

LAS 483
Professor: Anil Hira
Fall Semester 2005

***The Sustainable Forestry Investment Project in Nicaragua: An
Evaluation***

Timo Schaefer
Student Number 301030467

Introduction

In a 1998 study published by the World Bank, Shahid Javed Burki and Guillermo E. Perry recognize the need for institutional development in Latin America as a precondition to stable growth and poverty reduction. This recognition entails the acknowledgement that neoliberal reforms such as privatization and fiscal and monetary orthodoxy are not by themselves sufficient conditions to stimulate stable development. It even entails the acknowledgement that successful development relies on a clear set of equally applied rules that must be enforced by state institutions;¹ that it relies, in other words, on a certain extent of regulation. However, reviewing Burki and Perry's book, John D. Cameron has argued that although "the new institutional economics presents a significant criticism of the neoclassical economical theory that provided the theoretical basis for neoliberal reform," Burki and Perry nevertheless fail to make any "analytical connections between institutional change and socioeconomic power relations".²

The World Bank's new emphasis on institution building has played a major role in a development project that it has financed in Nicaragua's forestry sector. The project, which ran from 1999 to 2004, had as its objective to "improve local capacity (private and public) and develop alternatives to address long term forestry issues in Nicaragua"³ and included technical assistance to both private and communal

¹ "...stable institutions should provide clear, widely known, coherent, predictable, credible, and properly and evenly enforced rules." Shahid Javed Burki and Guillermo E. Perry. *Beyond the Washington Consensus: Institutions Matter*, Washington D.C.: The World Bank, 1998, 25.

² John D. Cameron. "The World Bank and the New Institutional Economics," in *Latin American Perspectives*, 31 (2004), 99. In fact, Burki and Perry perfunctorily acknowledge that "inequality in the distribution of power and resources can sometimes block necessary reform of... institutions", but without letting that acknowledgement influence their policy prescriptions. Burki and Perry, 26.

³ World Bank. *Nicaragua – Sustainable Forestry Investment Promotion Project Vol 1: Project Appraisal Document*, 1998, 2.

stakeholders in Nicaragua's forests, and institutional capacity building in the Nicaraguan government to support and monitor private and communal sustainable forestry development. By emphasizing the importance of sustainability in the forest sector, the World Bank has accorded the state an important role in regulating private forestry activities. And by extending the project to include indigenous communities among its beneficiaries, the World Bank has even made a tentative advance beyond the recommendations of Burki and Perry to an attempt to level existing "socio-economic power relations" in Nicaragua.

I will argue that the project's greatest contribution to Nicaragua's forestry sector lies in the area of institution building; and that, although it has not done away with skewed socio-economic power relations between the private forestry sector and indigenous communities living in Nicaragua's forests, it has made an important step towards a greater institutional recognition and incorporation of those communities in Nicaragua's forestry management plan.

The Forestry Sector in Nicaragua

Although the forestry sector benefits from economies of scale which permit the use of modern machinery, it may nevertheless be carried out on a very small scale with low capital intensity, so that we can locate it on the low/low side of Shafer's sectoral model;⁴ it attracts high levels of competition and offers good opportunities for government interference. It is therefore a sector which is well suited for developing countries for diversifying their exports. It also allows the reaping of downstream benefits from the development of a forestry-manufacturing sector without requiring

⁴ A low/low sector in Shafer's model has low barriers of entry and is highly flexible. See D. Michael Schaefer. *Winners and Losers: How Sectors Shape the Developmental Prospects of States*, Ithaca: Cornell University Press, 1994, chapter 2.

formidable initial investments. However, it is a special feature of the forestry sector that not only is it based on the exploitation of a resource that is potentially finite,⁵ but one that also possesses an intrinsic public value which needs to be balanced against any economic value that can be derived from its exploitation. It is therefore a sector which requires particularly strong state institutions for its regulation in the interest of environmental as well as economic sustainability.

