

THE WOOD PRODUCT VALUE CHAIN IN CENTRAL AMERICA: HONDURAS AND NICARAGUA



Trade and Poverty in Latin America

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Overview

This analysis highlights the failure of two Central American countries with very different enabling environments (Honduras and Nicaragua) to develop their infant wooden furniture industries (or, in fact, any significant value addition to lumber), despite having abundant natural resources available and having experienced significant liberalisation of trade since the early 1990s. The link between trade liberalisation and trade growth is questioned, as are state-led approaches to natural resource management of forestry reserves.



The trade liberalisation policy promoted by Central American countries has not resulted in improved insertion of the wood furniture sector in international markets. The soil in Central American countries is predominantly forested (see Table 1); nevertheless, forest product exports do not constitute a significant portion of the region's international trade. The loss of forest cover is a common problem, one which has not been adequately addressed by public policy in some countries. Deforestation has mainly been a result of the demand for an increase in extensive agriculture and animal husbandry, which rarely make use of the felled timber. Export products from the forest have been concentrated in lumber, with little or no industrial transformation; the majority of industries that transform lumber have not progressed beyond small artisanal businesses oriented towards the domestic market. The levels of deforestation and the type of forest regulation adopted in some cases exacerbate the obstacles for small and medium-

sized enterprises (SMEs) dedicated to the transformation of lumber.

The forest areas that are still protected in Nicaragua and Honduras are located in high and extreme poverty zones and, in the case of Nicaragua, in zones where the indigenous population and ethnic groups reside. Wood transformation workshops, which constitute the vast majority of this industry by far, are in a precarious situation: proprietors and workers form part of the working poor. The research summarised here seeks to explore the relationships between the regulatory environment in Honduras and Nicaragua, growth in traded wood products by micro, small and medium-sized workshops (MSMEs) and resultant impact on poor labourers.

Key differences in enabling environment

Honduras and Nicaragua both exhibit similar characteristics regarding resource endowment: the naturally occurring forest is found in zones with a high incidence of poverty, and generally in zones far from

Table 1: Forest cover and use

Country	Territory	Forest use	Forest cover (area)	Forest cover (% of total)	Protected areas
Nicaragua	12,141.7km ²	78.6%	5,312.4km ²	43.8%	18.2%
Honduras	11,249.2km ²	87.7%	5,989.6km ²	53.2%	26.2%

Table 2: Comparison of regulatory environment in Honduras and Nicaragua

	Honduras	Nicaragua
Ownership	The forest becomes the property of the landowner, who has possession and domain, and who constitutes the dealer of state lands.	The state is proprietor of the trees, in lands that belong to indigenous peoples and ethnic groups. These have the right to exploit the natural resources.
Use of resources	Communities are included in the conservation and exploitation of the forest. Functions related to the forest sector are concentrated in the forest conservation institute.	Only indigenous communities and ethnic groups possess the ability to administer and exploit the forest. Increased dispersion in the authorisation of permits for exploitation and weak capacity for control.
Allocation of permits	The state creates concessions of national lands with forest so that communities may exploit them.	The anti-deforestation law (ley de veda) was established for five species of wood. The police and army were included in the task of control.

urban centres, with little or no infrastructure (although in Honduras part of the pine forest under management is near the main motorways). In Nicaragua, the forests that remain are located on lands that belong to indigenous communities, which hold formal autonomy in terms of political administration. This was also the case in Honduras prior to the introduction of recent legislation – the Forest Law of 1992 – which stipulates that proprietors of forestry land should be those who inhabit the land. The law supports the inhabitants of forestry land by allowing them to make use of forestry products through forest management plans; it also provides for government support in elaborating these plans and obtaining permits. The application of the law in Honduras has advanced more rapidly in pine forests; moreover, the law stipulates that trees can be felled only once resin has been extracted, which promotes a greater use of resources and value addition activities for the poor rural population.

In Nicaragua, the proprietor of the forest as a natural resource is the state, by constitutional resolution. A conservationist scheme has been developed, which has manifested itself as highly bureaucratic and expensive procedures to obtain permits, such as those needed by small proprietors or indigenous communities to access forest resources. Since 2005, the country has pursued an anti-deforestation scheme covering five high-demand species. However, this is far from resolving the problem of deforestation, which originated in the growth of agricultural areas. Despite efforts to conserve forestry resources in Nicaragua, improved forestry management techniques, such as those pro-

moted in Honduras, seem to be more effective in reducing deforestation: the forest area under planned management represents 11.7% of the forest coverage; in Nicaragua this proportion is 2.3%.

The most conservative estimates place deforestation in Honduras and Nicaragua at between 70,000 and 100,000 hectares annually. In both cases, the legal and regulatory framework for the forest has been oriented towards impeding the authorisation of exploitation permits. But there are clear differences in the performance of each country to date in the achievement of this objective, related to the institutional context.

Recent export performance of the furniture production industry

MSMEs dominate in the furniture and wood product industry. The effect of trade liberalisation on the forestry sector and the wood furniture sector in both countries presents substantial differences (see Figures 1 and 2). Wooden furniture exports from Honduras have expanded more rapidly than 'wood and wood products' (which have been declining). In Nicaragua, although wooden furniture exports have increased their export value recently, 'wood and wood products' have declined at a far more rapid rate; this indicates quite a striking total reduction in wood product exports from 1994 to 2008 for Nicaragua.

In Honduras, the destination market for wood products is mostly international. The country case study authors note that the industry had already exported to international markets prior to liberalisation in the early

1990s. The US accounts for just over 40% of total wood products (processed and unprocessed) from Honduras. In comparison, regional markets are clearly much more important for Nicaragua: almost 30% of wood product exports (processed and unprocessed) are destined for El Salvador; 20% are destined for Costa Rica.

