainly in the Amazon region, are officially recognized by the National Tax Office[3]. However, these numbers only represent the formal economy and it is widely known that most enterprises operate in the informal economy.

The database of Peru´s national registry office contains information about a wide diversity of forest and timber associations, with current records of at least 603 organizations. 68% of these are identified as industry organizations, less than 20% are registered as forest management organizations, and 13% are registered as organizations representing carpenters[4]. Nevertheless, not all these organizations are necessarily involved in or related to the timber value chain. A more in-depth analysis would be necessary to identify the status of all these numerous organizations, e.g. their location, their specific objective, their direct relation with the sector, as well as the exact number of members.

The goal of this study was to analyze the current organizational capacities and needs of forest and timber organizations of Peru. Therefore, we focused on organizations who participate in different platforms and levels in the forest policy discourse. More than 40 interviews (20 forest associations, 12 independent forest companies, and 10 public institutions) were conducted in Pucallpa, Iquitos, Puerto Maldonado and Lima. In addition, three workshops were hosted.

1 Asociación de Exportadores (ADEX) 2017
2 Instituto Nacional de Estadística e Informática (INEI) 2017
3 Superintendencia Nacional de Aduanas y Administración Tributaria (SUNAT) 2014
4 Superintendencia Nacional de Registros Públicos (SUNARP) 2017


# MAIN FINDINGS

Interview partners in the organizations showed little knowledge about organizational management of private associations. Most leaders do not have the leadership skills or experience for a member-driven and production as wells as market-oriented management. Organizations tend to concentrate on solving legal problems, but from a very political viewpoint and not based on technical discussions. Their discourse is only pointed towards the national government and its executive power, leaving aside both the legislative power and the regional forestry authorities – even though the regional forest authorities have been responsible in most forestry matters since the decentralization of government functions started in 2009.

There is no evidence of a differentiated discourse about the technical sector needs (e.g. issues of forest management, industrial transformation and commercialization) and the ongoing political and legal debate opposing the implementation of the new forest law and presidential decrees. At the same time, it seems that there is little grassroots support for most of the organizations. Agenda setting is rather top-down than bottom-up and members of organizations have little room for shaping the organization and its development. Several regional organizations rather serve as a platform to boost political careers leaving aside the joint benefits an organization could achieve for its members.

The payment of quotas that serve to cover basic operating expenses is crucial for these organizations, but long-term financial security is not given in most of the cases. It is even unusual for most of the associations to get their income through service charges. In addition, most of the organizations analyzed in this study show great institutional weakness and even operate informally without legal registration. Approximately, 50% of the associations interviewed do not have or have lost their formal registration with national public offices (such as SUNAT or SUNARP). Some of these "informal" organizations participate actively in national policy dialogue platforms. This "informal" structure reinforces the internal problems of cohesion and trust among members. Small producer´s associations show a higher coherence, while traditional trade associations, mainly those at the regional scale, are extremely weak and several even on the brink of collapse. National associations, mainly representing the export sector, are powerful and heavily guiding the sectorial agenda and political discourse.

In the timber value chain, associations are concentrated mainly in the first and second stage and represent mostly small and micro enterprises. Essentially, these stages of the value chain are crucial to drive formality and promote industrial development, productive diversification and formal employment. The timber value chain representation is highly fragmented with a big gap between regional and national organizations, as well as between organizations representing small producers and those representing large producers (see table 1). National-scale associations for example do not show any interest in offering decentralized services to potential regional members.

**Table N° 1. Organizational structures and strategic orientation**

| Scale of the business | Value chain | | | Predominant actors |
|---|---|---|---|---|
| | Forestry and harvest operations | Primary transformation | Secondary transformation | |
| Large | | | | Export - oriented companies |
| Medium | | | | Secondary transformation suppliers |
| Small and micro | | | | Local market - oriented and suppliers of larger companies |

- Low representation
- Medium representation
- High representation


There is a strong contrast between associations with members from the smallest productive scale and large companies' associations. In the interviews and workshops, especially associations at the first stage of the timber value chain mentioned a strong need to reform associations. More and more companies have aspiration to formalize their businesses and would like to promote the provision of legal timber from verified sources to the larger national companies.

Perceptions about the National Forest Confederation from Peru (CONAFOR) at the regional level were very positive as this national association represents the individual interests of various regional actors in a more effective way. Associations such as CONAFOR also prioritized the direct dialogue with the Ministry of Agriculture and Irrigation (MINAGRI) via the Executive Round Table on Forest Development, which they consider the most important dialogue platform. Actors in the forest value chain seem to rely on MINAGRI to solve their problems while the direct governing bodies such as the National Forest Service - SERFOR, the Agency for Supervision of Forest Resources - OSINFOR, and the Regional Governments through their Regional Forest Authorities are not used effectively as resources.

## DISCUSSION AND RECOMMENDATIONS

This study not only provided useful insights in the forest sector´s organisations but also brought interesting facts about the general situation of the sector to light.

During the study, it became apparent that information about companies and organizations is fragmented and scattered in various public databases and thus difficult to access. Improving registers that provide adequate information about the companies and organizations is a necessity. The National Forest Data System (SNIFFS) currently being developed could play a key role, especially for traceability and information management.