Nicaragua's forestry sector is still negligible: in 2002, it accounted for a mere 0.3 percent of Nicaragua's GDP.⁶ At the same time, forests are shrinking rapidly in Nicaragua as a result mainly of agricultural encroachment. Nevertheless, Nicaragua is naturally rich in forestry resources. For all these reasons, it has much potential for contributing to the country's economic development, if it is possible to clothe it into an adequate institutional framework.

The Project: An Exercise in Institution Building

The approach of the *Sustainable Forestry Investment Project* in Nicaragua started from the assumption that the rapid depletion of Nicaragua's forests occurred as a result of a "lack of economic incentives for forest management,"⁷ so that a sustainable forestry sector would not only impede further uncontrolled environmental degradation, but additionally had the potential "to contribute to Nicaragua's economic development".⁸ This approach anticipated policy changes that were put forward in a 2003 World Bank strategy paper, in which the World Bank acknowledged the failure of its old strategy to end the deforestation of humid tropical forests and developed a

⁵ Finite, that is, if mismanaged; forests' capacity for regeneration depends on the preservation of soils and is, of course, very slow..

⁶ FAO: Informe Nacional Nicaragua 2004, tabla 30.

⁷ Project Appraisal Document, 4-5.

⁸ World Bank: *Implementation Completion Report (IDA-31600 TF-26845)*, 2004, 3-4.

more proactive role for itself. On top of its old commitment to merely “not finance commercial logging in primary tropical moist forest” (which it upheld), it proposed a strategy of sustainable forestry activities that would realize the potential of the forestry sector to contribute to economic development and poverty reduction, and so foster an appreciation of forests as valuable resources in need of careful management.⁹

The Project Structure

The length of this paper does not permit a review of the project that would do justice to all of its aspects. In the following I shall therefore focus on what I consider its greatest contribution to the development of the Nicaraguan forestry sector, its communal, private, and public institution building.

The World Bank financed this project with a loan of 13.51 million US dollars,¹⁰ which were distributed over four project components: 1. technical assistance to private and communal sector forestry (18% of total project cost); 2. assistance to forestry sector institutional reform (8.6% of total project cost); 3. pilot subprojects (66.7% of total project cost; and 4. project administration (6.7% of total project cost).¹¹ The pilot subprojects, which received the bulk of the project funding, were “aimed at developing and testing innovating activities and new mechanisms for finding solutions to priority forestry sector problems,”¹² worked on a matching-funds basis with private and communal actors, and were therefore really an extension of the first project component, the technical assistance to the private and communal forestry sector. The first and third components of the project implied the objective of private and

⁹ World Bank: *Sustaining Forests – A World Bank Strategy*, 2003.

¹⁰ Implementation Completion Report, 35.

¹¹ Ibid., 4-5.

¹² Ibid.

communal institution building, whereas the second component aimed more obviously at a wide reaching reform of the government institutions responsible for managing the forestry sector. I use the term “institutions” in the broad sense that it is given by Rosemary Thorp in her study of the political economy of Latin America in the twentieth century, which includes “the rules of the game such as property rights, and even social customs, all of which are an important part of the fabric that conditions behavior and response of economic agents.”¹³ In that sense, the *Sustainable Forestry Investment Project* tried to build the institutions necessary to develop and manage an efficient, competitive and sustainable forestry sector in Nicaragua.

Public Institution Building

I have already pointed out that a strong and efficient regulatory framework is of particular importance to the forestry sector. The World Bank identified “institutional weakness” as Nicaragua’s “main obstacle in forestry sector management”¹⁴ and made public institution building the explicit and exclusive object of the second project component. This included a more efficient organization of the existing institutions in order to significantly shorten the licensing process for new concessions to the private sector;¹⁵ the creation of SFIPO, the Sustainable Forestry Investment Promotion Office, which now provides “demand-driven service to non-governmental forestry sector stakeholders” principally in the area of technical advice, forestry product certification, and facilitating access to the international market;¹⁶ and the decentralization of the

¹³ Rosemary Thorp. *Progress, Poverty and Exclusion: An Economic History of Latin America in the 20th Century*, Washington: Inter-American Development Bank, 1998, 4. See also Burki and Perry, 2 and 11.

