

Forest owner co-operation in Latvia

Main challenges after 10 years



What has been achieved since 2011?

- Three co-operatives, two of which work in the whole country.
- 1000 forest owners involved.
- 30 thousand hectares joined.
- 9 million euro turnover annually.
- 200 thousand cubic meters sold.
- Over one million seedlings planted in member forests per year.
- All services from harvesting, selling, transport logistics, buying seedlings, regeneration, pre commercial thinings etc. available from one place at honest prices.

What has been achieved since 2011?

- EU funded free forestry advice to forest owners made available with really no strings attached.
- Help in attracting EU funds to private forestry.
- Unprecedented level of transparency for the sector.
- Organization, which is honest to the forest owner and treats all members equally regardless of their size, knowledge and skills.
- Organizations, which mobilize wood from and services to also small forest owners.

This is the visible side of the coin. But is it all so shiny?



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- Simple management structures where all members participate in the Shareholder meeting, where they elect Board and Supervisory Board members, in absence of Nomination committees which would screen candidates, have lead to unqualified people filtering into Board positions.
- Advantage of such systems is that they are cheap to operate. But they lead to lower quality shareholder decisions.
- Members come from all walks of life. Most of their backgrounds do not make them qualified to decide business decisions and evaluate management candidates.

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- Running such a system tends to bring management of a co-operative closer to management of a political party or an NGO, not a business. But, decision making in co-operatives, if they want to be successful, have to be as close as possible to an efficiently and competently run business, not a political party or NGO.
- Replacing all shareholder meeting by more competent and more motivated meeting of elected representatives has been tried, but has not been accepted on grounds, that this would harm co-operative democracy.
- Unqualified people in management with time lead to pushing through poor decisions, and unnecessary conflicts with more qualified people, opposing those decisions. This may lead to qualified people leaving co-operative business organizations.

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- Desire of current shareholder meetings to run co-operatives at zero profit and loss, has not allowed run higher profits at the expense of members in good years to accumulate reserves to compensate bad years. Therefore bad years, which periodically come in the cyclical Latvian roundwood market, push co-operatives into losses, from which it is not easy to later recover. This also makes larger investment projects impossible.
- The general inability of co-operatives to ensure efficient, predictable management is a reason banks consider them to be high risk customers.

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- The unprecedented transparency, that co-operatives brought to the Forest sector, is not welcomed by many powerful timber buyers. Ease with which any forest owner can become a co-operative member and can today be nominated for positions on Board and Supervisory Board members open up them to potential harmful actions.
- General financial weakness of co-operatives has been an obstacle to second level co-operation, such as development of a joint timber trading organization, investments in wood processing, etc.
- Absence of dividend flows from co-operatives to their members, alienates members, many of whom are small forest owners, which do not do very much business from their forests. Not that many forest owners stay connected through attending seminars or other gatherings.

Conclusions

- It is difficult to change poor management structure through poor shareholder meeting. If you do not put it in place from the beginning, it is later difficult to change.
- Forest owner co-operatives have brought many very necessary improvements to our country. But to ensure, that this movement stays and develops, they need to be financially stable and strong. Which none of them today is. Only desire of motivated members can make them strong.

Conclusions

- Small number of co-operatives means that any failure or high profile bankruptcy will cast a strong shadow over the very idea, that forest owners can join to establish an efficient forest management company to assist their forest management activities.
- As fish rots from its head, our ability to have co-operatives in the future with properly organized management structures, will determine, whether there is future for forest owner co-operation in this country. Maybe some new co-operatives will be necessary.
- Good examples exist in Sweden and Finland. They just need to be applied and we need to learn from past mistakes of our neighbors.

A lush green forest scene with tall trees and dense undergrowth. The text "Thank you for your attention!" is overlaid in the center.

**Thank you for
your attention!**