Who exports?

The case study makes it clear that in both countries smaller workshops do not export. In the Nicaraguan case, exports are in the hands of a small group of large enterprises, which are dedicated to extraction and export, and/or vertically integrated extraction, primary

transformation (mainly plywood) and export. In the case of the furniture industry, only four of the largest enterprises export, and on an intermittent basis.

In Honduras, the majority of exports originate in businesses grouped in two organisations: the National Association of Timber Companies (ANETRAMA) and the Honduran Timber Association (AMADHO). The authors note that the opportunities created by trade liberalisation have been seized by those agents who have access to the most resources, knowledge and infrastructure.

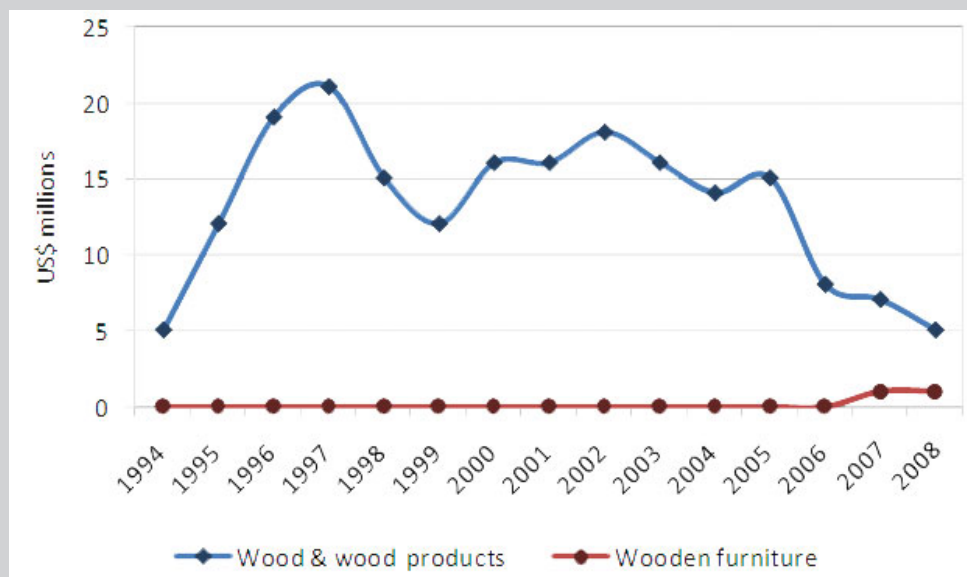
The organisation of producer/business association organisations in Honduras may help explain some of the performance differentials between the two countries.

Figure 1: Exports of wood and wood products from Honduras, 1994-2008



Source: Sistema de Estadísticas de Comercio de Centroamérica (2009). Data for 2008 are preliminary.

Figure 2: Exports of wood and wood products from Nicaragua, 1994-2008



Source: Sistema de Estadísticas de Comercio de Centroamérica (2009). Data for 2008 are preliminary.

References

Sistema de Estadísticas de Comercio de Centroamérica (2009) <http://estadisticas.sieca.org.gt/siecadb/Estadisticas/Info.asp?banner=OP1>

UN Comtrade (2009) United Nations Commodity Trade Statistics Database. <http://comtrade.un.org/db/>

About COPLA

Comercio y Pobreza en Latino América (COPLA, or Trade and Poverty in Latin America) is a two-and-a-half year project that explores the linkages between trade, poverty and social exclusion in Latin America.

Find out more on: <http://www.cop-la.net>

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Table 3: Honduras – export markets for wood products (processed and unprocessed)

Market	Average 2000-2007 (\$000)	Share (%)
All markets	78,857	100
US	32,926	41.8
Jamaica	11,126	14.1
El Salvador	7,518	9.5
Trinidad and Tobago	4,786	6.1
Barbados	3,483	4.4
St. Lucia	1,785	2.3
Unspecified	1,599	2.0
Nicaragua	1,383	1.8
Spain	1,269	1.6
Netherlands Antilles	1,264	1.6
Dominican Republic	1,009	1.3
Germany	933	1.2
Costa Rica	873	1.1
Panama	820	1.0
St. Vincent and the Grenadines	808	1.0

Source: UN Comtrade (2009). Data reported by Honduras.

Table 4: Nicaragua – export markets for wood products (processed and unprocessed)

Market	Average 2000-2007 (\$000)	Share
All markets	15,275	100.0
El Salvador	4,169	27.3
Costa Rica	2,765	18.1
US	2,586	16.9
Honduras	2,353	15.4
Dominican Republic	1,302	8.5
Cuba	760	5.0
Guatemala	630	4.1
Spain	308	2.0

Source: UN Comtrade (2009). Data reported by Nicaragua

However, these aspects are not explored further by the country authors.

Conclusions and policy implications

Nicaragua could increase its wood product and furniture exports to the same level as those of Honduras, which has surpassed them in this regard and appears to be stabilising forests that have been exploited. In Nicaragua, while exports are minimal, and concentrated in unprocessed wood, the primary contentious issue is the continued deterioration of the forests, despite legislation to protect it. This is in stark contrast with Honduras, where more recent legislation has made it easier for inhabitants to use the forest and at the same time manage this use.

In Nicaragua, this has resulted in a high level of unemployment and underemployment, which could be alleviated by means of suitable development policy oriented towards the management of exports. Poverty dynamics related to wood product exports are not explored in detail in the case study, or compared for each country, which limits the strength of this argument.

This case study summary was prepared by Jodie Keane with Alberto Lemma and Jane Kennan and is based on longer studies originally undertaken by Welbin Romero at Nitlapan in Nicaragua. The full study is available in Spanish on the COPLA website: <http://www.cop-la.net>.