

**International Conference on Small and medium forest  
enterprise development for poverty reduction: Opportunities  
and challenges in globalizing markets**

**REPORT**

**Turrialba, Costa Rica  
May 23-25, 2006**



## **International Conference on Small and medium forest enterprise development for poverty reduction: Opportunities and challenges in globalizing markets**

*The International Conference on Small and medium forest enterprise development for poverty reduction: Opportunities and challenges in globalizing markets* was held from May 23 to 25, 2006 in the CATIE headquarters in Turrialba, Costa Rica.

The conference had the overall objectives of developing a common understanding of the actual and potential role of small and medium forest enterprises in poverty reduction strategies and sustainable forest management, and share lessons learned in small and medium forest enterprise development in Africa, Asia and Latin America with focus on:

- Identifying key elements of strategies for promoting enabling political and institutional frameworks for small and medium forest enterprise development;
- Identifying the critical success factors for developing value chains in forest products which ensure adequate benefit sharing by community-based forest enterprises and
- Identifying the technical business and financial services necessary to enable successful small and medium forest enterprise development and related poverty reduction.

The conference was structured in three morning plenary sessions and three afternoon case study sessions.

Each plenary session was dedicated to one of the three main focuses of the conference mentioned above and consisted of one key note address and several invited presentations,

Each afternoon case study session was divided into three parallel groups presenting from 5 to 3 case studies per day from different countries in Africa, Asia and Latin America.

This report focuses on the key note addresses and presentations discussed during the Plenary Sessions and includes a summing up of the findings identified by the conference participants. To read the full versions of the Plenary Session presentations or to find about the case studies, please respectively refer to Annexes I and II .

**First Plenary Session**

**Enabling environments for poverty reduction through small and  
medium forest enterprise development.**

**May 23, 2006**

**Key note address, May 23.**

## **CRITICAL ISSUES FOR SMALL-SCALE COMMERCIAL FORESTRY**

By David Kaimowitz, Director Center for International Forestry Research (CIFOR).

According to CIFOR Director, new opportunities have recently opened up for small and medium forest enterprises:

- In term of assets: small farmers and communities control forests about one quarter of forests in developing countries.
- 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.

The constraints are:

- Over-regulation by governmental and other institutions that create more paper work and high costs that cannot be met by small and medium enterprises.
- Trade liberalization and the participation of large economies and enterprises may hamper the operation and profit-making of small and medium enterprises.
- Subsidies and other benefits as tax cuts are usually provided to large scale enterprises and exclude small and medium enterprises.
- Support services, credit information and training are either weak, absent or do not meet the needs of small and medium enterprises.

The path ahead will require balancing democracy and bureaucracy through major policy reforms and better public and private support services.

**First presentation, May 23.**

**MACROECONOMIC, POLITICAL-LEGAL AND INSTITUTIONAL  
FRAMEWORKS FOR SMALL AND MEDIUM ENTERPRISE DEVELOPMENT,  
THE CASE OF MEXICO**

By Camille Antinori, Postdoc University of California, Berkley.

The speaker used an organizational perspective to define what a community-based forest enterprise is. Therefore 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.

About 80 per cent of Mexican forests are managed by communities. Widespread organization at the community level exists in Mexico, mainly through “comunidades” and ejidos emerging since the Agrarian Reform. These communities benefited from laws promoted after the Mexican Revolution at the beginning of the XX century. But they actually benefited from them because communal governance already existed in place and eventually acquired authority over forests.

In terms of public policies, the case of Oaxaca shows how public goods investment is very high and many governmental programs and agencies are involved in the forestry sector. At the same time, the institutional capital to organize, the size and quality of the resource and skill and experiences were pre-existing factors that conditioned the vertical integration of communities operating community forest enterprises.

But migration also has an impact on forest communities. Twelve out the 24 communities analyzed receive money from their relatives living in the U.S, this income accounts for little more than 50% of their family yearly income. A logger in Mexico may earn US\$ 30 per day, while a migrant farming worker earns US\$ 100 per day.

The study concluded that community-based forest enterprises in Mexico:

- have property rights and process in place;
- a path dependency (from governmental agencies);
- control and ownership data could suggest other configurations and mechanisms for local stakeholders to participate from management of that source;
- there is need for more theoretical frameworks for collective action and accountability.

In terms of community-based forest enterprises as productive organizations:

- The “Community” exists as a structure and process;
- Variations ins institutions affect flow and distribution of resources;
- Linkages exist at local, national and global levels;
- Redefinition of property/access rights affects wealth.

**Second presentation, May 23.**

## **THE ROLE OF COMMERCIAL FORESTRY IN RURAL LIVELIHOODS**

By Anja Nygren, Research Fellow of the Academy of Finland.

This presentation was based on a study indicating that about two thirds of rural people in developing countries live on agriculturally marginal lands, where commercial forestry offers one of the few viable livelihood options. Although the participation of rural people in forest activities may be limited in terms of relative market-share, the contribution of these activities to people's income is often high.

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.

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.

The study concluded that improved understanding of local livelihood strategies and Decision-making processes is crucial for developing sustainable commercial forestry operations in developing countries. It also affirmed that engaging rural people in sustainable commercial forestry operations will permit large scale forest conservation. But it warned that "no sustainable forest management can work without effective institutions and transparent decision-making procedures".

Finally it recognized that under favorable economic and political conditions, there is potential for rural development and poverty reduction through people's active involvement in commercial forestry.

**Third presentation, May 23.**

## **MARKET ANALYSIS AND DEVELOPMENT (MA&D): A SMALL-SCALE ENTERPRISE DEVELOPMENT STRATEGY FOR POVERTY REDUCTION AND SUSTAINABLE NATURAL RESOURCE MANAGEMENT**

By Isabelle Lecup, FAO and International consultant on community enterprise development.

The third presentation focused on the key principles applied by the Market Analysis and Development (MA&D) in order to ensure that small enterprise development is contributing to forest conservation and poverty reduction. The MA&D is one of the strategies aimed at assisting the rural poor become micro or small-scale entrepreneurs themselves.

### **The key principles are:**

1. The participation of future entrepreneurs (the poor) at all stages of the identification and implementation of their future enterprises.
2. The systematic inclusion of the four aspects of enterprise development: the environmental, social, commercial and financial aspects of a product.
3. Institutional capacity-building.
4. The role of the support structure (national or international public, private or non-governmental projects or programs) evolves over the process
5. The Importance of Strategic Alliances
6. Small enterprise development helps to reveal and address constraints concerning policy issues.

**1. 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.

**2. The systematic inclusion of the four aspects of enterprise development: the environmental, social, commercial and financial aspects** of a product. The focus on social and environmental issues means that long-term development of an enterprise will only occur if it meets the needs of the target group members, if they have the required capacity to operate the enterprise, and if it is adapted to their environment.

For example in The Gambia, by integrating forest conservation concerns into enterprise development, CF communities had first to develop effective strategies for fire prevention because without reduction in fires, income-generating activities such as utilization of dead trees and beekeeping were impossible.

**3. Institutional capacity-building.** A small enterprise development strategy needs to build the capacity of rural poor to become entrepreneurs, but, at the same time, it needs also to build the capacity of all support structures involved in helping them. A multi-sector institutional set up is most appropriate because often individual institutions do not have all the facilities needed to meet the demands of entrepreneurs, nor the experience of working at the village level using participatory facilitation techniques.

The capacity of government institutions and non-governmental organizations needs to be increased at all levels in practical ways including establishing sustainable use of natural resources management and organizational issues, market surveys etc.

For example, the priority of a project implemented in Burkina Faso, was to build not only the capacity of the program initiators and of the target group members, but also that of the co-management partners at the national level – province and district levels – to use participatory methods for small enterprise development.

**4. The role of the support structure (national or international public, private or non-governmental projects or programs) evolves over the process:** in the first part of the process of assisting village entrepreneurs identify and develop their small enterprises, the facilitators from the support structure are external to the community. At a certain point of the process, when the target group members perceive themselves as future entrepreneurs, the role of the support structure moves to one of linkage, to help the future entrepreneurs deal with different services providers, such as processing techniques training providers, banks, etc.

For instance, in the Kirghizstan TCP/FAO project, the initial project team was composed of one national NGO field coordinator, two district level NGO facilitators, two officers from the National Center for Development of Mountain Region, and 6 village-elected representatives. Their understanding of the socioeconomic dynamics of the communities and their knowledge of local natural resources were critical in the early stages of the process. Later in the process, because the groups were mainly involved with production and marketing activities that were beyond the experience of the field facilitators, the community members became the main implementers. Then the facilitators played a new role in linking the future entrepreneurs to technical and basic management training providers.

**5. The Importance of 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. 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. The challenge for the support structure is to help target group members identify strategic partners who will be in a position to contribute to the development of a sustainable enterprise.

For example, mushroom producers in northern Vietnam benefited from forming an alliance with the national mushroom research institute. They learned how to grow new species of mushrooms and had access to information on the quality required by consumers. Their alliance with a company that prepared salted mushrooms for export ensured that they themselves had a buyer for the mushrooms they could not sell to wholesalers or restaurants or on the retail market. The alliance also meant a guaranteed supply of raw materials to the company. Both parties benefited from the partnership.

**6. Small enterprise development helps to reveal and address constraints concerning policy issues.** Through the enterprise identification and development phase, both the small entrepreneurs and the support structure realized the opportunities and challenges offered by some of their policy context, and frequently used it to influence the government to initiate appropriate policy changes.

Many projects bring to light key policy-enabling conditions that should be present for successful small enterprise development for poverty reduction. Among them:

- Land use (ownership or use rights) that ensure access to natural resources is a key pre-condition for enterprise development based on forest products. Once they own or have long-term use rights of the resource, communities are encouraged to protect and to use it.
- Logging restrictions fixed by central government often encourages price increase and thus increased illegal timber harvesting. Sometimes sustainable resource use is threatened by laws and enforcement practices which promote resource and revenue drain from rural areas more than conservation and increase of local production assets. The benefits move away from the poor, although they are close to the resource, and towards rich outsiders, private corporations.
- The legal registration of the enterprise at a certain stage of its development leads to increased access to funds and provides official recognition.
- Quality standard and taxes regulations and procedures should be tailored to small entrepreneur's technical and financial capacity. Specific tax exemption should exist for new enterprises.

- Simplified procedure and timely delivery of licenses and permits are key for small business development.

In The Gambia project, small enterprise development at the local level revealed certain constraints around policy issues and led governmental institutions to propose solutions. For example, the Forestry Department staff has been encouraged to enforce procedures at police checkpoints in order to reduce the competition generated by the illegal exploitation of forests. On the other end many communities have set up patrols to stop illegal felling in their forests.

In the past, many outside companies felled trees commercially; some outsiders had licenses from the government, while many others operated illegally. The villagers never tried to stop them because they felt that they had no control over the issue. Now that the forest is in their hands, illegal felling has dropped dramatically, and the government can no longer issue exploitation licenses to people or companies outside of the local forest community for community forest and co-managed forest parks.

**In conclusion, using the MA&D strategy:**

- The poor rural communities determine the type and scale of enterprises most adapted to their conditions and expectations
- The small producers learn to assess the advantages and disadvantages of producing for the export or domestic market, and to select the most appropriate marketing strategy, that will bring them expected income at less risk: for example if the economic objectives of the entrepreneurs can be met in the local market, why to look for a more complex export marketing strategy?
- The small entrepreneurs are willing to invest in protecting forest resources, realizing now the increased income they can get from it.
- The small entrepreneurs create constructive alliances with other direct actors in the value chain in order to be more competitive in the market, and they enter in relation with services providers in order to be more operational and grow their enterprises.
- The small entrepreneurs realize the benefits to create or strengthen large professional groups in order to gather the support they need for operating and growing their enterprises.

Finally, rural poor not only increase their income once, but they now know how the new market system works, and how to participate and benefit from it in the long run.

**Second Plenary Session**

**The successful integration of small and medium forest enterprises**

**May 24, 2006**

**Key note address, May 24.**

## **OPPORTUNITIES AND CHALLENGES FOR INTEGRATION OF SMALL AND MEDIUM FOREST ENTERPRISES INTO VALUE CHAINS**

By Duncan McQueen, International Institute for Environment and Development.

A series of key questions about the importance of creating Small forest enterprises (SMFEs) and the opportunities and challenges for integrating those enterprises into value chains were posed.

**The benefits of creating SMFEs** helps in securing basic needs, increase wealth locally, empower local creativity, strengthen local environmental accountability and preserve cultural identity and niche markets. (Over 20 million people are employed by SMFEs worldwide and Over US\$130 billion/year of gross value added is from SMFEs worldwide). SMFEs have a better understanding of local political contexts; have links with local civil society and a commitment to operating in a specific area.

**The risks** are that exploitative SMFEs may go more easily unchecked; that informality, insecure tenure, low investment, low profitability may reduce scope for social or environmental concern; and that lack of management may lead to resource depletion.

**The 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, labelling and placement); and
- *interaction* – the capacity to work with clusters, associations, trade specialists etc.

**Recommendations:**

- *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.*

**First presentation, May 24.**

## **FOREST CERTIFICATION IN MEXICO: SEARCHING FOR SPACE IN A GLOBALIZED MARKET**

By Daniel Klooster, State University of Florida

This presentation examined the environmental certification of forests in Mexico using commodity network analysis.

Forest certification is a significant certification scheme, in less than 10 years the Forest Stewardship Council (FSC) alone has overseen the certification of nearly fifty million ha, of forests equivalent to perhaps 1.5 percent of the world's total forest area. About five times as much forest is certified under competing schemes. FSC certified forest products comprise an estimated \$5 billion of sales.

In the early 1990s a group of NGOs and peasant forestry organizations, lead by the *Consejo Civil Mexicano para la Silvicultura Sostenible* (CCMSS), began to promote forest certification in Mexico. Inspired by the experience of organic and Fair Trade coffee the CCMSS hoped that FSC certification of forests would permit domestic producers – especially communities – to compete in the globalized wood market. They also hoped that certification would demonstrate the positive role of community forestry in biological conservation and rural development to public officials and sectors of public opinion still unconvinced of its role in conservation and development.

However, the commodity network for wood products in the country is dominated by large retailers who demand wood that is cheap, of uniform quality, available in high volumes AND ALSO certified. Therefore, forest certification has so far failed to generate prices that permit forest managers to cover the costs of certification and the required forest management improvements. Currently (in 2003), twelve percent of the Mexican wood harvest is certified

This instrument imposes certification costs and forest management requirements on southern producers without rewarding them for their increased efforts while they only benefit the largest forest management operations in Mexico.

Several reforms and parallel strategies would be necessary for certification to enable small forest enterprises to capture a larger share of the global value chain for wood. These include measures to reduce certification costs for small forest enterprises, programs to improve the physical quality and volume of certified forest products, and also proposals to modify certification rules so they are more like Fair Trade and explicitly extract value from retailers and processors to subsidize forest managers' certification costs.

The question remains whether voluntary market-based instruments like forest certification should distract our attention from a more direct government role in environmental regulation and development projects, perhaps including direct payments for the environmental, cultural, and social services small forest enterprises provide.

