

**Minutes of Working Group 2 Meeting
in Savonlinna (Finland), 5-6 April 2002
(provisional version)**

Participants: Américo Carvalho Mendes, Eduardo Rojas-Briales, Birger Solberg, Karl-Reinhard Volz, Lorenzo Venzi, Krzysztof Kaczmarek, Peter Glück, Johannes Voitleithner, Cristina Montiel Molina, Inocêncio Seita Coelho, Attila Lengyel, Marie Appelstrand, Peter Mayer, Olli Saastamoinen, Janis Birgelis, Harri Hanninen, Alexandra Vakrou, Kostas Papageorgiou, Erik Trømborg Ljungman, Willi Zimmermann, Pekka Ollonqvist,

Moderator: Américo M. S. Carvalho Mendes

Minutes by: Krzysztof Kaczmarek, Cristina Montiel Molina and Américo M. S. Carvalho Mendes

Agenda

Friday, 5th April

Morning session: Paper presentations on influences of financial incentives and institutional factors on NFPs

9h00 - 9H10

0. Adoption of the agenda and proposed working method

- a) Presentation of the agenda and working method
- b) Working method:
 - Division in sub-groups for discussion:
 - Two sub-groups: one for each topic
 - Facilitators and rapporteurs:
 - Financial incentives: Eduardo Rojas-Briales, Krzysztof Kaczmarek, Américo Mendes
 - Institutional aspects: Erling Berge, Alexandra Vakrou, Johannes Voitleithner
 - Minute keepers: Krzysztof Kaczmarek, Américo M. S. Carvalho Mendes
- c) Approval of the minutes of the 4th WG2 Meeting

9H10-10h30

1. Presentations on Financial Incentives

- Financial and other economic instruments as supporting and impeding factors of National Forest Programmes: *Américo M. S. Carvalho Mendes*
- Financial incentives in Greek forest policy: implications for financing a NFP: *Kostas Papageorgiou & Alexandra Vakrou*
- A Spanish Experience: The Forest Plan of Catalonia and its Consequences for Private Forest Management: *Eduardo Rojas-Briales*

Working Group 2

10h30-11h00: *Coffee break*

11h-12h30

2. Presentations on Institutional Aspects

- Institutions in forestry: How will they affect National Forest Programmes?:
Erling Berge & Olli Saastamoinen

- Institutional aspects as Supporting and Impeding Factors on the Process of
Finnish National Forest Programme: *Harri Hänninen & Pekka Ollonqvist*

- Institutional Aspects on National Forest Programmes: The Example of the
Forest Programme of Baden-Wuerttemberg: *Felix Reining (presented by Karl-
Reinhard Volz)*

12h00-12h30

3. A first global look at some main propositions for discussion drawn from the presentations and discussions since the 1st WG2 meeting (Américo Mendes)

12h30-14h: *Lunch*

<p>Afternoon session: Discussion on the draft list of propositions about financial incentives and institutional factors</p>
--

14h-15h30

4. Sub-group discussions of the main propositions

15h30-21h: *Study tour*

Saturday, 6th April

<p>Morning session</p>

8h30-10h30

5. Conclusion of the sub-group discussions and final drafting of the main propositions

11.00 - 13.00

6. Plenary Session of the WG2

12.30 - 13.00

7. Preparation of the next WG2 meetings in Sopron and Porto

13h-14h30: *Lunch*

Afternoon session

14h30-15h30

8. Joint session of WG1 & WG2

Moderator: Dr. Heikki Pajuoja.

- a) Conclusions on the proceedings of WG1 (*Margaret Shanon*):**
Propositions of WG1 on intersectoral policy integration

- b) Conclusions on the proceedings of WG2 (*Américo Carvalho Mendes*):**
Propositions of WG2 on institutional aspects and financial instruments

Minutes

Discussions about the presentations on Financial Incentives

1) Financial and other economic instruments as supporting and impeding factors of National Forest Programmes (*Américo M. S. Carvalho Mendes*)

Peter Glück asked Américo Carvalho Mendes to outline the main hypotheses from his paper regarding impeding and supporting factors of financial incentives. This request was later seconded by Dr. Peter Mayer. Prof. Mendes replied that such hypotheses are explicitly outlined in his paper distributed to the participants.