¹⁴ *Ibid.*, 2.

¹⁵ *Ibid.*, 9.

¹⁶ *Ibid.*, 12.

National Forestry Institute, which significantly enhanced its monitoring and enforcement capacities.

As important as these very concrete institutional reforms was the overall coordination that the project established between public, private, and communal stakeholders, but ultimately under the auspices of the publicly managed SFIPO. It “clearly defined the role and responsibilities of the different organizations and stakeholders involved in forest resource management”¹⁷ and provided a forum within which activities could be coordinated, and disagreements discussed. Finally, the project integrated the forestry sector with Nicaragua’s higher education system by financing students’ theses that were directly relevant to forestry management issues in Nicaragua.¹⁸ Some of these students have already found work in the public forestry management institutions, and it may be hoped that more students will be encouraged to seek qualifications that will contribute to a further strengthening of these institutions.

It appears from the World Bank’s Implementation Completion Report that the project was successful in establishing and enabling the public institutions necessary for regulating, monitoring, assisting, and coordinating Nicaragua’s forestry sector.

Private Institution Building

Institution building in the private sector, as in the communities, was achieved by providing training and technical assistance “that catered to specific needs [of the sector],”¹⁹ including training and assistance in product marketing (especially on international markets through the participation in international trade shows) and assistance in the development of forestry product certification. Most importantly, the

¹⁷ Ibid., 10.

¹⁸ Ibid.

¹⁹ Implementation Completion Report, 12.

forest sector was modernized and creatively integrated with agricultural production. Modernization included the “production of an estimated 10 million seedlings with improved technology and higher product quality using biodegradable recycled elements.”²⁰ Integration with the agricultural sector included “[t]he introduction and establishment of production diversification in 3,500 farms... that included 3 silvopastoral and 4 agro-forestry models.”²¹ By extending its scope to include the agricultural sector, the project relieved the pressure on forests by agricultural extension; it was demonstrated that agricultural expansion is possible without pushing forward the agricultural frontier, and that agriculture and forestry could profitably be combined into innovative agro-forestry models. The project, then, was an exercise in private sector institution building because it significantly altered, to use again Rosemary Thorp’s phrase, “the fabric that conditions behavior and response of economic agents,” who by the end of the project saw forests as valuable economic assets, and were equipped with the necessary capacities for managing those assets.

Communal Institution Building

Nicaragua’s tropical forests in the Atlantic region, which constitute the main target area of the World Bank project, are home to the great majority of Nicaragua’s indigenous population. The recognition of the importance of including the indigenous communities in Nicaragua’s forestry sector management plan constitutes an important advance in the World Bank’s forestry strategy.²² The World Bank Project covered

²⁰ Ibid., 14.

²¹ Ibid.

²² It is probably a result of a complaint which the Awas Tingni people had brought before the Inter-American Court of Human Rights before the project commenced, and which protests a concession of logging rights on land that the Awas Tingni consider to be traditionally theirs, that the Nicaraguan government had given to a Korean logging company: the authors of a study on indigenous rights in the Americas point out that the World Bank’s condition for its loan for the *Sustainable Forestry Investment*

indigenous communities both as recipients of aid within the project framework, and as stakeholders in the forestry sector who were involved in “the participatory planning process associated with it (i.e. in the development of the forestry policy and the design of the regulations of INAFOR [National Forestry Institute])”.²³

Including indigenous communities as recipients of technical assistance and pilot subproject funding under components 1 and 3 of the project was essential for the program’s success, because “population growth, coupled with increasing perceived material needs, have led them to... extract resources non-sustainably,”²⁴ contributing to the alarmingly rapid process of deforestation in Nicaragua. Indeed, the World Bank concluded that “[t]he most important contribution of the project was in creating the initial impetus towards a cultural change in the attitudes of rural dwellers,”²⁵ many of whom are indigenous people, and who as a result of the project began to see forests as a valuable resource, instead of an obstacle to agricultural expansion.