**Second presentation, May 24.**

## **CRITICAL ISSUES FOR SUCCESS IN THE INTERNATIONAL MARKETS FOR WOOD PRODUCTS: LESSONS LEARNED IN BOLIVIA**

By Jhony Zapata, Camara Forestal de Bolivia

Globalization has accrued competition among enterprises thus demanding shorter innovation cycles, product diversification, new market niches, technology, qualified labor, quality standards, minimum quantities and delivery periods and specialized service supply to the industrial producer.

Taking into account previous characteristics of globalizing international markets, forest SMEs in developing countries that wish to compete must make use of their potential competitive advantages. These may include: production based on low technical complexity and intensive labor use, access to a wide diversity of forest species present in tropical forests, and more flexibility than large enterprises in industrialized countries.

An example used by the speaker is the recent creation of a market chain integrated by a German enterprise, a Bolivian enterprise, and a local social association. The German enterprise is interested in securing a new commercial partner who can guarantee long term sustainable supply of tropical timber for outdoor decking products with FSC certification. The Bolivian enterprise is a successful enterprise in non FSC certified sawn-wood sales to Latin American, Asian and European countries. While the local social association has a forest concession of 40,000 ha, granted 4 years ago. Until now, the association has not been able to manage the forest due to lack of operating capital, knowledge of forest management practices, information, and market contacts.

The German partner guarantees buying, at market prices, certified timber products of 8 species. The Bolivian enterprise will be responsible for managing the local association concession, and for obtaining and maintaining the FSC Certification. The enterprise will make the necessary investments, saw and manufacture decking products and pay a fair price for timber, it will also employ labor from the local association and train people. In a period of 5 years the local association will be likely to maintain the FSC certification and provide certified wood to the processing industry installed in the project.

The critical elements for the success of SMFEs in the international market are:

- Identification of market niches where specialized production is key to cost minimization
- Knowledge of forest resource
- Focus on 6–8 abundant species (e.g. 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.

**Third presentation, May 24.**

## **US MARKET ENVIRONMENT FOR TROPICAL TIMBER AND OPPORTUNITIES FOR ADDED VALUE FOR SMALL AND MEDIUM FOREST ENTERPRISES**

By Vidal Villela, Pinturas Industriales, S. A..

### 1. Introduction

This presentation focused on the most important technical and marketing aspects for a successful export of wood furniture to the United States market...

Globalization has increased competition in all markets. This phenomenon had a strong impact on the furniture industry in Central America, which had to adapt to the new rules of the game. Small and medium enterprises face many challenges if they want to compete in the North American market. Therefore attention must be given to the most important technical and marketing issues to achieve successful exports to a competitive market such as the US wood furniture market.

The main market aspects are:

- knowledge of current trends of U.S. furniture marketing;
- finding a suitable niche that fits with their enterprise environment and that gives them advantages over the others;
- ensuring that the value of the goods reflect the quality.

The main technical aspects are:

- structural design of the goods.
- high quality raw materials e.g.: woods, paint, glue, iron, sandpaper, etc.
- discussion about packing materials.

Final recommendations:

- creation of SMEs groups to complement each other
- technical preparation before starting to export
- consciousness of the productive capacity
- continual training
- flexibility
- continual search for new markets.

**Fourth presentation, May 24**

## **EUROPEAN MARKET ENVIRONMENT FOR TROPICAL TIMBER AND OPPORTUNITIES FOR VALUE ADDED FOR SMALL AND MEDIUM FOREST ENTERPRISES**

By Jurgen Jordan, Espen AG.

Tropical timber imports in the European Union (EU) account for approximately 15 million m<sup>3</sup> of roundwood equivalent, per year. This figure includes logs, lumber, plywood, veneers and finished products. In 2002 the EU imported \$ 19.2 billion worth secondary processed wood products, SPWPs.

SPWPs are wooden furniture (currently 60-70% of all SPWPs traded), wood products for domestic use, packaging material (16%), builder's woodwork (13%) and others such as wooden toys. Prominent examples are knock-down furniture for DIY-outlets, high end garden furniture, laminated window components, flooring and broom sticks.

The potential market of SPWPs for small and medium forest enterprises in developing countries is outstanding. Due to limited natural and financial resources it may not be appropriate to compete with large plywood mills in Asia or dubious log exporters in Central Africa. Their focus is set on value added products which generate labour on site and which may use limited resources in the best way.

EU buyers are sourcing SWPs overseas. Major producers in the tropics are Indonesia, Malaysia, Mexico, Vietnam and Brazil. Within these countries major investments took place in the past to boost the processing facilities and to combine available primary resources with skilful and price-attractive labour. The latter accounts certainly for the success of Vietnam as a country depending strongly on the import of raw material but benefits from its hard working labour force.

Since the introduction of the FSC system in 1993, public awareness in forestry issues and creditability into the certification system was growing steadily. As a result, European forests became certified parallel to forest operations in the tropics. In the Netherlands, a pioneer country in FSC certification, the share of FSC certified timber in overall timber imports was 3,3% in 1999, it reached to 9% in 2003 and is expected to be 10.9% in 2006.

Requirements made by European buyers to small & medium enterprises are:

- Clear-cut product design
- Flexibility in product development, if required by customer/market
- Defined and continuous quality (control)
- Efficient communication
- Respectfulness in terms of agreements and delivery dates
- Competitive prices.

**Third Plenary Session**

**Enhanced technical, business and financial services for small and  
medium forest enterprise development**

**May 25, 2006**

**Key note address**

## **INTEGRATION AND ENHANCEMENT OF TECHNICAL, BUSINESS AND FINANCIAL SERVICES FOR PROMOTING THE DEVELOPMENT OF SMALL AND MEDIUM FOREST ENTERPRISES**

By Calvin Miller, FAO Rural Finance Senior Office

To be sustainable, forest businesses need to maximize financial return at same time that they satisfy criteria of environmental and social feasibility. An additional area of opportunity for forest enterprise development are environmental services, including carbon sequestration, watershed management businesses, forest and biodiversity resource protection or management, public-private eco-tourism.

The key elements to promote profitable enterprise development include: a) market development, b) human skill and management capacity building, c) institutional development, d) investment and finance and e) improvement in the overall macro and micro operating environment. In fact, 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 specific issue of economy of scale is one of the most difficult to overcome in remote locations. Many times the quantity of product, such as non-timber forest products, is in limited supply in a given region and seasonality of production make it hard to aggregate sufficient and reliable quantities to attract major business interest. Some forest enterprise alternatives do however have the potential to be cultivated or improved to reach economically attractive scales of operation. To reach this level, both, investment and capacity building are necessary.

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 etc.)

A final recognition is that non-forest related business development is more suitable for enterprise development. Employment opportunities and income generation are basic needs in the community and region. Without sufficient opportunities to generate income the drain on forest resources will be even greater. As evidenced in the many buffer zone programs, enterprise development support to all types of local businesses can be beneficial to both the community livelihood needs as well as to the sustainability of the natural resources.

**First presentation, May 25.**

## **DEMAND FOR TECHNICAL, BUSINESS AND FINANCIAL SERVICES BY SMALL AND MEDIUM FOREST ENTERPRISES IN THE TROPICS**

By Dietmar Stoian and Jason Donovan, CATIE

This presentation was focused on the identification of service demands from small and medium forest enterprises. The presentation initiated by posing key questions about services:

- What kind of services can we distinguish?
- Which factors have an impact on the demand of technical services?
- Who determines service demand?
- What type of service demands are there?
- How to link service demand to service supply?

**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.

**The factors that have an impact on the demand of technical services** mentioned were: 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 actors identified as those determining the service demand** were: donors, NGOs, Governmental agencies, projects, interest groups and associations, research centres, small and medium forest enterprises and the actors within the enterprise: board of directors, managers, community members.

**The types of service demand** identified were basically two: direct, explicit demand, determined by western business culture, such as: technical capacities; managerial capacities; financial capacities; and indirect, intangible/bland/or implicit demand, determined by non western business culture such as: those related to social and cultural needs determined by attitudes, habits, uses, preferences, aspirations. Both types of demand, direct and indirect were considered real demands.

The presentation also briefly explained the four main stages of a methodology developed by the Rainforest Alliance to identify technical assistance, these were: secondary information collection/ grey literature; primary information collection; triangulation and systematization and feedback and validation.

**Second presentation, May 25.**

## **DESIGN AND DELIVERY OF INTEGRATED TECHNICAL, BUSINESS AND FINANCIAL SERVICES FOR SMALL AND MEDIUM FOREST ENTERPRISE DEVELOPMENT**

By Luis Alejandro Mejía and José Carrera, Rainforest Alliance

The Rainforest Alliance is a non governmental organization based in New York, U.S.A. The Alliance works in 53 countries with the purpose of developing certified product demand in consumer countries, and develop certified offer from the agricultural, forest and tourism sectors in producer countries with the objective of improving the livelihood of people depending on natural resources. The presentation focused on the work carried out in: Mexico and Central America.

The Forest Alliance works both on the supply and the demand sides. At the beginning, most of the owners had uncertified forests and there was no organization whatsoever, or knowledge of certified markets and most of the products sold were raw materials, with a consequent underutilization of 40 per cent of raw material. The buyers would acquire products anywhere. Finally, the Forest Alliance was able to organize a market chain linking forest resources owners, processors and informed buyers.

### **The process**

Rainforest Alliance provides technical assistance and acts as an interface between buyers and suppliers. The organization works to close gaps and connect the added value chain. On one hand it works with the industries to provide product samples, guidelines and specifications to the suppliers and provides follow up to product requests. On the other hand, it provides the suppliers with technical assistance to evaluate costs, provide tools, production processes, subcontracts, industry assistance, mechanical assistance, diagnosis and training.

Many successful examples exist in the region, i.e. a community from Ixtlan de Juarez in Mexico was able to sell desks to the local government of Oaxaca State. This forest enterprise focuses in achieving low costs, efficiency and quality control. Another experience regards other value added products such as manufacturing guitar pieces for Gibson Guitars Co. These pieces are made from waste timber, thus obtaining a high value added result. The company is currently buying these products from Guatemala, Mexico and Honduras.

As a result of this process, the organization was able to establish alliances with 1 200 companies. In the case of forest enterprises, commercial relationships were established with: B & Q, Ikea, Anderson Tully, Domtar, Gibson guitars, Home Depot, Lowes. Between 2004 and 2006 a US\$ 275 million profit was made through sales of 23 certified products with value added.

**Several remarks may be highlighted in terms of enterprise services.**

**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.

**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.

## **International Conference on Small and medium forest enterprise development for poverty reduction: Opportunities and challenges in globalizing markets**

### **SUMMING UP OF FINDINGS**

This summing up of findings includes the statements and comments made by private sector representatives, community entrepreneurs, researchers, non-profit providers of technical, business and financial services, and funding and donor agencies representatives participating in the Plenary sessions of the conference.

The conclusions are grouped by theme of discussion, as follows:

- Common understanding of the actual and potential role of small and medium forest enterprises in poverty reduction strategies and sustainable forest management.
- Identifying key elements of strategies for promoting enabling political and institutional frameworks for small and medium forest enterprise development.
- Identifying the critical success factors for developing value chains in forest products which ensure adequate benefit sharing by community-based forest enterprises.
- Identifying the technical business and financial services necessary to enable successful small and medium forest enterprise development and related poverty reduction.

**Common understanding about the actual and potential role of SMFE in poverty reduction strategies and sustainable forest management:**

- About two thirds of rural people in developing countries live on agriculturally marginal lands, where commercial forestry offers one of the few viable livelihood options.
- Small farmers and communities control about one quarter of forests in developing countries.
- Although the participation of rural people in forest activities may be limited in terms of relative market-share, the contribution of these activities to people's income is often high.
- Under favorable economic and political conditions, there is potential for rural development and poverty reduction through people's active involvement in commercial forestry.
- Engaging rural people in sustainable commercial forestry operations will permit large scale forest conservation. But no sustainable forest management can work without effective institutions and transparent decision-making procedures.

**Identifying key elements of strategies for promoting enabling political and institutional frameworks for SMFEs development**

A pre-condition to find such key elements is the identification of constraints that small and medium enterprises face:

- Sometimes sustainable resource use, poverty reduction and rural development are threatened by laws and enforcement practices which promote resource and revenue drain from rural areas more than conservation and increase of local production assets. The benefits move away from the poor, although they are close to the resource, and towards rich outsiders, private corporations.
- Forest policy reforms have actually favored communities i.e. forest concessions to communities in Guatemala, or Agrarian reform laws at the beginning of the XX century in Mexico that allowed 80 per cent of forest land to be managed by communities. Community-based forest enterprises in many countries have property rights and process in place; but there is some ambiguity in law about forest resources. Therefore, it must be kept in mind that redefinition of property and access rights affect wealth thereby affecting also decision-making and success of community and small forest enterprises.
- In the past policy reforms have favored communities by giving them access to ownership or control over forest and land resources, then why not creating policies that give small and medium enterprises access to markets and services.
- Over-regulation by governmental agencies and institutions creates paper work and high costs that small enterprises cannot afford, these measures favour products and practices more suited to larger operations. This forces many small enterprises to operate illegally, even when they manage their forests better than larger “legal” operations.
- The path ahead will require balancing democracy and bureaucracy through major policy reforms, clear and fewer rules and better public and private support services aimed to create an enabling environment for small and medium forest enterprises.
- Research and exchanges of information and experiences can help identify the bottlenecks, make the case for policy reforms, and provide the small-scale commercial producers with information they need to succeed.
- The implementation of enterprise development methodologies such as Market Analysis and Development have shown that small enterprise development helps to reveal and address constraints concerning policy issues. Many projects bring to light key policy-enabling conditions that should be present for successful small enterprise development for poverty reduction. Among them:
  - Land use (ownership or use rights) that ensure access to natural resources is key pre-condition for enterprise development based on forest products. Once the own or have long-term use rights of the resource, communities are encouraged to protect and to use it.
  - Logging restrictions fixed by central government often encourages price

- increase and thus increased illegal timber harvesting.
- The legal registration of the enterprise at a certain stage of its development lead to increased access to funds and provides official recognition.
  - Quality standard and taxes regulations and procedures should be tailored to small entrepreneur's technical and financial capacity. Specific tax exemption should exist for new enterprises.
  - Simplified procedure and timely delivery of licenses and permits are key for small business development.
- Communication, facilitation and policy briefs aimed to creating an enabling environment for small and medium forest enterprises may be also provided to governments.
  - Government regulatory, financial, trade, and fiscal policies all tend to favor wealthier groups. Subsidies and other benefits as tax cuts are usually provided to large scale enterprises and exclude small and medium enterprises. Policies to subsidize the poor and the creation of value chains in favor of the poor are necessary. These should be value chains where empowerment, and decision-making by poor communities are links of a chain aimed to improve their livelihoods.
  - But care must be taken to avoid financial dependency from governmental agencies as variations in those institutions affect flow and distribution of resources.
  - Small and medium forest enterprises may develop markets both, at the local and the global level. It depends on opportunities, comparative advantages, and national policies in place. Local market demands should be paid attention to, going global is not always positive for small and medium enterprises, the same applies for certification.
  - Local markets are extremely important. Some market trends favor small-scale forest-based enterprises. Urban domestic markets for furniture, construction wood, medicinal plants, charcoal and other forest products are growing rapidly in many developing countries. In Brazil, China, India, Indonesia, South Africa, and Thailand.
  - Trade liberalization and the participation of large economies and enterprises may hamper the operation and profit-making of small and medium enterprises. For example, opening the Chinese and Indian markets to pulp imports is a major threat to small-scale plantation growers in those countries, as is the opening of Mexico's markets to the United States and Chile. Many governments have explicit incentives for large-scale plantation development and indirectly subsidize large producers through various mechanisms, which make it harder for small producers to compete.
  - In Mexico, a study carried out about community enterprises showed that these enterprises are very much connected to global markets for timber and labor but policies to incorporate them into the market still have a long way to go to position them to compete in the market and develop economically.