2) Financial incentives in Greek forest policy: implications for financing a NFP (*Kostas Papageorgiou & Alexandra Vakrou*)

The main conclusion of the presentation, as expressed by Kostas Papageorgiou, was that EU supporting instruments for Greece are fragmented, resulting in a rather weak support for multifunctional use of forests.

Erling Berge asked whether the public forestry sector in Greece also gets subsidies. Alexandra Vakrou answered the question by pointing out that the state forests receive subsidies for non-productive functions of forests.

3) A Spanish Experience: The Forest Plan of Catalonia and its Consequences for Private Forest Management (*Eduardo Rojas-Briales*)

As the key finding, Eduardo Rojas-Briales underlined the importance of participatory ruling over a commonly set policy.

It was questioned whether it is sensible to have a NFP for the whole Spain. The answer was that cross-sectoral issues are those where federal government is especially competent, as well as it is important to present a common position when dealing with external relations.

Furthermore the issue of low profitability and public spending for forestry in the Mediterranean countries was raised. Kostas Papageorgiou stressed that despite low profitability of forestry, government supports forestry for its social aspects, especially in remote rural areas. Mr. Ljungman pointed out that land prices increase because land

has special value when all values are being included. Eduardo Rojas-Briales underlined that land has an option value, but the common problem is about covering the running costs.

Discussions about the presentations on Institutional Aspects

1) Institutions in forestry: How will they affect National Forest Programmes? (Erling Berge & Olli Saastamoinen)

Peter Glück questioned Erling Berge about the location of political parties in the construction of social institutions. Erling Berge answer was that political parties constitute an environment for bureaucracies.

Furthermore, Dr. Berge underlined the lock-in mechanism of institutions and organisations, which are mutually dependent. It was also stressed out that informal institutions will become more important for NFPs.

In conclusion, Erling Berge expressed the opinion that NFPs reflect the existing institutional order of our societies and may change this order only marginally, even though marginal changes are important. He laid down the hypothesis that only marginal changes are long lasting. In addition, Erling Berge underlined that developing countries would do well if they develop their laws according to their own values and priorities, rather than trying to directly adopt laws of developed countries.

Birger Solberg asked Erling Berge if institutional changes come more slowly than other changes in NFPs. In Berge's opinion, indeed institutions change more slowly.

2) Institutional aspects as Supporting and Impeding Factors on the Process of Finnish National Forest Programme (Harri Hänninen & Pekka Ollonqvist)

Among supporting and impeding factors on the process of Finnish National Forest Programme, Pekka Ollonqvist mentioned the following ones: participation and intersectoral coordination, decentralization, conflict resolution (only sporadic attempts in this case).

Olli Saastamoinen commented on the last issue, pointing out that institutions should react better to conflicts, and so they should be improved to better deal with them.

The questions for future consideration addressed by Pekka Ollonqvist were the following ones: content of NFPs (what should be included - necessary and sufficient elements), consensus over the content (issues of parliamentary majority and minority justice).

3) Institutional Aspects on National Forest Programmes: The Example of the Forest Programme of Baden-Wuerttemberg: Felix Reining (presented by Karl-Reinhard Volz)

Karl-Reinhard Volz addressed as a challenge for NFPs the issue of bringing all relevant institutions (such as forest authority, NGOs, forest owners' organisations, research institutions), that have their own and different cultures, to the same table of discussion.

Karl-Reinhard Volz mentioned also some problems related to multilevel governance, where on the state level there are strong forest owners associations and weak NGOs, while on the federal level there is lack of proper cooperation between forestry associations and there are strong NGOs.

Furthermore, he pointed out that the problem of federal system is the growing importance of federal administration in face of growing international commitments, whereas the role of state administration is rather diminishing.

Karl-Reinhard Volz mentioned that in Germany the current discussion concerns the question whether the state administration do not carry too many goals.

