

Identifying the critical success factors for developing value chains in forest products which ensure adequate benefit sharing by community-based forest enterprises

- When developing enterprise solutions, it is not practical to work at the wide spectrum of needs and opportunities but rather to assess the scenario of competitiveness within sub sectors and then to concentrate efforts within one or a few prioritized value chains or clusters. The value chain approach allows a focus within a vertical and horizontally linked chain and then addresses the services and relationships of the various actors within the chain. For example, banks may finance marketing companies who pre-finance traders and processors who provide pre-harvest advances to producer families
- The value chain in an enterprise starts with the producer and ends with the consumer. Throughout the chain, there are two types of actors: **direct actors**, who are the members of the market chain through which the product moves (such as harvesters, traders, manufacturers and consumers); and **indirect actors**, who can influence the marketing of the product (such as policy-makers, technical researchers and environmental advocacy groups). These include both private- and public-sector companies and agencies. Alliances are so important that if one of the parties in the chain is weak, the whole venture can be affected and may even collapse. The formation of effective alliances is therefore a key issue.
- Small-scale forest operations in developing countries often rely on hierarchical patron-client relations and stratified value chains, with an unequal distribution of benefits. At the same time, diverse wider-scale economic and political factors affect the feasibility of local forest operations. Therefore, the value chain should be oriented towards trickling down the benefits to the poor.
- In terms of markets: pulpwood, ecotourism, medicinal plants and fair trade are good opportunities for small and medium forest enterprises. In terms of value added: processing, transportation and marketing may be controlled by small and medium forest enterprises through appropriate advice and training. Small improvements in drying, storing, grading, processing, packaging, branding, and negotiating can greatly improve profitability. Often it will be better for small farmers and communities to partner with people with experience in these areas, rather than necessarily taking them on themselves.
- The integration of SMFEs into value chains is challenging due to the following important constraints:
 - Complexity of establishing links with SMFEs in often remote locations
 - Diversity of constitution of SMFEs (with informality and insecure resources)
 - Lack of managerial capacity and bargaining power to deal with bureaucracy
 - Inadequate market information, design capability and technology
 - Problems matching supply with demand due to small sales volumes
 - Little collateral to attract investors or offset risks themselves.Global value chains (GVC) are particularly challenging on account of distant

Market preferences, export requirements, consumer social and environmental concerns and standards, and competition with those offering tailored customer services.

- **Key constraints of integrating SMFE into value chains are:** *information* about markets (prospects, price, quality, quantity, timeliness) *innovation* – making a product or service different (through cost efficiency, design, labeling and placement); and *interaction* – the capacity to work with clusters, associations, trade specialists etc.
- In terms of *information about markets*: expanding SMFEs are generally related to ‘superior goods’ that increase in consumption with rising income (carpentry, charcoal, honey, mushrooms etc). ‘Inferior goods’ fall out of consumption as income rises (bushmeat, wrapping leaves, thatch, mats etc.). To understand value chain prospects it is necessary to understand transitions from (i) subsistence ‘safety nets’ collected from wild to (ii) low income generating ‘gap fillers’ managed or cultivated to (iii) high income specialized ‘stepping stones’ often cultivated. High demand for the latter (often in international markets) drives specialization – but this may not equate with ‘success’ from community perspective.
- Four general lessons that emerge from new research shows which are the advantages of *product and service innovation* :
 - Cultivation efficiencies distinguish products on cost and predictable quantity / quality (but training is often required).
 - Product design and packaging distinguish products on perceived quality (trade fairs, market surveys and training are often required).
 - Product labeling (e.g. FSC, organic, fair trade) incurs costs but distinguish product and services on perceived quality (but require induction – and can penalize SMFEs).
 - Product placement can be crucial and locally set up but external support helps (e.g. there are well developed networks for fair trade).

In terms of SMFE interaction: the general principle is that industrial clusters have significant benefits (Porter, 1998). SMFE associations are widespread and (i) reduce transaction costs, (ii) facilitate strategic adaptation (iii) shape the policy environment. External support for groupings of SMFEs is best when it (i) works to support existing autonomous groups (ii) builds self-help capacity (administration, umbrella associations, networking, advocacy) (iii) improves recognition, information flows and specific training. Procurement strategies can be influential.
- Therefore the following recommendations are key:
 - *Don't ignore local value chains*. Unless ethical market niches or a unique world-class resource exists. Attempting global value chains in the first instance may not be wise.
 - *Focus on ‘superior goods’ or ‘stepping stones’* (whose market share will

expand with rising income) but monitor impacts on safety net resources and gap fillers.

- *Foster enterprise associations and support their specific needs.* Build administrative and management capacity through autonomous associations
 - which are best placed to identify what support would help.
 - *Simplify administrative processes and standards for SMFEs.* Special protocols such as FSC SLIMF can help enormously.
 - *Support judicious subsidies for SMFEs,* or remove unfair subsidies for large enterprises.
 - *Invest in market information services and networking.* Trade fairs and market surveys help and radio can be an effective medium.
 - *Foster credit unions and better risk assessments for banks.* Group-lending contracts with joint liability hold much promise. Risk assessments that reflect forest timeframes and constraints can help banks deal with SMFEs
 - *Favour SMFEs in procurement policies.*
- In the specific case of timber products, the critical elements for the success of SMFEs in the international market may be summarized as follows:
 - Identification of market niches where specialized production is key to cost minimization.
 - Knowledge of forest resource.
 - Focus on 6–8 abundant species (399 species were utilized in Bolivia in 2005).
 - Emphasis on focused sale efforts.
 - Recognition as a strategic provider in an integrated supply chain, providing quality products and reliable service (punctuality in the delivery, promptness in answers, etc.).
 - Provide lesser known species (LKS) for the growing outdoor furniture market in various countries of Europe, where forest certification may provide an advantage.