**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 (bush meat, 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.

**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 constraints
 Many 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. 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/blanket/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.
- 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.

## **Certification**

- Inspired by the experience of organic and Fair Trade coffee, the Mexican Civil Council for sustainable forestry (CCMSS) hoped that Forest Stewardship Certification of forests would permit domestic producers – especially communities – to compete in the globalized wood market. They also hoped that certification would demonstrate the positive role of community forestry in biological conservation and rural development to public officials and sectors of public opinion. However, the commodity network for wood products in the country is dominated by large retailers who demand wood that is cheap, of uniform quality, available in high volumes AND ALSO certified. Therefore, forest certification has so far failed to generate prices that permit forest managers to cover the costs of certification and the required forest management improvements. Until 2003, twelve percent of the Mexican wood harvest is certified.

Certification imposes costs and forest management requirements often impose high costs and investments on southern producers without rewarding them for their increased efforts, while they only benefit the largest forest management operations (i.e. in Mexico). Several reforms and parallel strategies would be necessary for certification to enable small forest enterprises to capture a larger share of the global value chain for wood. These include measures to reduce certification costs for small forest enterprises, programs to improve the physical quality and volume of certified forest products, and also proposals to modify certification rules so they are more like Fair Trade and explicitly extract value from retailers and processors to subsidize Forest managers' certification costs.

Besides certification initiatives a more direct government role in environmental regulation and development projects is necessary, perhaps through the inclusion of direct payments for the environmental, cultural, and social services small forest enterprises provide.

- A different example is the case of a market chain of certified timber linking a German enterprise, a Bolivian enterprise, and a local social association show that each partner can actually benefit . The German enterprise is interested in securing a new commercial partner who can guarantee long term sustainable supply of tropical timber for outdoor decking products with FSC certification . The Bolivian enterprise is a successful enterprise in non FSC certified sawn-wood sales to Latin American, Asian and European countries. While the local social association has a forest concession of 40,000 ha, granted 4 years ago. Until n now, the association has not been able to manage the forest due to lack of operating capital, knowledge of forest management practices, information, and market contacts.

The German partner guarantees buying, at market prices, certified timber products of 8 species. The Bolivian enterprise will be responsible for managing the local association concession, and for obtaining and maintaining the FSC Certification. The enterprise will make the necessary investments, saw and manufacture decking products and pay a fair price for timber, it will also employ labor from the local association and train people. In a period of 5 years the local association will be likely to maintain the FSC certification and provide certified wood to the processing industry installed in the project.

- Another example of successful certification regards The Rainforest Alliance, an organization that works to develop certified product demand in consumer countries, and develop certified offer from the agricultural, forest and tourism sectors in producer countries with the objective of improving the livelihood of people depending on natural resources. At the beginning, most of the owners had uncertified forests and there was no organization or knowledge related to certified markets and most of the products sold were raw materials, with a consequent underutilization of 40 per cent of raw material. The buyers would acquire products anywhere.

The Alliance was able to organize a market chain linking forest resources owners (in this case in Mexico and Central America) to processors and informed buyers. As a result, the organization was able to establish commercial relationships with: B & Q, Ikea, Anderson Tully, Domtar, Gibson guitars, Home Depot, Lowes. Between 2004 and 2006 a US\$ 275 million profit was made through sales of 23 certified products with value added. Many successful example exist, i.e. a community from Ixtlán de Juárez in Mexico was able to sell desks to the local government of Oaxaca State. This forest enterprise focuses in achieving low costs, efficiency and quality control. Another experience regards other value added products such as manufacturing guitar pieces for GibsonGuitars Co. These pieces are made from waste timber, thus obtaining a high value added result. The company is currently buying these products from Guatemala, Mexico and Honduras.

## **Environment**

- Environmental services may also be a commodity at the national and global levels. Environmental awareness has increased in the last 15 years, since the Earth Summit held in Rio de Janeiro. Recognition of environmental services such as carbon sequestration, watershed management businesses, forest and biodiversity resource protection or management, public-private eco-tourism are a reality in many countries and have also become an opportunity for forest enterprise development.
- In many cases non-forest related business development is more suitable for enterprise development. Employment opportunities and income generation are basic needs in the community and region. Without sufficient opportunities to generate income the drain on forest resources will be even greater. As evidenced in the many buffer zone programs, enterprise development support to all types of local businesses can be beneficial to both the community livelihood needs as well as to the sustainability of the natural resources.

## **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.

### **Global markets**

- Tropical timber imports in the European Union (EU) account for approximately 15 million m<sup>3</sup> of round wood equivalent, per year. In 2002 the EU imported \$ 19.2 billion worth secondary processed wood products, SPWPs. Prominent examples of these products are: are knock-down furniture for DIY-outlets, high end garden furniture, laminated window components, flooring and broom sticks.

There is an outstanding potential market of secondary processed wood products (SPWP) for small and medium forest enterprises in developing countries. Due to limited natural and financial resources it may not be appropriate to compete with large plywood mills in Asia or dubious log exporters in Central Africa. Their focus is set on value added products which generate labour on site and which may use limited resources in the best way.

EU buyers are sourcing SWPs overseas. Major producers in the tropics are Indonesia, Malaysia, Mexico, Vietnam and Brazil. Within these countries major investments took place in the past to boost the processing facilities and to combine available primary resources with skilful and price-attractive labour. The latter accounts certainly for the success of Vietnam as a country depending strongly on the import of raw material but benefits from its hard working labour force.

Requirements made by European buyers to small & medium enterprises are:

- Clear-cut product design
- Flexibility in product development, if required by customer/market
- Defined and continuous quality (control)
- Efficient communication
- Respectfulness in terms of agreements and delivery dates
- Competitive prices.

- Globalization has increased competition in all markets. This phenomenon had a strong impact on the furniture industry in Central America, which had to adapt to the new rules of the game. Small and medium enterprises face many challenges if they want to compete in the North American market. Therefore attention must be given to the most important technical and marketing issues to achieve successful exports to a competitive market such as the US wood furniture market.

The main market aspects are:

- knowledge of current trends of U.S. furniture marketing;
- finding a suitable niche that fits with their enterprise environment and that gives them advantages over the others;
- ensuring that the value of the goods reflect the quality.

The main technical aspects are:

- structural design of the goods.
- high quality raw materials e.g.: woods, paint, glue, iron, sandpaper, etc.
- discussion about packing materials.

The final recommendations suggest taking into account:

- creation of SMEs groups to complement each other
- technical preparation before starting to export
- consciousness of the productive capacity
- continuous training
- flexibility
- continuous search for new markets.

### **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.

### **Summing up of findings made in the context of the Market Analysis and Development ( MA&D)**

The MA&D is one of the strategies aimed at assisting the rural poor become micro or small-scale entrepreneurs themselves. This methodology was developed by the United Nations Food and Agriculture Organization (FAO) and has been used in the past 20 years.

A series of lessons learned along the years have led to the inclusion of 6 key principles when implementing MA&D in developing countries:

**1. 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.

**2. The systematic inclusion of the four aspects of enterprise development: the environmental, social, commercial and financial aspects** of a product. The focus on social and environmental issues means that long-term development of an enterprise will only occur if it meets the needs of the target group members, if they have the required capacity to operate the enterprise, and if it is adapted to their environment.

For example in The Gambia, by integrating forest conservation concerns into enterprise development, CF communities had first to develop effective strategies for fire prevention because without reduction in fires, income-generating activities such as utilization of dead trees and beekeeping were impossible.

**3. Institutional capacity-building.** A small enterprise development strategy needs to build the capacity of rural poor to become entrepreneurs, but, at the same time, it needs also to build the capacity of all support structures involved in helping them. A multi-sector institutional set up is most appropriate because often individual institutions do not have all the facilities needed to meet the demands of entrepreneurs, nor the experience of working at the village level using participatory facilitation techniques.

The capacity of government institutions and non-governmental organizations needs to be increased at all levels in practical ways including establishing sustainable use of natural resources management and organizational issues, market surveys etc.

For example, the priority of a project implemented in Burkina Faso, was to build not only the capacity of the program initiators and of the target group members, but also that of the co-management partners at the national level – province and district levels – to use participatory methods for small enterprise development.

**4. The role of the support structure (national or international public, private or non-governmental projects or programs) evolves over the process:** in the first part of the

process of assisting village entrepreneurs identify and develop their small enterprises, the facilitators from the support structure are external to the community. At a certain point of the process, when the target group members perceive themselves as future entrepreneurs, the role of the support structure moves to one of linkage, to help the future entrepreneurs deal with different services providers, such as processing techniques training providers, banks, etc.

For instance, in the Kyrgyzstan TCP/FAO project, the initial project team was composed of one national NGO field coordinator, two district level NGO facilitators, two officers from the National Center for Development of Mountain Region, and 6 village-elected representatives. Their understanding of the socioeconomic dynamics of the communities and their knowledge of local natural resources were critical in the early stages of the process. Later in the process, because the groups were mainly involved with production and marketing activities that were beyond the experience of the field facilitators, the community members became the main implementers. Then the facilitators played a new role in linking the future entrepreneurs to technical and basic management training providers.

**5. The Importance of 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.

For example, mushroom producers in northern Vietnam benefited from forming an alliance with the national mushroom research institute. They learned how to grow new species of mushrooms and had access to information on the quality required by consumers. Their alliance with a company that prepared salted mushrooms for export ensured that they themselves had a buyer for the mushrooms they could not sell to wholesalers or restaurants or on the retail market. The alliance also meant a guaranteed supply of raw materials to the company. Both parties benefited from the partnership.

**6. Small enterprise development helps to reveal and address constraints concerning policy issues.** Through the enterprise identification and development phase, both the small entrepreneurs and the support structure realized the opportunities and challenges offered by some of their policy context, and frequently used it to influence the government to initiate appropriate policy changes.

Many projects bring to light key policy-enabling conditions that should be present for successful small enterprise development for poverty reduction. Among them:

- Land use (ownership or use rights) that ensure access to natural resources is a key pre-condition for enterprise development based on forest products.
- Logging restrictions fixed by central government often encourages price increase and thus increased illegal timber harvesting.
- The legal registration of the enterprise at a certain stage of its development leads to

increased access to funds and provides official recognition.

- Quality standard and taxes regulations and procedures should be tailored to small entrepreneurs' technical and financial capacity. Specific tax exemption should exist for new enterprises.
- Simplified procedure and timely delivery of licenses and permits are key for small business development.

In The Gambia project, small enterprise development at the local level revealed certain constraints around policy issues and led governmental institutions to propose solutions. For example, the Forestry Department staff has been encouraged to enforce procedures at police checkpoints in order to reduce the competition generated by the illegal exploitation of forests. On the other end many communities have set up patrols to stop illegal felling in their forests.

In the past, many outside companies felled trees commercially; some outsiders had licenses from the government, while many others operated illegally. The villagers never tried to stop them because they felt that they had no control over the issue. Now that the forest is in their hands, illegal felling has dropped dramatically, and the government can no longer issue exploitation licenses to people or companies outside of the local forest community for community forest and co-managed forest parks.

**International Conference on small and medium forest enterprise  
development for poverty reduction : Opportunities and challenges in  
globalizing markets**

**ANNEX 1**

**Detailed report on key notes and invited presentations**

**Turrialba, Costa Rica  
May 23-25, 2006**

**First Plenary Session: Enabling environments for poverty reduction  
through small and medium forest enterprise development  
May 23, 2006**

**Key note**  
**May 23, 2006**

## **Critical Issues for Small-scale Commercial Forestry**

**By David Kaimowitz, Director Center for International Forestry Research (CIFOR)**

It has been nearly thirty years since the Eighth World Forestry Congress in Jakarta, Indonesia, which gave birth to modern community forestry. For most of that period global community forestry efforts have focused largely on subsistence type activities and improving the forests' condition. People have only recently begun to see small-scale commercial forest-based activities as a potentially important source of economic dynamism and regional development. That is partly because new opportunities have opened up for this type of activity that simply didn't exist before.

Small farmers, indigenous people, and other communities have greatly increased the share of developing country forests that they own or have long-term rights over. These groups currently control at least one quarter of those forests, which is a major asset they could potentially use to obtain income. In Latin America this largely takes the form of indigenous territories, ejidos, community forestry concessions, extractive reserves, and small-scale agro forests. South Asia has village schemes designed to rehabilitate degraded forests. China has distributed large areas to individual small farmers. Africa and Indonesia have slowly recognized communities' traditional rights.

Some market trends favor small-scale forest-based enterprises. Urban domestic markets for furniture, construction wood, medicinal plants, charcoal and other forest products are growing rapidly in many developing countries. In Brazil, China, India, Indonesia, South Africa, and Thailand largely companies want to buy more pulpwood from small farmers. Tourism generates new markets for handicrafts. Certification and fair trade may also open opportunities

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.

Global movement towards greater democracy and the dismantling of government parastatals and monopolies has opened new spaces for small-scale commercial forest-based activities. Local, provincial, national, and regional associations of small-scale forestry producers have emerged in various countries. Development agencies' focus on the Millennium Development Goals has encouraged conservation organizations to pay more attention to poverty. Despite all these positive trends, however, significant constraints to small-scale forestry enterprises remain. Despite substantial progress with regards to forest tenure much remains to be done. Government regulatory, financial, trade, and fiscal policies all tend to favor wealthier groups. There are significant economies of scale in many forestry activities and low income households often lack the necessary skills, resources, and information to compete.

Small-scale enterprises need a level playing field. Government regulations often discriminate against small scale enterprises. They require paperwork they cannot afford, favor products and practices more suited to larger operations, and insist producers hire professional foresters. This forces many small enterprises to operate illegally, even when they manage their forests better than larger “legal” operations. Small producers have less money to pay for bribes than big companies do and the bribes they do pay cut into their profits.

Government trade and fiscal policies also frequently support larger producers. Opening the Chinese and Indian markets to pulp imports is a major threat to small-scale plantation growers, as is the opening of Mexico’s markets to the United States and Chile. Many governments have explicit incentives for large-scale plantation development and indirectly subsidize large producers through various mechanisms, which make it harder for small producers to compete.