Pekka Ollonqvist noted that the present debate in Finland concerns the issue of how to manage enlargement of the conservation areas, and who is going to manage those areas.

A first global look at some main propositions for discussion drawn from the presentations and discussions since the 1st WG2 meeting (Américo Mendes)

Américo M. S. Carvalho Mendes suggested organising the list of propositions taking into account the following ideas consistent with the analytical framework proposed and agreed in the Aberdeen meeting:

1) Concept of “**external factor**”:

“**EXTERNAL FACTOR**” in COST E19 agreed sense =

= NOT ONE OF THE NFP “**ESSENTIAL**” ELEMENTS (participation, intersectoral coordination, etc.) =

= **POLICY INSTRUMENTS** (ex. legal, regulations, public financial instruments, instruments promoting institutional changes, etc.) or the country’s “**INITIAL CONDITIONS**” (ex. land tenure conditions not directly targeted by the NFP, institutional aspects not picked as policy instruments, etc.), that is, those country’s characteristics not picked by the NFP as policy targets or instruments, remaining as policy constraints

2) Don’t go for a “**piece meal**”, **linear causality** and a **static** approach, but instead look for:

- **interdependencies** among **targets** and “**external factors**” (policy instruments or initial conditions);

- **interdependencies** among “essential elements”, policy outputs (targets and instruments) and initial conditions;

- **dynamic** effects, namely “**lock in**” effects (resistance to change), “**path dependence**” effects (initial conditions matter for the trajectory of the process), **iterative** procedures

3) Make the analysis useful for “practioners” which could be here to go for an **evaluative** analysis:

- Since almost all of the existing NFPs are at the policy formulation stage, this has to be an **ex ante evaluation analysis**, that is, one where the key driving question is the following:

Given the policy outputs (NFP targets and instruments), the characteristics of the procedural elements (participation, etc.) and the country’s initial conditions, **is the NFP going to work and “make a difference”**, that, is the set of NFP instruments going to be effective in reaching the NFP stated targets?

- From this type of analysis there are propositions that can be drawn about potential **implementation failures** of the NFP which are useful for two purposes:

- Many of these are propositions turn into testable hypotheses for the implementation stage

- They provide orientations to “practioners” about possible implementation failures which can avoided by appropriate design of the NFP process.

Propositions

The propositions drawn from the presentations and subsequent discussions in sub-groups and plenary sessions are presented hereafter.

INTERDEPENDENCIES MOSTLY AMONG TARGETS AND "EXTERNAL FACTORS"

1. A policy instrument (ex. Public financial incentives), IN ITSELF, is not a "supporting", or an "impeding" factor of a NFP. Which of these two roles it is likely to perform depends on the CONTEXT: nature of the targets it is supposed to reach, combination with other instruments, characteristics of the NFP process (ex. Degree of participation, intersectoral coordination, etc.) and the country's initial conditions. If the combination of these elements is such as to make that instrument (not) effective in reaching the corresponding NFP targets than it will be a "supporting" ("impeding") factor.

2. If the mix of targets and policy instruments, given the initial conditions and the characteristics of the procedural elements (participation, etc.), are not such as to make the targeted stakeholders BETTER OFF (in terms of their value system), then there are potential implementation failures ("individual rationality constraints" are not met), in this case, the NFP will fail to reach out to those stakeholders and make them get involved in the programme.
3. If the mix of targets and policy instruments, given the initial conditions and the characteristics of the procedural elements (participation, etc.), are such as to make the targeted stakeholders BETTER OFF, but there is enough room for them to behave OPPORTUNISTICALLY, that is, inconsistently with the NFP targets, then there are potential implementation failures (failures to meet "incentive compatibility constraints").

4. If, among the NFP process expected DYNAMIC EFFECTS, it is not taken into account the fact that there will be LOCK IN and PATH DEPENDENCE effects, then there are potential implementation failures. This means that "RESISTANCES TO CHANGE" and INITIAL CONDITIONS matter for the configuration of the contents of the NFP (mix of targets, mix of policy instruments, relations between targets and instruments), for the trajectory of the NFP procedural elements (participation, intersectoral coordination) and for the success or failure of the process.