Several sources report high rates of illegal logging linked with corruption especially at the level of regional governments. Faced with this reality, the adverse reaction of the main timber importing markets such as the US, this has significantly reduced the national production and sales volumes. Forest associations should promote timber legality and marketing links with strong

supply chains. Initiatives such as responsible public procurement policies promoted for example by the National Pact for Legal Timber (led by SERFOR), business roundtables, cluster support (Programa de Apoyo a Clusters - PAC) and supplier development (Programa de Desarrollo de Proveedores - PDP) programs of the Ministry of Production (PRODUCE) are important opportunities and could increase their impact if targeted to organizations and not only through individual companies.

During the interviews and workshops, it appears that local actors do not clearly know which are the tasks and responsibilities of the regional authorities and how they could promote the sustainable use of forest resources. Both private associations and SERFOR need to ensure greater involvement and active participation of regional authorities in forest management. To overcome the difficulties and allow an open dialogue between the state and non-state forest actors the creation, operation and financing of forest management units (Unidades de Gestión Forestal y de Fauna Silvestre - UGFFS), a new element of the forest law, should become a priority for all actors.

Furthermore, to address this communication gap between the private and the public sector both sides must seek a continuous and open dialogue in which priority is given to aspects such as: (i) forest zoning, (ii) access to different forest types and forest management (e.g. alluvial plains and fallow management), (iii) inclusion of different forest users (e.g. small timber extractors, farm forestry systems), (iv) formalization of forest users and business, (v) tools and systems for timber tracking. All of these topics were identified by the participants in the workshops held. Furthermore, it is important to establish appropriate scientific programs based on the sector´s needs as well as technical advice and support mechanisms for the huge diversity of actors in- and outside of forests.

Currently, the Executive Round Table on Forest Development led by MINAGRI is the only active dialogue platform. Although, this is a temporary platform that could be integrated in the functional system (Sistema Nacional de Gestión Forestal y de Fauna Silvestre - SINAFOR) in accordance with the new forest law. Important participatory mechanisms foreseen in this law include e.g. the Regional Forest Management Committees (Comités de Gestión Forestal y

de Fauna Silvestre – CGFFS) and the National Forest Commission (Comisión Nacional Forestal y de Fauna Silvestre – CONAFOR, not to be confused with the association with the same acronym), the latter being the main consultative organ to channel and balance sector needs. If the private sector needs will be articulated via functional organizations, the debate in these platforms will be more structured and outcomes likely to be more constructive and consensus-driven.

There are also a multitude of individual interpretations with regard to the new forest law and regulations, including important topics directly related to the timber industry and trade. Public forest institutions should cooperate more strategically to not only develop a joint vision for the sector but present common messages to the forest users. As part of the national policy to modernize the public administration, collaboration of this kind could not only enable the provision of better services but improve the public sector image in the eyes of Peru's citizens. It seems that SINAFOR led by SERFOR could be the most appropriate platform to establish active cooperation which could help lead to efficient administrative processes.

Frequently mentioned was also the bad reputation that characterizes the forestry sector and causes an unfavorable public opinion about the entire forest sector. This certainly has implications for all associations. They could not only debate these topics but could work on solutions such as communication strategies. Both the public and private sector require a better communication strategy to clear up with prejudices and eliminate common myths, communicate success stories and boost the development of a joint vision for forest managers and other users. The current process to develop a new national forest plan (Plan Nacional Forestal) led by SERFOR is a great opportunity to harmonize the vision of all actors.

## THE WAY FORWARD

Empowerment and self-sustainability of associations will only be achieved if they: (i) operate and manage for commercial purposes of group interest, (ii) have a permanent and active number of members, (iii) seek the recruitment of new members in the short term, (iv) ensure a minimum

fixed subsistence allowance, (v) convene a particular formal industry (e.g. milling companies), (vi) offer attractive, competitive and immediate services, (vii) and are oriented to a differentiated commercial niche. It was interesting to see that none of the interviewees could point out the necessary qualities that an association needs to be sustainable in the long term. It is apparent that this issue is one of the biggest organizational weaknesses of Peruvian forest and timber associations.

Strengthening existing regional associations would require a long-term engagement and strong technical support to overcome the identified weaknesses of regional organizations. In addition, strengthening regional associations can be risky because many of them operate as political platforms rather than organizations representing the needs of forest sector actors. Therefore, based on this study we suggest a different strategy: Strengthening associations by developing a clear demand from a few selected large companies to trigger a pull effect in the supply chain.

The first step of this strategy is to identify the main producer companies in the sector that demand a constant supply of raw and processed timber in the national market and are exposed to national and international market requirements (e.g. legality). We already have identified eight timber trading companies with this profile. Through a rapid mapping of providers of raw and processed timber, we estimate that each of the main traders has more than 10 different supply sources, so a core group of 100 suppliers could be easily reached through this strategy.

The focus of this strategy is on strengthening the supply chains of large companies and their small and medium-sized suppliers based on a common benefit. If leading companies will set certain production standards (e.g. responsible purchasing policies) their suppliers must also raise their own standards. All actors of SINAFOR could become the promoters of a strategy to develop and formalize the forest sector. Therefore, this strategy should be discussed and coordinated among all stakeholders.

The specific objectives of the proposed strategy are firstly, to organize regional forest associations of small and medium companies that supply key trading value chains, and secondly, to strengthen national forest associations of key value chains where leading trader companies are members. The implementation of this strategy should catalyze a strong contribution from a forest public-private coalition to increase the forest and timber industry competitiveness while promoting formality along the value chain