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.

To build a dynamic competitive sector of small-scaled forest-based enterprises will require major policy reforms as well as better public and private support services. Research and exchanges of information and experiences can help identify the bottlenecks, make the case for policy reforms, and provide the small-scale commercial producers with information they need to succeed.

**First Invited Presentation**  
**May 23, 2006**

**Macroeconomic, political-legal and institutional frameworks for small and medium forest enterprise development, the case of Mexico**

Speaker: Camille Antinori Postdoc University of California, Berkley

Nearly 80 per cent of Mexican forests are managed by communities as compared to 22 per cent of forests being managed by communities in developing countries.

To analyze meaning of what a community forest enterprise is (CFE), a look at structure and process of governance over enterprise activities was taken to describe their economic functioning. The enterprises were thus identified as local community-based whenever there are: ownership rights, decision-making fora and processes that allow local stakeholders to monitor and control decisions. This means that CFEs tend to differ from private corporations in that their members have a direct interaction with enterprise operations and receive benefits other than monetary dividends.

Widespread organization at the community level exist in Mexico, mainly through “comunidades” and ejidos emerging since the Agrarian Reform. These communities benefited from laws promoted after the Mexican Revolution at the beginning of the XX century. But they actually benefited from them because communal governance already existed in place and eventually acquired authority over forests. At the same time, institutional capital to organize, the size and quality of the resource and skill and experiences were pre-existing factors that conditioned the vertical integration of those communities.

At present authorized forest land by tenancy in Mexico shows that out of 2.5 million hectares, 550, 233 hectares are private, while 1,9 million are communal land. Out of a total 3 136 permits for forest use, 2128 involve private tenancy and 1008 communal tenancy.

As an example, the flow of revenue received from forest use in Oaxaca, shows that profits distributed to members of CFEs goes from 16% of stumpage benefits to 38 % of sawn wood benefits and 46% of round wood benefits to 50% of benefits from secondary products.

With regard to public policies, the case of Oaxaca shows that public goods investment is very high, going from 88% on stumpage and sawn wood to 82% on round wood and 100% investment on secondary products. In fact the study shows that state policies emphasizes on public goods and less on physical and working capital, while the State relies on its own funds or on arrangements with private firms.

In addition, many governmental programs and agencies are involved in the forestry sector, i.e. PRONARE in reforestation activities, PROCYMAF in institutional capacity and technical assistance, while PRODEFOR funded about 6, 500 projects and PSAH works on ecosystem services outside the forestry service.

Nevertheless migration of workers has also an impact on forest communities: a logger in Mexico may earn USD\$ 30 (excluding public goods benefits) per day, while a migrant farming worker in the U.S. earns USD\$100. In fact, the village population of 12 communities out the 24 communities subject of study receive money from their relatives living in the U.S, this income accounts for little more than 50% of their family yearly income.

In terms of CFEs integration in the global market, these “enterprises are very much connected to global markets for timber and labor but policies to incorporate them into the market still have a long way to go to position them to compete in the market and develop economically”. It was also pointed out that small and medium enterprises actually have linkages at the community, regional, state and global levels. CFEs are still learning to compete on a global scale and need better quality of products and services.

The study concluded that CFEs as local institutions in Mexico:

- have property rights and process in place;
- a path dependency (from governmental agencies) exists;
- control and ownership data could suggest other configurations and mechanisms for local stakeholders to participate from management of that source;
- there is need for more theoretical frameworks for collective action and accountability.

In terms of CFE as as a productive organization:

- The “Community” exists as a structure and process;
- Variations ins institutions affect flow and distribution of resources;
- Linkages exist at all levels;
- Redefinition of property/access rights affects wealth.

**Second invited presentation**  
**May 23, 2006**

**The Role of Commercial Forestry in Rural Livelihoods**

**By Anja Nygren**, Research Fellow of the Academy of Finland

Discussion of the role of commercial forestry in efforts to reconcile the objectives of forest conservation and rural development has been hampered by limited understanding of the complexity of the factors that affect the contribution of forestry to local livelihoods. Basing on the theoretical approach of political ecology, this study examines the role of commercial forestry within rural livelihoods in developing countries, by paying special attention to multiple actors, ambiguous institutions, and diverse social mechanisms that mediate the access and control over forest resources and forest-related activities.

The income-earning orientation in many developing countries is moving away from strictly agricultural-based modes of livelihood. Non-farm income constitutes today 40 percent of rural household income, both in Africa and Latin America (Bryceson 2002, Reardon et al. 2001). About two thirds of rural people in developing countries live on agriculturally marginal lands, where commercial forestry offers one of the few viable livelihood options.

At the same time, one fourth of the forests in the most forested developing countries are owned or managed by local communities (White and Martin 2002). In this situation, it is unlikely that large-scale forest conservation can be achieved without feasible strategies to engage rural people in sustainable commercial forestry operations (Scherr *et al.* 2003).

The study emphasizes that forest-related activities need to be understood as part of complex rural livelihood strategies, with a diversity of income generating activities. This kind of diversification is necessary for small-scale producers in order to cope with distress, to manage the risks, to adjust the timing of incomes, and to balance different labor requirements (Ellis 2000). At the same time, it is important to note the existing heterogeneity of local communities, with multiple actors and often contested interests (Nygren 2005). The conventional dichotomy between rural and urban, and local and nonlocal, becomes problematic when trying to understand people's dynamic livelihood strategies in the context of increasing mobility and hybridity (Stoian 2005).

Forestry can provide diverse direct and indirect benefits for rural people in developing countries: In addition to serving as a safety net, it can provide an important source of income, a long-term asset, and a crucial source of employment. Although the participation of rural people in forest activities may be limited in terms of relative market-share, the absolute contribution of these activities to people's income is often high (Sunderlin *et al.* 2005).

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.

Forest-related activities are mediated by a range of interacting and overlapping institutions, both formal and informal. Small-scale forest operations in developing countries often rely on hierarchical patron-client relations and stratified value chains, with an unequal distribution of benefits (Ribot 2003). At the same time, conflicting interests toward forest-related activities require delicate negotiation processes and feasible conflict management strategies.

The study concludes that improved understanding of local livelihood strategies and decision-making processes is crucial for developing sustainable commercial forestry operations in developing countries. 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.

It is important to note that no sustainable forest management can work without effective institutions and transparent decision-making procedures. At the same time, it is important to recognize that no community-based forest activities occur in a vacuum, but diverse wider-scale economic and political factors affect the feasibility of local forest operations (Klooster 2005, Nygren 2005). Under favorable economic and political conditions, there seems to be an unrecognized potential for rural development and poverty reduction through people's active involvement in commercial forestry (Scherr *et al.* 2003).

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**Third invited presentation**  
**May 23, 2006**

**Using the Market Analysis and Development (MA&D) approach as a small-enterprise development strategy for poverty reduction and sustainable natural resource management**

By Isabelle Lecup

**Introduction**

Over the years a variety of strategies have been developed to reduce the poverty of forest dependant people through small enterprise development. This presentation focuses on one of the strategies aimed at assisting the rural poor become micro or small-scale entrepreneurs themselves.

This particular strategy addresses not only the symptoms of poverty, such as lack of income, but also fights the causes of poverty by helping the poor to gain confidence, to communicate with the outside world, to look for and find useful and needed information, to choose the best places to sell or discuss prices, in other words to become actors in the economical world, not only “beneficiaries” of actions taken externally for their ‘benefit’. Selling raw materials to a newly established or an existing SME may increase the income of poor rural communities, but it will not equip them for further economic development.

Many people living in poverty depend on forest products for all or part of their livelihoods. Increasing demand for forest products often leads to overexploitation of the resource base and economic exploitation of the people who harvest the products. The result is degradation of natural resources and a worsening of the economic conditions of local poor, who are the harvesters, collectors and producers. It is now recognized that micro and small-scale enterprises based on forest products need to be not only financially viable but also environmentally and socially sustainable.

But how can these poor community members transform themselves from sellers of forest products into entrepreneurs actively developing strategies to manage and market their forest products? How can they benefit most from the management of their local forest resources?

The purpose of this paper is to present the key principles which ensure that small enterprise development is contributing to forest conservation and poverty reduction. An overview of the process which has been designed to consider these principles, the Market Analysis and Development (MA&D) approach, will then be presented.

Findings presented in this paper are based on the outcome of forest products based micro

and small enterprises projects with whom I have collaborated on in different regions of the world.

### **TERMINOLOGY**

In this paper, the term “*support structure*” designates all institutions supporting the target group in identifying and developing their enterprises through the MA&D process. This includes national or international public, private or non-governmental projects or programs.

the term “*entrepreneur*” is used as a generic term for the actors who will benefit directly from the trade of forest products. This includes producers, manufacturers (primary processing of semi-finished products and secondary processing of finished products), and traders. An entrepreneur can undertake one function, such as production of forest nuts or manufacture of medicinal plants, or several functions, such as manufacture and trade of rattan furniture.

the term “facilitators” are the indirect actors who assist and guide target group members through the MA&D process. This includes governmental or NGO extension officers from the local, district and/or national levels.

It is essential for facilitators to keep pace with the capacity of target group members. And the challenge for facilitators is to avoid taking over the process in order to get through it faster or achieve a desired result. Instead, a good facilitator helps target group members obtain and analyze the information they require to make their own decisions about their future enterprises.

### **Key principles ensure that enterprise development is contributing to forest conservation and poverty reduction**

During the process of identifying and developing their micro or small enterprises, the future entrepreneurs must respect certain principles, including:

#### **1. Local community members become entrepreneurs**

The participation of future entrepreneurs (the poor) at all stages of the identification and implementation of their future enterprises is a pre-condition for achieving successful small-scale enterprise development.

By participating in the entire process of identification and implementation of their future enterprises, the entrepreneurs build their capacity to successfully continue the new initiatives that emerge from the process even after the facilitator leaves. While the support of a facilitator is needed throughout, 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.

#### **2. Integrating forest conservation and social concerns into enterprise development**

The systematic inclusion of the four aspects of enterprise development, which take into

account environmental, social and technical factors, as well as the commercial and financial aspects of a product, is one of the main strengths of the process of helping rural poor community members identify and develop their enterprises. The focus on social and environmental issues means that long-term development of an enterprise will only occur if it meets the needs of the target group members, if they have the required capacity to operate the enterprise, and if it is adapted to their environment.

For example in The Gambia, by integrating forest conservation concerns into enterprise development, CF communities had first to develop effective strategies for fire prevention because without reduction in fires, income-generating activities such as utilization of dead trees and beekeeping were impossible.

A recent and very encouraging trend has been emerging in many of the villages. Thirteen out of the 26 villages currently participating in small enterprise development activities have applied to extend their community forest. This substantial expansion would have seemed implausible only a few years ago, before they realized monetary benefits from their forest.

### **3. Institutional capacity-building**

A small enterprise development strategy needs to build the capacity of rural poor to become entrepreneurs, but, at the same time, it needs also to build the capacity of all support structures involved in helping them.

A multi-sector institutional set up is most appropriate because often individual institutions do not have all the facilities needed to meet the demands of entrepreneurs, nor the experience of working at the village level using participatory facilitation techniques.

The capacity of government institutions and non-governmental organizations needs to be increased at all levels in practical ways including establishing sustainable use of natural resources management and organizational issues, market surveys etc. For example, in Burkina Faso, the priority of the project was to build not only the capacity of the program initiators and of the target group members, but also that of the co-management partners at the national level – province and district levels – to use participatory methods for small enterprise development.

Although it will vary according to specific projects' objectives, context and resources, the small enterprise development training programs should generally include one, several, or all of the following training components:

- Training project staff in coordinating, planning and managing small enterprise development projects,
- Sensitizing the heads and staff members of implementing partners about the small enterprise development participatory methods and tools, and about the important role they play in the project so that they are willing and able to provide facilitators and small entrepreneurs with the required support,
- Training trainers from development organizations so that they will be able to train field

facilitators in participatory small enterprise development.

- Training facilitators from government institutions or development organizations at the provincial and district levels on the ways they can assist local communities in implementing participatory small enterprise development and in following-up on their activities.

#### **4. The support structure's role evolves over the process**

In the first part of the process of assisting village entrepreneurs identify and develop their small enterprises, facilitators from the support structure are external to the community. They mobilize and sensitize the community about the benefits of small enterprise development, and provide them with basic knowledge, methods and tools on enterprise preparation and development.

At a certain point in the process, when the target group members perceive themselves as future entrepreneurs, the role of the support structure moves to one of linkage, to help the future entrepreneurs deal with different services providers, such as processing techniques training providers, banks, etc.

For instance, in the Kirghizstan TCP/FAO project, at the beginning of the project's implementation, the team was composed of one national NGO field coordinator, two district level NGO facilitators, two officers from the National Center for Development of Mountain Region, and 6 village-elected representatives. Their understanding of the socioeconomic dynamics of the communities and their knowledge of local natural resources were critical in the early stages of the process. Later in the process, because the groups were mainly involved with production and marketing activities that were beyond the experience of the field facilitators, the interest group representatives became the main implementers. Then the facilitators played a new role in linking the future entrepreneurs to technical and basic management training providers.

#### **5. The Importance of Strategic Alliances**

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

The value chain 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. The challenge for the support structure is to help target group members identify strategic partners who will be in a position to contribute to the development of a sustainable enterprise.

In order to create strategic alliances with services providers, target group members:

- assess their main strengths and constraints (while preparing the EDP ),
- list the areas where external assistance is most critical,
- select other members in the chain who could also benefit from the alliance,
- identify indirect actors in each of the target areas of enterprise development who could assist in overcoming constraints (for example, partners who could solve technical problems or develop institutional structures),
- assess the nature of existing relationships and how they need to be changed,
- develop linkages with the selected key actors, and
- eliminate from consideration or give lower priority to actors with whom a relationship is not necessary.

For example, mushroom producers in northern Vietnam benefited from forming an alliance with the national mushroom research institute. They learned how to grow new species of mushrooms and had access to information on the quality required by consumers. Their alliance with a company that prepared salted mushrooms for export ensured that they themselves had a buyer for the mushrooms they could not sell to wholesalers or restaurants or on the retail market. The alliance also meant a guaranteed supply of raw materials to the company. Both parties benefited from the partnership.

## **6. Small enterprise development helps to reveal and address constraints concerning policy issues**

Through the enterprise identification and development phase, both the small entrepreneurs and the support structure realized the opportunities and challenges offered by some of their policy context, and frequently used it to influence the government to initiate appropriate policy changes.

Many projects bring to light key policy-enabling conditions that should be present for successful small enterprise development for poverty reduction. Among them:

- Land use (ownership or use rights) that ensure access to natural resources is a key pre-condition for enterprise development based on forest products. Once they own or have long-term use rights of the resource, communities are encouraged to protect and to use it.
- Logging restrictions fixed by central government often encourages price increase and thus increased illegal timber harvesting.
- The legal registration of the enterprise at a certain stage of its development leads to increased access to funds and provides official recognition.
- Quality standard and taxes regulations and procedures should be tailored to small entrepreneur's technical and financial capacity. Specific tax exemption should exist for new enterprises.
- Simplified procedure and timely delivery of licenses and permits are key for small business development.