5. NFPs are aimed at changing, at least some, RIGHTS and DUTIES of forestry stakeholders (ex. Society at large gets the right of demanding from forestry more or better environmental services, and is imposed the duty of contributing to the recovery of their full costs). If whenever and wherever the NFP imposes a new duty or reinforces an existing duty it does not provide appropriate and effective instruments to establish compensatory rights, then there are potential implementation failures.

6. If the NFP targets are set at unrealistic levels, given the country's initial conditions (ecological, economic, institutional, etc.) and ability to put forward effective instruments to achieve them, then there are potential implementation failures.

7. For the targets that are FIXED, the NFP should have, at least, an equal number of CONTROLLABLE policy instruments. Otherwise there are potential implementation failures.

8. Whether the targets are fixed or not, if a policy instrument is NOT CONTROLLABLE, then there are potential failures in its effectiveness to meet the corresponding targets.

INTERDEPENDENCIES MOSTLY AMONG TARGETS AND FINANCIAL AND OTHER ECONOMIC INSTRUMENTS

9. If the NFP goes for a specification of the SFM concept based on a MICROSUSTAINABILITY approach then it is likely that it will attract less PRIVATE FUNDS and will need relatively more public funds than one that goes for a MACROSUSTAINABILITY APPROACH.

10. The targets of an NFP being a specification of the SFM concept as it results from the country's NFP process, those targets necessarily include the promotion of the provision by forestry of some goods and services that are NONEXCLUDABLE and/or NONRIVALROUS. Since these types of outputs involve the generation of EXTERNALITIES, the NFP should include instruments to internalise these externalities. Otherwise there will be potential implementation failures.

11. The appropriate instruments to internalise externalities may be public financial instruments, but not necessarily, or not only those. That internalisation can be achieved by appealing to the following set of ECONOMIC instruments:

- securing or reforming property rights (ownership and/or use rights);
- demand pull instruments (certification, consumer information, etc.);
- market creation;
- fiscal instruments;
- charge systems;
- public financial instruments;
- liability systems;
- environmental performance bonds and deposit refund systems;
- public provision of services supporting private SFM.

If the NFP is in a country with democratic institutions and a market economic, other things being equal, then it is more likely that there will be less implementation failures if it uses a mix of these economic instruments to internalise externalities than if it is more based on COMMAND AND CONTROL instruments. 12. If the NFP public FINANCIAL instruments can be COMPLEMENTED with other economic instruments (ex. fiscal instruments, charge systems, forest or environmental funds), then they will more likely be effective in reaching the targets than when used in isolation.

13. If there is an appropriate MATCHING between the SCOPE of the externality and the scope of the economic instruments aiming at its internalisation (ex. use domestic public funds to finance the provision of essentially domestic public goods and, if possible, appeal also to international funds if the public good is global), then there are potential implementation failures that are expected because of that.

14. If the NFP includes instruments to secure or reform PROPERTY RIGHTS (ownership and/or use rights) where they may be needed (ex. "open access" situations), then it is likely that it will attract more private funding than in the other case.

15. If the NFP does not include appropriate support for KNOWLEDGE CREATION (research) AND MANAGEMENT activities (extension, training) COMPLEMENTARY to other instruments then there are potential implementation failures.

16. Especially in a forest sector where SMALL SCALE forestry is important, if the NFP which has financial instruments does not provide for COMPLEMENTARITY between these instruments and the support for the provision of extension services and the collective organisation of forest owners then there are potential implementation failures

(ex. not enough forest owners being able to participate in the NFP, aggravation of income distribution problems, etc.).

17. If the complementarities mentioned above exist, then the NFP is likely to attract more PRIVATE FUNDS than in the opposite case, including in these funds small forest owners' own capital (human and non human).

18. If the financial instruments are NOT SUSTAINABLE (ex. They rely too much on international sources of funds which the countries authorities cannot control; they are based on domestic sources of funds which are not renewable; they are based on shaky political agreements; they are too much dependent on annual budgetary negotiations, etc.) then there are potential implementation failures.

