

## **Identifying the technical, business, and financial services necessary to enable successful small and medium forest enterprise development and related poverty reduction.**

- There are significant economies of scale in many forestry activities and low income households often lack the necessary skills, resources, and information to compete. Support services, credit information and training are either weak, absent or do not meet the needs of small and medium enterprises. Better public and private support service should be provided.
- Few financial services, sources of technical and market information, and training opportunities are available for small-scale forest-based enterprises. Most programs and projects designed to support micro-enterprises have little experience with or interest in these activities. The technical assistance and training programs that do exist tend to take a top-down and technocratic approach. It is important to find ways to help provide small farmers, indigenous peoples, and communities with the skills and information they need, without being paternalistic and detracting from their control over the process.
- Forest-related activities are part of complex rural livelihood strategies. This diversification is necessary for small-scale producers in order to cope with distress and manage risks. Approaches that recognize: the multiplicity of actors and the complexity of institutions that mediate the access to forest resources; the distribution of forest-related benefits and the formation of social cooperation mechanisms, are crucial to understand the social conditions under which small-scale forest operations occur.
- The first key principle applied by Market Analysis and Development, a methodology aimed at assisting the rural poor become micro or small-scale entrepreneurs themselves, is: *the participation of future entrepreneurs (the poor) at all stages of the identification and implementation of their future enterprises* in order for them to build capacity to successfully pursue the new initiatives that emerge from the process even after the facilitator leaves. It is critical that entrepreneurs be given the skills to analyze data, to make their own decisions and to formulate their own plans for their future enterprises.  
The other 5 key principles are:
  - The systematic inclusion of the four aspects of enterprise development: the environmental, social, commercial and financial aspects of a product.
  - Institutional capacity-building.
  - The role of the support structure (national or international public, private or non governmental projects or programs) evolves over the process.
  - The importance of Strategic Alliances.
  - small enterprise development helps to reveal and address policy constraintsMany projects bring to light key policy-enabling conditions that should be present for successful small enterprise development for poverty reduction.

- A community enterprise exists whenever ownership rights, decision-making fora and processes allow local stakeholders to monitor and control decisions. The community forest enterprise differs from private corporations in that their members have a direct interaction with enterprise operations and receive benefits other than monetary dividends.
- Social Capital, support networks, hidden demand for enterprises services obeying to logics other than the Western business culture exist within communities and they should be taken into account when providing training and services.
- The role of social capital in affecting the strategies pursued by poor people to meet their livelihood needs has received limited attention in conventional studies of local livelihoods (Coomes *et al.* 2004). In this respect, it is important to note that the formation of social capital often requires considerable investment and negotiation, and for this reason, this intangible asset cannot be stored in the same way as other assets. Forestry as a capital intensive livelihood strategy often raises complex questions of community involvement, such as how to share the benefits and how to rotate the leadership positions. Under these conditions, strict requirements for all-inclusive approaches can become a severe constraint.
- The interaction between financial and social capital within small enterprises has the potential to help reduce poverty.
- The types of service demand are basically two:  
*-direct/explicit demand*, determined by western business culture, such as: technical capacities; managerial capacities; financial capacities; and indirect; and *intangible/bland/or implicit demand*, determined by non western business culture such as: services related to social and cultural needs determined by attitudes, habits, uses, preferences, aspirations. Both types of demand, direct and indirect were considered real demands.

When providing services to small enterprises, a connection must be established between the indigenous/local business culture and the Western business culture. In the case of an indirect demand, the accompaniment should aim to create:

- a business model according to the needs and situation of the local level, as well as in agreement with market opportunities and demands.
  - Development of a management model in agreement with the complexity of the enterprise strategy.
  - developing a communication policy within the enterprise to create a sense of ownership among its members.
  - creating trust among all the actors of the chain.
- The kinds of services identified were: *technical services* such as production and processing technology; post-harvest treatment; storage; management plans. It also identified *business services* such as market information; marketing; enterprise

organization; business plans; auditing; transportation. It finally identified *financial services* such as credit; funds provided in advance; donations; insurance; savings. All of these services were considered necessary elements at a certain point of the chain, starting from the primary production stage through the primary processing, secondary processing, wholesale, retail sale and final consumption.

- In order to provide appropriate service the factors that have an impact on the demand of technical services have to be taken into account, these are: the link of the chain the service belongs to; enterprise size: micro, small, medium; the business development stage; legal status; product type; market level; market type.
- The success factors to be cultivated by services are: promoting organization, mutual trust and leadership, specialization, demand oriented production, clear management roles, clear rules, constant innovation, quality of product.
- Small and medium enterprises must have their own development division and financing administration. The procurement of enterprise services may be more than knowing and accessing the service provider. Coordination and knowledge of specialists and financing sources are necessary. Accessing and coordinating enterprise services are both part of the capacity to be built.
- Service providers must be specialized, but many do not know the small and medium enterprise sector. Service supply must consolidate in an inter-institutional manner. Alliances and the presence of several institutions make them complementary. Capacity building should be created in concentrated geographical areas. Service providers must have an open mentality and try to promote cooperation and co-financing and consider that enterprises are now receiving the benefits of cooperation, but tomorrow they may be clients.
- Training services carried out by the Rainforest Alliance in Central America took into account basic tools such as inventory control, productivity and financial support of value added products. Financial support has been sought through institutions such as the Central American Bank for Economic Integration, BCIE, OIKOCREDIT, DCA- USAID. Some national private banks are cooperating, nevertheless, banks tend to ignore the forestry sector and hardly conceive how trees can yield profit.
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## **Strategic alliances**

- Support of natural resource-based enterprises can hardly be delivered by one service provider alone because several types of expertise are needed: some are linked to production, forest management, or are related to marketing and enterprise management, and some are associated with technology or policy issues.

## **Financial services**

- There is need of both, the private and the public resources. While the investment and finance will need to primarily come from the private sector, in some cases “seed” capital for jump-starting the process will be needed. Public funds and commitment are also needed to invest in the public physical infrastructure (roads, electricity, schools, training centers, etc.) and in strengthening the macro conditions for community-level and forestry enterprises within the country and region. Both donors and governments can also help to create awareness and links between forest enterprises and their communities with potential investors and industries.
- Donors should respond to faster to enterprise development demand. Policies, regulations and processes are slower on the donor side, but in this case the response is connected to market demands. Donors could promote the creation of local capacity in terms of service provision.