Sometimes sustainable resource use, poverty reduction and rural development are

threatened by laws and enforcement practices which promote resource and revenue drain from rural areas more than conservation and increase of local production assets. The benefits move away from the poor, although they are close to the resource, and towards rich outsiders, private corporations.

In The Gambia project, small enterprise development at the local level revealed certain constraints around policy issues and led governmental institutions to propose solutions. For example, the Forestry Department staff has been encouraged to enforce procedures at police checkpoints in order to reduce the competition generated by the illegal exploitation of forests.

On the other end many communities have set up patrols to stop illegal felling in their forests. In the past, many outside companies felled trees commercially; some outsiders had licenses from the government, while many others operated illegally. The villagers never tried to stop them because they felt that they had no control over the issue. Now that the forest is in their hands, illegal felling has dropped dramatically, and the government can no longer issue exploitation licenses to people or companies outside of the local forest community for community forest and co-managed forest parks.

### **Overview of the process which has been designed to consider these principles, the Market Analysis and Development (MA&D)**

Lessons learned from 20 years of field experience in small enterprise development have helped to develop the 'Market Analysis and Development' (MA&D) approach. Because of its focus on ecological sustainability in addition to its social and financial objectives, the MA&D methodology is a 'pro-poor' development strategy especially applicable to enterprises based on resources that need to be protected or conserved.

The Forestry Policy and Institutions Service of FAO has supported the development of this MA&D for establishing community-based tree and forest product commercial enterprises.

The MA&D approach promotes the creation of micro and small scale forest-based product enterprises by rural poor. This approach aims to provide these communities with more opportunities to utilize forest resources for economic improvement while creating greater capacity to sustainably manage them. The rural poor are supported in identifying what products or activities (processing, etc.) will be feasible for them in their particular context, taking into account not only of what can be *successfully produced* within the context of sustainable forest management, but also what can be *profitably sold*.

The future micro or small-scale entrepreneur is accompanied through the process of exploring which products potential customers will purchase and then producing, processing, promoting and distributing them at a profit. They will not be kept in the position of a "seller" trying to make the customer buy the available product, but will become entrepreneurs who not only sell but also produce, process, promote and distribute their products.

MA&D provides a framework for planning and creating sustainable forest product enterprises. It consists of three main phases designed to guide community members through a simple and straightforward participatory process for enterprise planning and development. The MA&D user is guided through a sequence of systematic steps, which serve as a checklist to ensure that critical elements are not overlooked, thereby reducing the risk factor in establishing enterprises.

In this section the three phases of the MA&D process will be examined in more details, which progressively enable the future entrepreneurs to clearly identify their enterprise concept, check its feasibility, plan it and actually make it happen.

### **PHASE 1—Assessing the Existing Situation**

Phase 1 of the MA&D process is an exploratory phase in which the members of the target group are trained in the tools and methods for understanding the key issues of their social, environmental, economical and technical situation.

They are led to reflect on:

- what are the potential enterprises?
- who are the potential entrepreneurs and what are their expectations?
- what are the available resources and products?
- what are the constraints within the existing value chains and market systems?

This phase gives some initial indications of the possibilities and scale that entrepreneurs can realistically aim for, taking into account such factors as available financing, market demand and potential investors.

They start from what already exists, considering products that are already being traded and that provide them with income. In addition, opportunities for introducing new value-added technologies to existing production or introducing new products are assessed. Community members describe their experience with production, processing and trade of tree and forest products. For example, they review:

- what they collect from the forest
- at what time of the year they collect the products
- what income do they get from them
- where they sell them and
- whether they receive any support from the local extension office or not.

The goal is for them to choose viable products that are best suited to their economic expectations and capacity, and that also offer possibilities of expansion and long-term sustainable exploitation. In order to ensure the creation of viable enterprises and to reduce risks, community members learn to select enterprise ideas that take into account social, environmental and technological factors in addition to the marketing aspects of any given product.

During this first phase of the process, both the target group and the support structure

develop a better understanding of the constraints that might prevent them from obtaining fair benefit from their resources.

Experience shows that they usually face difficulties in adding value and reaching markets for the following reasons:

- Reliable market and price information is difficult for them to obtain.
- Remote location of products results in long distribution channels and high transportation costs.
- Limited literacy and lack of information prevent them from knowing and defending their rights.
- Households with a shortage of labor have difficulty being involved in forest collection activities unless they take place in the low growing season.
- They receive little income from natural resources while, at the same time, external interests gain high profits. This situation undermines and often deprives them of future sources of income.
- Extraction industry by outsiders deprives local poor of access to resources and ecosystem services, leaving them with limited benefits, and a degraded resource base and environment.
- Access to resources is sometimes restricted by regulations and enforcement practices that favor outside traders who pay license fees and royalties to the local government.
- Products are dependent on the ecological integrity of the forest and they need to couple sustainable exploitation of products with forest conservation.
- Infrastructures to support marketing of forest products and provision of rural services are often weak.

These constraints explain why, in general, producers of forest products do not market their products themselves but instead sell them to the first available customer, such as a government agent, a trader or an intermediary, and why they are left out of the support systems.

**The outcome of phase 1 is:**

- A shortlist of potential products that will be evaluated in the next phase of MA&D is established.
- Understanding of the social, environmental and technical constraints of a range of products is developed.
- A team of target group members is formed to undertake Phase 2.

The key methodological point is that the rural poor develop micro and small-scale enterprises that take into account the natural environment in which they live as well as their own capacity and potential, as they see it. This has the double advantage of ensuring that the enterprises will be tailored to the capacities and desires of the people involved, and that, at the same time, they slowly learn the basis of a successful decision-making process which involves collecting and analyzing information then making decisions. This process builds the confidence they need to open up to trade and enterprise development.

## **PHASE 2: Identifying Products, Markets and Marketing Methods**

In Phase 2, community members deepen the selection process initiated in phase 1, by collecting key market and other information themselves. They are trained in identifying what criteria are important to compare the best products for the market, and how to collect relevant information needed to check the products against these criteria. Although the surveys conducted by target group members are often limited geographically as they often cannot go beyond the provincial level, the direct collection of market and technical information by the future entrepreneurs themselves is a powerful means of generating an “entrepreneur attitude” in them.

Phase 2 surveys collect information that answers the following questions:

- Which products have the best current market potential for them?
- Is there a sufficient quantity of resources for increasing trade or processing? Can these resources be easily managed without negative impact on the environment?
- What kind of technology, organizational structure, capacity and capital would they need to access potential markets?
- Which products will generate a net return and fit their expectations?
- Which products have the greatest potential of bringing income to a large number of small entrepreneurs?
- Which products have the potential to bring income to women and disadvantaged people?

The fact is that through these surveys the target group members often learn new elements about products that give them fresh ideas for future enterprise strategies. For example in Burkina Faso the target group realized they sell *nere* seeds (*parkia biglobosa*) in “plate” units at the local market, while it is sold in kilos at the province market at a higher comparative price. It is also during this survey that the producers of *karite seeds* (*vitellaria paradoxa*) understood that the drying seeds by smoking them may mean that they will be refused by some buyers because this drying process actually decreases the substance content of the seeds. The community forestry groups of the West Division of The Gambia realized the profit added by outsiders to their timber when they discovered the high price of the logs in the suburban market. The results of these surveys help them to identify potential markets and the scale and trends of market demand as well as the constraints in accessing those markets (which could be policy issues, social, environmental or technology-related problems).

At the end of Phase 2, the target group members organize a workshop to share the results of their surveys. Then they analyze and comparatively select the most promising products in terms of opportunities and constraints.

At this stage they are capable of understanding the main pitfalls to avoid, such as:

- on-sustainability of the resource and/or the market

- destruction of the environment
- economic dependence on one product or type of product
- erratic supply
- poor product quality
- low income from the product (poor return)
- capital needs, either for initial investments or for overhead costs
- non-compliance with current rules and regulations
- lack of awareness of important rules and regulations and
- lack of awareness of sources of assistance (such as credit or technical expertise).

**The outcome of phase 2 is:**

- The most promising products are identified and information is gathered for the design of enterprise development plans.
- Interest groups for the selected products are formed who will undertake the necessary activities for their production.

Phase 1 and 2 allow communities to assess their needs and expectations and to reduce the risk of developing plans for overly complex products, for example, developing rattan furniture for the international market when they can achieve their objectives through a more simple enterprise such as the production of dried mushrooms for the local market, which is much more accessible and feasible for them.

Often villagers react to overly complex enterprise ideas suggested by government or NGO support structures by declaring that these ideas might be feasible for national-level educated people, but that they themselves do not feel confident enough to start such activities because they cannot suddenly jump from their simple “left out” conditions to a complicated activity.

This reaction explains why NGOs, governmental institutions and/or researchers come up with “models” for technically ‘wonderful’ and commercially profitable enterprise ideas that ideally would be beneficial for villagers, but that end up without “entrepreneurs” ready to take them on.

**PHASE 3: Enterprise Planning for Sustainable Development**

In the previous two phases, the future entrepreneurs have selected products and markets that are socially and environmentally sustainable as well as financially promising for them.

In Phase 3, they have to gather and finalize the many details needed to actually be ready to start their enterprise. They formulate a plan known as their “Enterprise Development Plan” (EDP) that integrates all the strategies and services needed by the enterprise to be successful. This includes market, environmental, social/institutional and technological strategies.

Once the EDP is finalized, the future entrepreneurs know the type of support they need to successfully operate their enterprises. Then the support structure helps them to:

- link up with whomever is needed to negotiate technical assistance or business development services (indirect actors),
- negotiate purchase contracts between producers and manufacturers (direct actors), and
- arrange financial support contracts/short-term loans for working capital with local banks or the private sector.

Once linked to service providers, the entrepreneurs are ready to start piloting their enterprise at a reduced capacity, receive training and refine operational and organizational mechanisms. In addition, the capacity of entrepreneurs is strengthened so that they are able to:

- monitor their target markets and foresee the changes in demand,
- identify new rivals competing for the same buyers, and
- continue to explore new market opportunities.

They are also trained to manage the stock of natural resources through monitoring the natural resources intake regularly.

In small enterprise development, individual or small groups of entrepreneurs generally face difficulties starting new activities and gathering the support they need for operating and expanding their enterprises. Hence in the MA&D process, entrepreneurs are often encouraged to form larger groups that will allow them to deal more efficiently with other market actors and with services providers. In The Gambia, groups, such as the Forest Kambeng Kafo, in the Central River Division and Jamorai Timber and Firewood Federation (JATIFIF), in the Western Division, were formed to create marketing channels for forest products from rural communities.

The outcome of Phase 3 is:

- identification of markets and development of strategies
- formulation of an enterprise development plan
- development of an action plan and the implementation of a pilot enterprise
- securing of financing, as specified in the capital needs statement of the enterprise development plan
- Implementation of an ongoing monitoring and planning system for the new enterprises.

## **Conclusion**

In conclusion, using the MA&D strategy:

- The poor rural communities determine the type and scale of enterprises most adapted to their conditions and expectations.
- The small producers learn to assess the advantages and disadvantages of producing for the export or domestic market, and to select the most appropriate marketing strategy, that will bring them expected income at less risk: for example if the economic objectives of the entrepreneurs can be met in the local market, why to look for a more

complex export marketing strategy?

- The small entrepreneurs are willing to invest in protecting forest resources, realizing now the increased income they can get from it.
- The small entrepreneurs create constructive alliances with other direct actors in the value chain in order to be more competitive in the market, and they enter in relation with services providers in order to be more operational and grow their enterprises.
- The small entrepreneurs realize the benefits to create or strengthen large professional groups in order to gather the support they need for operating and growing their enterprises.

Finally, rural poor not only increase their income once, but they now know how the new market system works, and how to participate and benefit from it in the long run.

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**Second Plenary Session: the successful integration of small and medium  
forest enterprises into global value chains.**

**May 24, 2006**

**Key note**  
**May 24, 2006**

## **Opportunities and challenges for integration of small and medium forest enterprises into value chains**

By Duncan Macqueen, International Institute for Environment and Development (IIED)

**Why is the integration of small and medium forest enterprises (SMFEs) into value chains so important?** Some rough extrapolations:

- About 80-90% of forestry enterprises are SMFEs in many countries
- Over 50% of all forest sector employment is in SMFEs in many countries
- Over 20 million people are employed by SMFEs worldwide
- Over US\$130 billion/year of gross value added is from SMFEs worldwide

**What socio-environmental benefits and risks need attention?** SMFEs help to secure basic needs, accrue wealth locally, empower local creativity, strengthen local environmental accountability and preserve cultural identity / niche markets. SMFEs also generally better understand local political contexts, have links with local civil society and a commitment to operating in a specific area. Risks are: that exploitative SMFEs may go more easily unchecked; that informality, insecure tenure, low investment, low profitability may reduce scope for social or environmental concern; and that lack of management may lead to resource depletion. Risks are highest in 'distress diversification' where SMFEs seek refuge in low-skill activities and seasonal migration for products without long-term prospects.

**Why is the integration of SMFEs into value chains such a challenge?** Important constraints include the:

- 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.

**What main areas constrain SMFE entry into value chains?** These include:

- *information* about markets (prospects, price, quality, quantity, timeliness);
- *innovation* - the ability to distinguish the product or service (through cost efficiency, design, labelling and placement); and
- *interaction* - the capacity to work with others (clusters, associations, trade specialists, export support).

SMFEs may define success in terms of rising family income (esp. women), strengthening

local culture, improving resource conservation and building local capacity and control – not necessarily business expansion.

<sup>1</sup> For comparison: total global value of imports of wood based products is about US\$141 billion/year – most of which is produced by large enterprises.

**What have we learned about SMFE requirements for *information*?** The most important issue is to establish demand for something before trying to make it. Start ups and failures among SMFEs are high. 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 specialised ‘stepping stones’ often cultivated. High demand for the latter (often in international markets) drives specialisation – but this may not equate with ‘success’ from community perspective!

**How have we learned about SMFE product or service *innovation*?** Four general lessons that emerge from new research:

- 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 labelling (e.g. FSC, organic, fair trade) incur costs but distinguish product and services on perceived quality (but require induction – and can penalise SMFEs).
- Product placement can be crucial and locally set up but external support helps (e.g. there are well developed networks for fair trade).

**What have we learned about 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.

**Recommendations:**

- *Don't ignore local value chains.* Unless ethical market niches or a unique world-class resource exists – it may be unwise to drive towards GVC in the first instance.
- *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*. This can work at national level but may incur less scrutiny at sub-national level.

**First invited presentation**  
**May 24**

**Forest Certification in Mexico: Searching for Space  
in a Globalized Market**

By Dan Klooster, Florida State University

Global value chains integrate consumers, producers, regulators, and nongovernmental organizations into networks of environmental transformation. Product certification systems attempt to assert social and environmental goals onto these networks.