INTERDEPENDENCIES MOSTLY AMONG "ESSENTIAL ELEMENTS" AND POLICY OUTPUTS (TARGETS AND INSTRUMENTS)¹⁹. The higher the degree of PARTICIPATION, INTERSECTORAL COORDINATION and DECENTRALISATION, the higher the likelihood of the NFP containing a more diverse and complex mix of policy instruments.

20. The higher the capacity of the NFP targets and instruments to SECURE RIGHTS of stakeholders (property rights, decision rights, etc.), that is, making those rights "institutionalised" and "concrete", the higher the likelihood of their PARTICIPATION to be more active.

21. Since NFPs usually involve proposals for changes in RIGHTS and DUTIES, they involve potential CONFLICTS between the targeted stakeholders. So if the NFP does not have a mix of targets and policy instruments and a configuration of procedural elements (mechanisms for participation, intersectoral coordination and conflict resolution) then there are potential implementation failures.

22. Other things being equal, the higher the degree of participation, intersectoral coordination and conflict resolution capacities of the policy process, the less is the likelihood of opportunistic behaviours of the stakeholders adopting the policy outputs (targets and instruments).

23. Internalisation of EXTERNALITIES deriving from SFM being the general target of NFPs requires INTERSECTORAL COORDINATION and PARTICIPATION of the stakeholders involved in those externalities. If these essential elements are shaky there are potential implementation failures.

24. Even though public PUBLIC FINANCIAL INSTRUMENTS are not the only possible and desirable economic instrument to include in a NFP they are the ones found more often, and also often with none or very few complementary instruments ("minimalist approach").

25. If the NFP includes a diverse and complementary set of economic instruments, namely public financial instruments and support for extension services and collective organisation of forest owners, then it is more like to motivate active PARTICIPATION and behaviours from these stakeholders consistent with the NFP targets.

INTERDEPENDENCIES MOSTLY AMONG PROCEDURAL ELEMENTS AND INSTITUTIONAL FACTORS

26. Pre-existing levels of:

- Participation

- Decentralisation
- Human rights (freedom of speech, security of person and property, access to information)

- International contacts

will facilitate NFPs

Lower levels require higher political and economic commitments.

27. Proposals for changing:

- Power allocations of bureaucracies or
- Economic conditions and outcomes of stakeholders

Will generate opposition.

To succeed one must secure the economy of stakeholders and the loyalty of bureaucrats.

28. The dynamic consequences of instituting:

- Participation and
- Decentralisation

Requires the use of

- Adaptive iterative planning and
- Intersectoral coordination

To succeed in this one may have to institute educational programs, information access instruments, and other capacity building processes

29. To deal with the question of how institutions affect the formulation of an NFP or, in other words, how institutions affect the **procedural elements** of an NFP, one can consider the following **tools of the government** classified as **control variables** for an NFP, because the government can change them in relative short time:

1. organisation of public bureaucracy
2. content of legislation
3. structure of taxes and subsidies
4. budget allocation for an NFP-process
5. use of information

All 5 governmental control variables for an NFP have an influence on the procedural elements of an NFP (participation, decentralisation, cross-sectoral co-ordination and adaptive, iterative planning).

-

-

-

Participation:

Increased participation will or may change the organisation and content of all 5 governmental control variables for an NFP (1-5) to different extent; 1 and 2 are the most likely to be affected. Change depends on the actors participating and their possibility to influence this change.

- **Decentralisation:**

The given country constitution decides to a certain extent on the extent of decentralisation. Strong emphasise on decentralisation influences the governmental control variables for an NFP 3, 4 and 5; 3 is the most likely to be affected. Basically, decentralisation is linked to participation.

- **Cross-sectoral co-ordination:**

Cross-sectoral co-ordination influences all 5 governmental control variables for an NFP (1-5), the biggest influence is on 1.

- **Adaptive, iterative planning:**

Adaptive, iterative planning is a process-characteristic which might change the overall behaviour and culture of the work of governmental bureaucracy.