Including indigenous communities in the planning process was an important aspect of the project because it contributed to the decentralization and democratization of the decision making process in the forestry sector, and undermined the political hegemony of social and technocratic elites. Making communal participation a part of the *Sustainable Forestry Investment Project* was therefore an important advance in the institutionalization of a more participatory system of political and economic decision

Project, that the government initiate plans to demarcate traditional indigenous land, has no precedent in the history of World Bank loans. See S. James Anaya and Robert A. Williams, Jr. “The Protection of Indigenous Peoples’ Rights over Lands and Natural Resources under the Inter-American Human Rights System”, in *Harvard Human Rights Journal* 14 (2001), 38.

²³ Project Appraisal Document, 46.

²⁴ *Ibid.*, 45.

²⁵ Implementation Completion Report, 7.

making in Nicaragua with the potential to challenge entrenched socio-economic power relations.

Unfortunately, the World Bank's *Implementation Completion Report* does not elaborate on the share of project resources under components 1 and 3 that went to indigenous communities. The *Informe de Cierre* of the Nicaraguan government, however, tells us that of forty nine subprojects that were implemented under component 3, only five benefited indigenous communities,²⁶ so that we must assume that the great bulk of financial resources went to private stakeholders in the forestry sector, i.e. companies. On the other hand, the development of a strong private forestry sector within a strong regulatory framework that includes communal stakeholders in its planning process, might also benefit indigenous communities; from the available project reports, it is impossible to tell how great a segment of the private sector that received assistance under the project is located in or close to indigenous communities.

Conclusion

The *Sustainable Forestry Investment Project* was designed to address “the main bottlenecks in sustainable management of forest in Nicaragua.”²⁷ Whether it did so successfully, it is too early to judge (the World Bank itself called the project outcome “satisfactory”). However, its emphasis on a participation of all forestry stakeholders, including the private sector, indigenous communities, and NGOs, are highly promising, as is its emphasis on institutional reform. It is also worth noting that the World Bank strategically chose to intervene in a sector of the Nicaraguan economy that

²⁶ “Informe de Cierre: Proyecto de Promocion Inversion en Foresteria Sostenible de Nicaragua, Cr. 3161-Ni”, in *Implementation Completion Report*, 49.

²⁷ Ibid.

offers excellent growth opportunities within Nicaragua's export led-growth model, thus optimizing the probability of significant spill-over effects into other sectors.

The project's main shortfall lies in its perfunctory performance in assisting and strengthening the participation of indigenous communities in the forestry sector. In particular, the long term impact of the project on indigenous communities could be greatly enhanced by the creation of a mechanism to transfer the enhanced forestry management capacities that communities which were covered by the project acquired, to other communities. Such a mechanism might make use of already established networks between indigenous communities such as indigenous umbrella organizations, and consist in the organization of workshops, and the setting up of a special fund to finance technologically up to date community forestry projects in other communities. A further measure to support long term capacity enhancement in indigenous communities could involve the financing of higher education in forestry management for members of indigenous communities, a measure that would eventually provide indigenous communities with their own forestry experts and might enable them to combine new technology and forestry management techniques, as well as enhanced marketing skills, with traditional usages of the forests.

It is necessary to pay special attention to the participation of indigenous groups in the building and managing of forestry sector institutions in order to avoid simply institutionalizing existing highly unequal socio-economic power relations between marginalized communities and the private forestry sector. The *Sustainable Forestry Investment Project* may be viewed as a first step in that direction.