The best-known approach is the organic certification of agriculture, but others include Fair Trade certification and the environmental certification of fisheries and forests. Such mechanisms usually involve nongovernmental organizations, a set of established social and/or environmental standards, third party audits, and a label indicating that certified products come from fields, forests, fisheries, or factories where production practices meet the standards. These market-based development projects comprise significant attempts to modify the political ecologies of increasingly global markets. Some of these projects are explicitly centered on the small and medium producers' share of a global value chain. Fair Trade, for example, provides a guaranteed minimum price above the cost of production. Using commodity network analysis, this presentation examines the environmental certification of forests in Mexico.

Forest certification is a significant certification scheme. In slightly more than ten years of existence, the Forest Stewardship Council (FSC), the earliest, most rigorous, and the most influential forest certification program, has overseen the certification of forests in sixty countries, totaling nearly fifty million ha, equivalent to perhaps 1.5 percent of the world's total forest area. About five times as much forest is certified under competing schemes.

FSC-certified forest products comprise an estimated \$5 billion of sales, with especially strong market penetration in the UK, Germany, and especially the Dutch timber market. Environmental certification of forests has become a kind of "global public policy" supported by a wide variety of actors, including the World Bank, USAID, several European governments, the WWF, and huge transnational furniture and wood retailers such as IKEA and do-it-yourself home improvement retailers like The Home Depot and B&Q.

In Mexico, a group of NGOs and peasant forestry organizations, led by the *Consejo Civil Mexicano para la Silvicultura Sostenible* (CCMSS), began to promote forest certification in the early 1990s. They saw certification as a useful tool to promote environmental conservation, to improve forest management, to enhance social conditions for forest workers and residents, and to support the economic viability of well-managed forests. Inspired by the experience of organic and Fair Trade coffee to open up niches for Mexican producers, members of the CCMSS hoped that FSC certification of forests would permit domestic producers – especially communities – to compete in the globalized wood market.

Furthermore, they hoped that certification would demonstrate the positive role of community forestry in biological conservation and rural development to public officials and sectors of public opinion still unconvinced of its role in conservation and development. Financial support for certification came from a wide variety of sources, including development assistance from the UK, Switzerland, Germany, the InterAmerican Foundation, the Ford Foundation, the MacArthur Foundation, the Packard Foundation, the WWF and most recently the Mexican government through its departments of forest promotion and regulation. Currently (in 2003), twelve percent of the Mexican wood harvest is certified, and certification requires forest managers to make substantial improvements to the social and environmental aspects of forest management. Actors in the Mexican wood commodity network include forest villagers, forest managers, wood processors, government regulators, and transnational wood retailers. These actors express an array of environmental concerns, social values, and interests in price and market share. However, the commodity network for wood products is dominated by large retailers who demand wood that is cheap, of uniform quality, available in high volumes AND ALSO certified. Therefore, forest certification has so far failed to generate prices that permit forest managers to cover the costs of certification and the required forest management improvements; the instrument imposes certification costs and forest management requirements on southern producers without rewarding them for their increased efforts. In addition to the equity issues, these features of the commodity network limit the adoption of forest certification – and the forest management improvements it generates – to only the largest forest management operations in Mexico.

In the context of global value chains dominated by trans-national retailers, on its own, forest certification does little to enable small forest enterprises to capture a larger share of the global value chain for wood. Several reforms and parallel strategies might increase forest certification's reach, equity, and efficacy. These include measures to reduce certification costs for small forest enterprises, programs to improve the physical quality and volume of certified forest products, and also proposals to modify certification rules so they are more like Fair Trade and explicitly extract value from retailers and processors to subsidize forest managers' certification costs. Nevertheless, the question remains whether voluntary market-based instruments like forest certification should distract our attention from a more direct government role in environmental regulation and development projects, perhaps including direct payments for the environmental, cultural, and social services small forest enterprises provide.

**Second invited presentation**  
**May 24, 2006**

**Critical Issues for Success in the International Markets for Wood Products: Lessons Learned from Bolivia**

By Jhony Zapata, Cámara Forestal de Bolivia

**1. Characteristics of the international market**

As a result of the globalization, the international market presents the following characteristics: an increased competence; intensive competence demands shorter innovation cycles; demand diversification and therefore new market niches; competitive capital, technology, and qualified labor are key factors; quality standards, minimum quantities and delivery periods; transportation of product production “labor intensive and use simple technology”; increasing importance of specialized service supply to the industrial producer.

**2. Advantages for forest small and medium enterprises (SMEs)**

Taking into account previous characteristics of globalizing international markets, forest SMEs in developing countries that wish to compete must make use of their potential competitive advantages. These may include: production based on low technical complexity and intensive labor use, access to a wide diversity of forest species present in tropical forests, and more flexibility than large enterprises in industrialized countries.

**3. Critical elements for the success in international markets for timber products**

There exist some elements that can be considered as critical for the success of forest SMEs in international markets for timber products. Among the main elements are:

- Identification of market niches where specialized production is key to cost minimization
- Knowledge of forest resource
- Focus on 6–8 abundant species (e.g. 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.

**4. Learned Lessons from the Bolivian Case**

**4.1 General Data from the Bolivian Forest Sector**

Bolivia has 53 million ha of tropical forests, of which 28.7 million ha have been assigned as Permanent Forest Production Lands. Since 2005, 8.8 million ha of forest have been under sustainable management. The total timber harvest in 2005 was 862,000 m<sup>3</sup>. Exports in 2005 were US\$ 164 million, made up by 50 different products types (80% products with high added value) and imported by 50 countries. The export sector includes some 200 businesses, working with different 60 forest species. The Forest Commercial Balance was over US\$ 90 million.

**4.2 Commercial Relation among a German Enterprise, a Bolivian Enterprise, and a Local**

Social Association (ASL)

*Objective*

Elaborate manufacture goods of increased added value with tropical timber under sustainable forest management (certified FSC).

*Explanation of the Commercial Project*

- **German enterprise** is one of the largest marketers of timber products in Germany, with a worldwide supply network. Currently, its timber for decking comes from Asia. However, this source is expected to present problems in the future. Thus, the German enterprise is interested in securing a new commercial partner who can guarantee a long-term sustainable supply of tropical timber products with FSC certification.
- **Bolivian enterprise** is a successful enterprise in sawn-wood sales to various Latin American, Asian, and European countries. It does not have FSC certification.
- **Local Social Association (LSA)** has a forest concession of 40,000 ha, granted 4 years ago. Up to now, the LSA has not been able to manage the forest due to lack of operating capital, knowledge of forest management practices, information, and market contacts.

*4.2.3. Counterparts in the initiative*

- **German Enterprise:** Guarantees buying at market prices for certified timber product for at least eight species; it will provide advice in the production process and will provide market information.
- **Bolivian Enterprise:** The Bolivian enterprise will be responsible of managing the ASL concession, and for obtaining and maintaining the FSC Certification of Forest Management. The enterprise will pay a fair price for timber. It will employ labor from the ASL, and will train people. In addition, the enterprise will saw and manufacture timber products (initially, decking). For this purpose, it will make the necessary investments.
- **ASL:** The forest management will be carried out in the ASL forest concession. In a period of 5 years, it is considered that the ASL will be able to maintain the FSC certification and will provide certified wood to the processing industry that will be installed in the project.

*Possible support of cooperation agencies*

It will be through experts in the following topics:

- Advise to ASL and the Bolivian enterprise in sustainable forest management and FSC certification
- Advice and training to the ASL in topics related to business administration, enforcement of certification requirements, among other topics
- Identification and research on Chiquitania's forest species and their possibilities of commercialization in Germany
- Installation of a center of teaching and training in milling and carpentry.

#### **4.2 Critical Issues for the success of this commercial relationship**

- Effective integration of the supply chain
- Management and use of LKS (8 species at the beginning)
- Knowledge and specialization along the supply chain
- Access to market information
- Participation in niche markets
- Secure business relations (assured sales)
- In the mid-term (after the training period), the ASL will provide certified pre-products
- Position of the Bolivian enterprise as a strategic provider for the German enterprise
- Production of goods of low technological complexity and a high use of labor.

**Third invited presentation**  
**May 24, 2006**

**The U.S. Market Environment for Tropical Timber and Opportunities for Added Value by Small and Medium Forest Enterprises**

**Vidal Villela Ramos, Pinturas Industriales, S.A.**

This presentation focused on the most important technical and marketing aspects for a successful export of wood furniture to the United States market..

Globalization has increased competition in all markets. This phenomenon had a strong impact on the furniture industry in Central America, which had to adapt to the new rules of the game. Initially it had to face the fierce competition of the Chinese industry, but now there are new actors with even cheaper labour force like Viet Nam.

In order to survive in this competitive market, a new trend has emerged: the elimination of intermediaries and direct sales to the retailers in other countries. But in order to compete, there are several key market and technical issues that a furniture manufacturer wanting to export his product to the U.S. must know:

In terms of market advantages, the producer must be able to:

- Access knowledge of current furniture market trends in the U.S.;
- find a suitable niche that fits their enterprise environment and that gives them advantages over the others;
- ensure that furniture value reflects its quality.

**Access knowledge of current furniture market trends:** constant innovation and adaptation to the fashion trend in furniture markets is key, This innovation cycle changes every 6 months. If furniture producers want to update they only have to invest 5 dollars to buy “Furniture today” a magazine that provides this key information.

**Find a suitable niche that fits their enterprise environment:** in order to identify the appropriate market niche, furniture manufacturers have to focus on the local resources and means that give them advantages over competitors. For example, furniture manufacturers from the Cebu island, in the Philippines, have not been affected by the Chinese competition because they manufacture furniture using local raw materials that do not exist anywhere else and local know-how that others do not have and their furniture have distinctive qualities that make them unique.

**Quality must be the introduction card** of a product. Mahogany from Honduras may be half price of that from Indonesia, but the piece of furniture must have a high value appearance, the perceived value is what counts. Marketing techniques play an important role here, for instance if you commercialize a new type of wood, you should use a

suitable name, a Honduran wood is locally known as turkey bird, but a more suitable name can give it better marketing possibilities. Ruberwood, for instance is known as American bearl, an appropriate name becomes added value.

In terms of technical aspects the manufacturer willing to export must be able to:

- create a structural design of its furniture;
- use high quality raw materials e.g.: timber, painting, glue, iron, sandpaper, etc.
- use appropriate packing materials.

**The structural design** of furniture is an important aspect because it marks the beginning of the export process to the U.S. Therefore access to hardware and software technology is necessary to be able to view plans to design the furniture required. The producers cannot claim they do not have the hardware to process the information, but they can associate to buy and share the equipment needed. Design is also key, therefore contracting a designer is a must and cost may also be shared with other producers.

**The use of high quality raw materials:** matching the appropriate wood to the appropriate piece of furniture, i.e. a heavy wood like pupte, mainly used in flooring is not appropriate for a chair, it will make transportation difficult and costly. The same applies for sand paper finishing, painting and coating, the external aspect must reflect the quality of the raw materials.

**Packaging** is a key aspect of the export process, appropriate packaging materials and techniques ensure a safe transportation and conservation of the furniture at a key moment of export and marketing.

**Final recommendations:**

- associate and create SMEs groups to complement each other
- achieve technical preparation before starting to export
- be conscious of own productive capacity
- continued training
- flexibility
- Continued search for new markets.

## **Fourth invited presentation, May 24, 2006**

European Market Environment for Tropical Timber and Opportunities for Small and Medium Forest Enterprises

By Jürgen Jordan, ESPEN, AG

Europe is a multi-nation continent with about 30 countries. In each of its member countries forest resources and wood consumption vary considerably. While some countries are rich in own forest resources such as Austria or Sweden and the consumption of wood attains almost 1 m<sup>3</sup> per year and person, others do not arrive at even 0.1 m<sup>3</sup> per year and person.

With regard to tropical timber, the European Community (EU) accounts for imports approximately of 15 million m<sup>3</sup> round wood equivalent annually. This figure includes logs, lumber, plywood, veneers and finished products. In comparison with other major consumer countries, the EU is ranking behind China, India and Japan when it comes to logs and plywood. In the case of sawn timber and veneers, the EU is the most important buyer in terms of value.

Looking at the different member states, the significance of tropical timber in timber import and further processing can be as low as in the case of Norway (6%) and Sweden (8%) while it is high as in Portugal (78%) and as in the Netherlands (69%). Large consumer countries with population above 60 million are Germany, France and the UK. They got large markets and may absorb significant volume of wood and wooden products although their ranking is on the medium level (20-30% timber from tropical sources). For small and medium forest enterprises in developing countries the potential market and the consumer's purchasing power for secondary processed wood products (SPWPs) are of outstanding importance. Due to limited natural and financial resources it may not be appropriate to compete with large plywood mills in Asia or dubious log exporters in Central Africa. Their focus is set on value added products which generate labour on site and which may use limited resources the best way.

In 2002 the EU imported SPWPs \$ 19.2 billion worth followed by the United States (US\$ 16.5 billion) and Japan (US\$ 3.3 billion). In Germany, the largest single EU SPWP importer (US\$ 4.4 billion in 2002), only 6% of the market has been captured so far by products in tropical wood. This means, that approximately 94% of all SPWPs sold in this country are of non-tropical origin – an indication that the market is huge and can be developed.

What are SPWPs precisely? Secondary Processed Wooded Products can be wooden furniture (currently account for 60-70% of all SPWPs traded), wood products for domestic use, packaging material (16%), builder's woodwork (13%) and others such as wooden toys. Prominent examples are knock-down furniture for DIY-outlets, high end garden furniture, laminated window components, flooring and broom sticks. EU buyers are sourcing SWPs overseas. The more wages are going up in Europe, the more frequent they show up trying to find new partners on the supply side. Major producers in the tropics are Indonesia, Malaysia, Mexico, Vietnam and Brazil. Within these countries major investments took place in the past to boost the processing facilities and to combine available primary resources with skilful and price-attractive labour. The

latter accounts certainly for the success of Vietnam as a country depending strongly on the import of raw material but benefits from its hard working labour force.

Market sensitivity for certified forest products: Amongst the European sub-markets those of Switzerland, the Netherlands, Germany and the UK are most sensitive to environmental claims. Since the introduction of the FSC system in 1993, public awareness in forestry issues and creditability into the certification system was growing steadily. As a result, European forests became certified parallel to forest operations in the tropics. Today, wooden products from temperate forests account for the bulk of traded products with the FSC logo. Volume wise products such as panels, pulp and paper and building products are dominating. Products made of tropical timber are still scarce. Garden furniture is the most popular SPWP followed by decking and flooring.

#### *Country Study The Netherlands*

In the case of the Netherlands a study elaborated in 2003 revealed: while the share of FSC certified timber in overall timber imports was 3,3% in 1999, it reached to 9% in 2003 and is expected to be 10.9% nowadays (2006). In terms of volume these percentage figures equal to an increase from 327.000 m3 in 1999 to 770.000 m3 in 2003 and again up to 900.000 m3 in 2006 (volume expressed in round wood equivalents over ALL wooden products, domestic, imported temperate and imported tropical). Looking at the mere tropical share in it, best selling FSC-products are garden furniture, lumber for construction purpose, flooring and decking. It must be pointed out that The Netherlands are somehow a pathfinder and pioneer in FSC market penetration. The UK, France and Germany aren't yet that far and environmentalists haven't yet attained such positive response on their job. Irrespectively, the process is the same: public awareness is rising and consumers are willing to support responsible forestry once they have been made understood the difference.

Requirements to small & medium enterprises from the perspective of European buyers:

- Clear-cut product design
- Flexibility in product development, if required by customer/market
- Defined and continuous quality (control)
- Efficient communication
- Respectfulness in terms of agreements and delivery dates
- Competitive prices

Power-point presentation will highlight common problems encountered with imports of lumber and garden furniture from overseas partners.

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**Third Plenary Session**

**Towards enhanced technical, business and financial services for small  
and medium forest enterprise development**

**May 25, 2006**

**Keynote, May 25**

**Integration and Enhancement of Technical, Business and Financial  
Services for Promoting the Development of Small and Medium Forest  
Enterprises**

By Calvin Miller, Food and Agriculture Organization of the United Nations (FAO)

Forests are home to 300 million people around the world. More than 1.6 billion people depend to varying degrees on forests for their livelihoods, e.g. fuel wood, medicinal plants, forest foods.<sup>1</sup> However, in spite of their proximity to valuable natural resources, those families and communities are among the poorest in the world. Such poverty can lead to livelihood practices detrimental to those natural resources as a means of supporting their families. Sustainable management of forest resources in any country depends on the success of forest-based businesses. To be sustainable, forest businesses need to maximize financial return at same time that they satisfy criteria of environmental and social feasibility.

What are the constraints to having sustainable livelihood alternatives? Simply speaking the forest communities often lack profitable enterprises with the economies of scale to make a difference. With globalization we are all becoming neighbors and competitors. The need and desire for cash income is increasing as is the competition for selling one's produce in the marketplace. Even local artisans selling handicrafts to visiting tourists must compete with often cheaper substitute objects from China; local fruit producers compete with imported fruit of uniform size and color in plastic cartons.

What are the key elements to promoting profitable enterprise development? They include: a) market development, b) human skill and management capacity building, c) institutional development, d) investment and finance and e) improvement in the overall macro and micro operating environment. These elements must be done in tandem rather than isolation.

In order to do so one must have a vision and commitment by all stakeholders. When developing enterprise solutions, it is not practical to work at the wide spectrum of needs and enterprise 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. For this reason the concept of value chains has become more important in that it allows a focus within a vertical and horizontally linked chain and then addresses the services and relationships of the various actors within the chain. Many of the services will be inter-linked within the chain and integrated to gain efficiency or to ensure compliance, quality or timeliness. For example, banks may finance marketing companies who pre-finance traders and processors who provide pre-harvest advances to producer families. In order to ensure the quality, of produce, this can also be linked with provision of technical capacity building either directly and/or by linking with one or more private or non-profit training or technical support agencies.

For micro and small enterprises in remote areas, such as is often the case with forestry enterprises, the specific issue of economy of scale is one of the most difficult to overcome, especially if the industry is directly related to the forest resources. Many times the quantity of product, such as non-timber forest products, is in limited supply in a given region and coupled with problems of remote locations and seasonality of production make it hard to aggregate sufficient and reliable quantities to attract major business

interest. Some forest enterprise alternatives do however have the potential to be cultivated or improved to reach economically attractive scales of operation.

To reach this level, there will need to be both investment and capacity building. 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.

For some economic activities, an additional area of opportunity for forest enterprise development is to innovate and leverage the concept of public good. These include such things as carbon sequestration, watershed management businesses, forest and bio-diversity resource protection or management, public-private eco-tourism, etc.

A final recognition is that much of the emphasis for small and medium enterprise development for communities in forest regions must be on non-forest related business development. Employment opportunities and income generation are basic needs in the community and region. Without sufficient opportunities to generate income the drain on forest resources will be even greater. As evidenced in the many buffer zone programs, enterprise development support to all types of local businesses can be beneficial to both the community livelihood needs as well as to the sustainability of the natural resources.

The keys to success are those associated with good business and marketing principles, but with added emphasis on such areas as organization, partner dialogue and mutual respect. This added emphasis is due to the fact that for most forest enterprise activities, working together is not an option but rather a requirement to have the scale and clout necessary to compete. The typical heterogeneity of cultures and environments makes this both more difficult and more enjoyable.

**First invited presentation**  
**May 25**

**DEMAND FOR TECHNICAL, BUSINESS AND FINANCIAL SERVICES BY  
SMALL AND MEDIUM FOREST ENTERPRISES IN THE TROPICS**

By Dietmar Stoian and Jason Donovan, CATIE

In order to identify what service demands are required by the small and medium forest enterprises it is necessary to initiate by posing key questions about those services:

- what kinds of services can we distinguish?
- which factors have an impact on the demand of technical services?
- who determines service demand?
- what type of service demands are there?
- how to link service demand to service supply?

**The kinds of services identified include:**

- technical services: production and processing technology; post-harvest treatment; storage; management plans.
- business services such as market information; marketing; enterprise organization; business plans; auditing; transportation, and
- financial services: credit; funds provided in advance; donations; insurance; savings.

All of these services play an important role at a particular point of the chain in a forest enterprise, for instance in a furniture enterprise: from the primary production stage through the primary processing, secondary processing, wholesale, retail sale and final consumption.

**With regard to the factors that have an impact on the demand of technical services, these are:**

- the link of the chain the service in question belongs to: production, processing, marketing;
- the size of the enterprise: micro, small, medium and large enterprises;
- the business development stage: beginning, expansion, consolidation;
- the Legal status: Inc., Ltd., cooperative or association;
- the product type: timber, non timber, services (tourism);
- the market level : local, regional, national, international;
- the market type: mass or niche market.

**The actors identified as those determining the service demand were:**

- donors,
- NGOs,
- governmental agencies,

- projects,
- interest groups and associations,
- research centres,
- small and medium forest enterprises and the actors within the enterprise: board of directors, managers, community members.

**The types of service demand are basically two:**

-*direct, explicit demand*, determined by western business culture, such as: technical capacities; managerial capacities; financial capacities.

-*indirect, intangible/bland/or implicit demand*, determined by non western business culture such as: those related to social and cultural needs determined by attitudes, habits, uses, preferences, aspirations. For example: an enterprise would try to maximize its profit, but a community would try to increase the number of people employed. Both types of demand, direct and indirect were considered real demands and should be taken into consideration when providing services.

There are three key areas to take into account when satisfying an indirect demand:

- awareness process
- strengthening of capacities and
- access to information.

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.

Many methodologies to determine the service demands from forest small and medium enterprises exist, a methodology developed by the Rainforest Alliance, for instance, shows that in order to find out what are the service needs, the following 4 main stages should be implemented.

- collection of secondary information/ grey literature;
- primary information collection;
- triangulation and systematization and
- feedback and validation.

In order to collect primary information a self-evaluation has to be carried out by the enterprise in order to:

- identify training and technical assistance needs;
- identify people or groups to be trained;

- Prioritize training and technical assistance on a short (one year) medium (two years) and long term (four to five years);
- determine the capacity for financing or co-financing.

The self evaluation mentioned above should focus on the following seven key enterprise areas:

- enterprise organization
- strategic orientation
- strategic alliances and networks
- industrial processes
- administration of finances
- accounting
- commercialization and marketing

**Second invited presentation**  
**May 25**

## **DESIGN AND DELIVERY OF INTEGRATED TECHNICAL, BUSINESS AND FINANCIAL SERVICES FOR SMALL AND MEDIUM FOREST ENTERPRISE DEVELOPMENT**

By Luis Alejandro Mejía and José Carrera, Rainforest Alliance

The Rainforest Alliance is a non governmental organization based in New York, U.S.A. The Alliance works in 53 countries with the purpose of developing certified product demand in consumer countries, and develop certified offer from the agricultural, forest and tourism sectors in producer countries with the objective of improving the livelihood of people depending on natural resources.

The mission of Rainforest Alliance is to protect ecosystems, the people and the wildlife that depend from them through the implementation of best practices of natural resource management and best commercial practices aimed to conservation and sustainability of biodiversity.

The presentation focused on the work carried out in: Mexico and Central America with the aim of promoting the commercialization of certified timber and non timber products and thus improve the competitiveness of producers through certification.

The Forest Alliance works both on the supply and the demand sides. At the beginning, most of the owners had uncertified forests and there was no organization whatsoever, or knowledge of certified markets and most of the products sold were raw materials, with a consequent underutilization of 40 per cent of raw material. The buyers would acquire products anywhere. Finally, the Forest Alliance was able to organize a market chain linking forest resources owners, processors and informed buyers.

The specific objectives of the Alliance are: increasing supply volume and sales value of certified products; increase the certified area and the number of certification operations and improve the competitiveness of those products.

As a result of this process, the organization was able to establish alliances with 1 200 companies. In the case of forest enterprises, commercial relationships were established with: B & Q, Ikea, Anderson Tully, Domtar, Gibson guitars, Home Depot, Lowes. Between 2004 and 2006 a US\$ 275 million profit was made through sales of 23 certified products with value added.

### **The process**

On one hand, the sustainable forest management is used as a tool for the competitiveness and conservation. On the other, certification is used as a tool for the conservation of biodiversity and the economic support of local communities, forest industries, and private owners of forests. The organization has been able to create product demand and a marketing strategy for less known species based on four pillars:

1- The demand consists of certified buyers that are complementary, flexible and are in accordance with the producers supply. In order to implement better practices the demand must be integrated by main product and complementary product buyers that match producers supply and who pay fair prices.

2-Raw materials consist of less known species that are used in the lower processing levels.

3-The products are i.e. flooring, decking, cart handles, guitar pieces.

4- Suppliers are the communities who establish an alliance with the industries.

Rainforest Alliance provides technical assistance and acts as an interface between buyers and suppliers. The organization works to close gaps and connect the added value chain. On one hand it works with the industries to provide product samples, guidelines and specifications to the suppliers and provides follow up to product requests. On the other hand, it provides the suppliers with technical assistance to evaluate costs, provide tools, production processes, subcontracts, industry assistance, mechanical assistance, diagnosis and training.

At the same time, the Alliance works to create value added products. It provides support to define the products, establish cost records per product, supports quality management and supports export administration and market consolidation.

Many successful examples exist in the region, i.e. a community from Ixtlan de Juárez in Mexico was able to sell desks to the local government of Oaxaca State. This forest enterprises focuses in achieving low costs, efficiency and quality control. Another experience regards other value added products such as manufacturing guitar pieces for Gibson Guitars Co. These pieces are made from waste timber, thus obtaining a high value added result. The company is currently buying these products from Guatemala, Mexico and Honduras.

Another example is the case of communities in the Mayan Biosphere in Guatemala who created a forest portal to market products at the national level. These products belong to the lowest levels of processing such as flooring, doors, stairs etc. In Río Plátano, Honduras the Alliance had an excellent experience where main products such as timber were matched with supplementary demand for guitar pieces made from waste timber.

### **Enterprise services**

Enterprise development is a relatively new issue in the region. Nevertheless entrepreneurs already in place are aware of its importance and those who have economic means establish their training priorities in terms of enterprise services, as is the case of community enterprises associated, for instance, in Forescom, Guatemala.

Besides promoting sustainable forest management and certification, Forest Alliance works to ensure the sustainability of enterprises and develops enterprise administration and training, as well as business tools for entrepreneurs.

These training services take 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.

**Several remarks may be highlighted in terms of enterprise services.**

**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.

**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.

**International Conference on small and medium forest enterprise  
development for poverty reduction: Opportunities and challenges in  
globalizing markets**

**ANNEX 2**

**Case studies**

**Turrialba, Costa Rica  
May 23-25, 2006**

**CASE STUDIES**

The afternoon sessions of the conference were dedicated to the presentation of case studies from different countries of Africa, Asia and Latin America. The case studies were divided into three different groups and respectively deal with the following main issues of debate:

- Identifying key elements of strategies for promoting enabling political and institutional frameworks for small and medium forest enterprise development;
- Identifying the critical success factors for developing value chains in forest products which ensure adequate benefit sharing by community-based forest enterprises and,
- Identifying the technical business and financial services necessary to enable successful small and medium forest enterprise development and related poverty reduction.

The case studies compiled in this annex are:

#### **Identifying key elements of strategies for promoting enabling political and institutional frameworks for small and medium forest enterprise development**

- Non Wood forest Products marketing and small enterprise development for poverty alleviation in LAO PDR, by Vongvilay Vongkhamsao, Joost Foppes, Thibault Ledecq and Khamphay Manivong (NAFRI FAO and SNV Laos).
- A paradigm of forest enterprise development: creating a powerhouse to reduce rural poverty and promote conservation by Surya Binayee (ANSAB, Nepal).
- Development of second-tier cooperatives for commercialization of agroforestry products by Norwin Rodriguez (Association of Multiple Services Cooperatives from the North, Nicaragua).
- Obstacles to forest-based livelihoods and the role to decentralization by Anne Larson, CIFOR, Nicaragua.
- Community forest enterprise development in Peten, Guatemala, the case of FORESCOM by Reyes de León, (FORESCOM, Guatemala).
- Mexico: experiences from indigenous communities in the northern mountains of Oaxaca in management, processing and commercialization of wild mushrooms by Fabrice Edouard (Methodus, Mexico).
- The Gambia: community-based enterprise development in The Gambia: Strategies for adding market value for forest products and services by Kanimang Camara (NACO, The Gambia).

- Towards more accessible certification for small-scale forest producers: advances and challenges of an FSC initiative by Daniel Arancibia (Forest Stewardship Council, Panama).

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

- Harnessing markets to drive conservation and rural development: The case of Eco-palms by Dean Current (University of Minnesota, United States and Gustavo Pinelo and Juan Trujillo, Rainforest Alliance).
- Partnerships for timber production: Role of forestry in reducing poverty in South Africa by Mike Howard (Fractal Forest Africa, South Africa).
- Small and medium tropical fruit enterprises: A case study of the Camu Camu chain in the Peruvian Amazon by John Belt, Rafael Meza and Marly López R. (SNV, Peru).
- Integration of small and medium forest enterprises in the value chain by Paola Andrea Lozada (Instituto Alexander von Humboldt, Colombia).

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

- From project to independent business: The offer of forest services to smallholders in the Ecuadorian Amazon by Marco Romero (Servicio Forestal Amazónico, Ecuador).
- Certification and Business Opportunities for Small and Medium Enterprises in Brazil by Mauricio de Almeida Voivodic (Instituto de Manejo e Certificação Florestal e Agrícola, Brazil).
- The CUPROFOR foundation and the development of the wood and furniture sectors in Honduras by Luis Cerna (Fundación CUPROFOR, Honduras).
- Organization of community forest enterprises in Nicaragua and Guatemala by Ken Nicholson, Miguel Shion (Project IDB/MIF-CATIE, Nicaragua) and Jason Donovan (CATIE).
- Building entrepreneurial capacity and marketing skills for pro-poor tree product enterprise development in the West African Sahel (Burkina Faso and Mali).

**Lao PDR: Non Wood Forest Products marketing and small enterprise development  
for poverty alleviation**

By Vongvilay Vongkamsao, Joost Foppes, Thibault Ledecq and Khamphay Manivong  
(NAFRI, FAO and SNV).

Non Wood Forest Products (NWFP) represent an important resource for the livelihoods of people in Lao PDR where 80 per cent of the population lives in rural areas. The poorest families and women are most dependent on these products, which are collected on a regular base. The total NWFP consumed per household is worth \$ 400 - \$500 per year or 30- 40% of GDP.

The NWFP private sector is underdeveloped and these products are mainly commercialized as raw materials at very low prices.

Thanks to the project supported by FAO and SNV Netherlands and implemented by the Forest Research Centre, communities from different regions in the country have started small enterprises based on several non wood forest products. In Savannakhet, central Lao, 45 families are generating extra income from mushroom collection. While their main income is generated from upland farming; mushroom cultivation is expected to contribute at least \$ 150 per family, per year.

In Luan Prabang, in the Northern region, 69 families are engaged in selling *broussonetia papyrifera* bark, locally known as “posa” or mulberry bark, which is processed into paper. Nevertheless the market chain analysis carried out in the community showed that there is little benefit in processing the bark at the village level and the main strategy was geared towards growing 15 ha of mulberry and focusing on better quality by improving harvesting and processing methods. “Posa” provides half of the family cash income per year or 42 %, per family.

In Champasak, southern Lao, rattan furniture is being manufactured by 36 families, thus providing most of their income source. Low cost furniture demand at the national level is increasing. Annual income from rattan furniture is USD 400 per family or 30 per cent of total family cash income. The main constraint in this case is to find raw material, because most of rattan is collected from the wild and is sourced up to 100 km. Efforts are being made to grow rattan, but canes need at least 7 years to grow.

In Oudomxay, Northern Lao, a promising product is being exported. Bitter bamboo shoots, *Indosasa sinica*, are exported to Yunan Province in China. This product has big demand off season and this particular variety has the advantage of sprouting in dry season. A group of 50 families can collect 50 tons per year, from April to December. They are able to generate 40 per cent of total family income: USD 100. The bamboo forests consisting of 550 ha are managed by the villagers.

The key aspects of the political-legal framework for small and medium forest enterprises identified in Lao DPR are: the country has a national social-economic development plan and a forestry strategy to year 2020 is in place. Lao also counts on a core of forestry laws and decrees, including a decentralization decree, and land tenure laws. The country belongs to the Asian Free-trade Area and export policies are being promoted and implemented.

The advantages provided by this framework are that customary rights of villagers to collect NWFP for household use are recognized. There are good initiatives to promote exports in the framework of AFTA and product promotion strategies are also carried out. The main constraints are that NWFP harvest rights for commercial purposes are still unclear. NWFP enterprises and products suffer from over regulation (quotas, taxes etc.) and there are few mechanisms or services to promote small and medium enterprises.

In terms of access to forest resources, there are several constraints to create efficient small and medium enterprises, i.e. village access rights to forest resources are still unclear, there are not documented systems of sustainable harvesting of NWFP, the management of these resources is not based on resource assessments, there are weak mechanisms to mediate conflicts between villages over benefits from forest resources. This situation could be improved if: resource management would be part of the village socio-economic development plan, if clarification on access to forest resources for village producer groups was made through detailed land use zoning, publicized maps, and finally, if NWFP could be integrated into forest management plans of timber products.

In terms of over regulation, the case of grass brooms export to Thailand shows that at least 10 different types of taxes exist on this product and the government charges a least 20% tax over it. The possibilities to improve over taxation would be to exclude those NWFP harvesters that implement sustainable management and production, from the forestry quota, and to reduce the agriculture and forestry taxes, while increasing the mining taxes, promoting support services for the small and medium enterprises, providing training and extension support, plus developing a NWFP policy.

A good example of success is the community-based enterprise that commercializes bamboo shoots in Nan Pheng village. In 1996 the villagers lived in extreme poverty, they would sell the shoots at very low prices to buy food. In 2006 the villagers have achieved food security; their income has increased 5 fold thus diversifying their livelihoods, while their village generates its own funds for development initiatives.

A series of services are being provided by FAO, NAFRI and SNV to the communities such as: training services aimed at building producer groups and leadership skills; facilitating Market Analysis and Development processes at the village level; processing technology skills; NWFP resources assessments and plantation skills. Also awareness has been raised on a Market Information Service (MIS) plus a national taskforce was set up and provincial initiatives, key elements and approaches of MIS have been defined.

Nevertheless several constraints remain: leadership and organization skills at the village level are poor, there is a lack of providers of training and other services needed for successful group building, it is not always easy to identify the “golden” NWFP marketing solution, NWFP-based small and medium enterprises have to compete with “Big business” such as rubber and eucalyptus plantations.

The institutional challenges are: to build organizations and leadership especially at the village level; to build up service providers that deliver support services, mainly at the district level; to create supportive policies based on stakeholder consultation.

Moreover, a national strategy on NWFP is needed to link national policy goals to the creation of province and district level institutions and more efficient and equitable regulations. This is not an impossible goal. Successful examples such as that of Ban Nam Pheng are very well known and have had institutional impacts, i.e. NWFPs have become prominent in government policy and a NWFP network of 50 organizations is replicating that model.

Other challenges include: providing financial services for NWFP producer groups, promoting saving groups, creating storage capacity to benefit from seasonal price changes, supporting institutional change in Government services for the NWFP sector: tax, quotas, forest tenure, building producer groups and leadership skills, facilitating MA&D processes at village (cluster) level, processing technology skills, resource assessment and plantation skills.

Several conclusions may be drawn in this case: NWFPs are vital for rural livelihoods; they are not a poverty trap but an escape ladder from poverty. There is convincing evidence that small NWFP-based enterprises are able to both reduce poverty and conserve biodiversity. The positive aspects observed may be summarized as follows: Increased cash income from NWFP sales holds over time; the number of poor households has reduced over years; food security in a number of cases has been achieved, health and education have improved; and NWFP funds are used to fund new small enterprises.

The Market Analysis and Development methodology (MA&D) implemented to create enterprise groups had a positive impact on a number of aspects and was able to:

- clarify market demand and quality requirements from traders,
- the stakeholder meetings generated solutions and agreements,
- the village groups requested technical training and access to credit,
- village groups also requested to be registered as small and medium enterprises and have quotas,
- they expressed their need for clearer rules and recognition of their rights to access/use forests and their need of extension support from Government to scale-up the facilitation of MA&D processes country-wide,
- the traders and the Government agreed on the need to build Market Information Systems (MIS) at the province and national levels,
- traders expressed their need for more efficient trade permits and tax systems,
- the Government expressed its need for a more equitable tax system.

**Nepal: A paradigm of forest enterprise development: creating a powerhouse to reduce rural poverty and promote conservation**

By Surya Binayee, Asian Network for Sustainable Agriculture and Bioresources (ANSAB), Nepal.

Nepal's population reaches 25 million inhabitants and the population living below absolute poverty line is 38 per cent. Estimates show that per capita GDP is USD 269 (1500 PPP) and the contribution of agriculture and forestry to GDP is 38 per cent, but calculations indicate that the forestry sector could earn up to USD 585 million/year if more species were used.

In fact, Nepal has a total forest and pasture area of 8,063,002 Km<sup>2</sup> or 54.8 per cent of its territory and the income generated from the use of 161 Non Wood Forest Products (NWFP) is USD 35 million. Out of 7,000 species, only 1,000 plant species are already in use.

The land managed in the framework of community forestry is 20 per cent of forests, which provide a good opportunity for community-based enterprise development. The programme carried out by (ANSAB) aims to promote "rich and productive biodiversity for prosperous communities" and its priorities are: to develop marketing and value adding local enterprises; to improve access of enterprises to business development and financial services and finally, create a favorable policy environment.

The main programme tasks involves policy, research, advisory, networking and information services extended across Nepal and has a direct field implementation in 15 forest user groups in Nepal and one in India. Its impact shows that the rate of economic benefits in 2003 was USD1.37 million, while in 2005 it grew up to USD 4.09 millions. The number of beneficiaries went from 31,083 thousands in 2003 to 49,276 in 2005.

At least 14,086 ha are under FSC certification benefiting 21 forest user groups and 8 enterprises. Technology transfer and market information has been provided to a number of enterprises and 459 enterprises have undergone capacity building. Other beneficiaries are 112 forest user groups and their federations, 15 district forest offices and 20 local NGOs that work on enterprise development and enterprise oriented resource management aspects. The programme has also contributed to NWFP policy development and rationalization of NWFP royalty rates and trade regulation.

The enterprises in place are involved in many different activities such as: handmade paper manufacture, oil distillation, timber marketing depot management, high value crop production (ginger and cardamom), orange and coffee production, textile processing, alternative herbal industry, soap manufacturing and bio-trade.

The approach adopted was the value chain perspective, cluster development, implementation of the Market Analysis and Development MA&D as a tool for enterprise planning, including: service development, local capacity building, networking and strategic alliance building, local partnership and multi-level bottom up participatory planning and review process.

The main activities carried so far include: local enterprise development and their integration in the marketing system; forest enterprise development (forest user groups business plans for production and trade of forest products and value adding enterprises activities); forest user groups networks for consolidating products and collective marketing.

Attention has been focused on: creating local value adding enterprises ( with different ownership modalities); building the capacity of enterprises including resource management and sourcing, enterprise management, production operations, supply chain strengthening, market promotion, business linkages, promotion and access to marketing information and business development services and finance aimed to forest user groups and enterprises) Promoting enterprise development funds and access to financial services forest user groups revolving funds, saving and credit groups, bank loans.

The challenges faced so far include:

- entrepreneurship development and business support services;
- roles and scope of groups in undertaking business functions;
- needs of disadvantaged groups and their participation;
- financing enterprises capacity of locals in understanding the market dynamics and, adjusting the enterprise strategies,
- policy provisions and implementation;
- conflict situations.

The conclusions are that the potential of community forestry and linked forest enterprises in poverty reduction can be replicated to thousands of community forest user groups/areas.

A paradigm shift is feasible and is likely to move community productive activities from the subsistence orientation to enterprise oriented forest management characterized by innovative enterprise/business models that balance growth, equity and conservation.

A right mix of programme activities in the areas of resource management, enterprise development, business development and financial services is fundamental. In addition, local ownership, building local capacity, service provision, strategic alliance among development partners as well as market actors (market development, value chain integration, and favorable policies) are the key elements for successful small and medium enterprise development.

**Nicaragua: development of second-tier cooperatives for commercialization of agroforestry products**

UCOSEMUN is a second tier cooperative organization integrated by 9 partner cooperatives from the departments of Jinotega, Madriz and Nueva Segovia in Nicaragua. The association includes 8 cooperatives from 8 municipalities in 4 departments and a total of 8, 148 members of which 2,651 (33 per cent) are women.

The products and services include:

- financial resources for reforestation of plots,
- plot maintenance,
- loans to finance coffee and shade planting
- loans to finance housing
- cooperative development (Cooperatives and UCOSEMUN).
- finance management (Cooperatives and UCOSEMUN).
- self-regulation (UCOSEMUN).
- corporate representativeness (Cooperatives and UCOSEMUN).
- Saving accounts from which long/short term credit and other expenses are deducted
- technical assistance (Coop).
- product collection (Coop).
- value adding (UCOSEMUN).

The main achievements are that for the first time, the organization was recognized by financing agencies; the grassroots organizations trust the cooperative and are commercializing more than 52,000 pounds of coffee, 15,000 pounds of maize and have been able to buy 45,000 pounds of fertilizer.

Forty per cent of the farms produce both, Robusta and Arabica coffee. New groups have become partners to the cooperative. New areas of influence and new branch offices have been established. Higher quality services that are more focused and more profitable (more income and excedentary production). Social and economic growth of cooperatives, new strategic alliances, and an institution whose image undergoes continuous improvement are other key achievements.

Goal development for the enterprise and the community intend to use UCOSEMUN as a fund facilitator for small and medium producers; to search for financing sources aimed at improving the livelihoods of people and at generating employment. Other initiatives include: a plan for organic and non traditional product diversification waiting for approval; design of a value adding project; funding negotiations in order to provide follow-up to loan operations aimed at improving the farms and coffee quality.

The constraints faced by small and medium forest enterprise development are:

- The organization does not have enough funds to totally cover its activities.
- Financial sources in their area of operations do not finance this kind of activity.
- Most of Nicaraguans are dedicated to grow staple food grains, coffee, vegetables and others.

**Latin America: obstacles to forest-based livelihoods and the role of decentralization**

By Anne Larson, Fabiano Toni, Mario Vallejo (CIFOR and IDRC)

This presentation was based on a study examining experiences from Bolivia, Brazil (Amazon), Honduras, Guatemala and Nicaragua with the purpose of: identifying trends in forestry decentralization; identifying the specific needs and effects of decentralization on forest-dependent groups; developing a theoretical framework for understanding relations between decentralization, governance and livelihoods, and finally, propose an agenda for future research and action.

The premise to this case study was that forestry decentralization should improve local livelihoods and thus it aimed to identify the challenges faced by forest-dependent groups and how decentralization, as implemented, has aggravated or helped in overcoming these challenges and finally, show the potential benefits of decentralization.

The actors taken into account were: community foresters (not necessarily “enterprises”), forestry associations, indigenous communities (as well as agroforesters, agroextractors, settlers/ ranchers, and farmers who sell small quantities of wood).

Diverse land tenure systems were also examined: private (associations), communal (indigenous) and state (associations/ community foresters). The products involved in forest use were: timber, resin, Brazil nut (castanha), other extraction; benefits such as reforestation (cash) and incentives, such as in the case of Guatemala.

The main challenges identified were:

- the barriers to access including: tenure, State bureaucracy and laws in terms of time, cost, complexity, discrimination, failure to recognize in law (trees on farms, timber from secondary forests, tenure requirements that cannot be met).
- Conservationism considering that “all logging is bad”.
- Capital: management plans and taxes, technology improvements, investments/innovation.
- Markets and market information: oligopolies, knowledge and negotiating skills.
- Transport infrastructure.
- Internal community distribution: lack of accountability and control.

All of these aspects force communities to depend on logging companies and intermediaries (loans against sale, information, avoid bureaucracy) and sell standing timber to intermediaries or logging companies, legally or illegally, at lower prices than could otherwise be achieved.

The study showed that the political-legal frameworks that are in place are based on structural inequities and tend to reinforce rather than overcome these. Countries with specific provisions for small and medium foresters provide fewer obstacles and may facilitate access to some degree, among these provisions are: simpler management plans for smaller areas such as in the case of SSF in Honduras, ASLs Bolivia with mandate,

and concessions to communities in Guatemala.

The role of decentralization with regard to tenure policies of forests shows that tenure improvements are often not the result of decentralization or even specific forest policies, as in the case of Guatemala, where forest concessions to communities depend on a law from the Central Government.

Policies increasing tenure security and forest access can clearly have a direct positive impact on livelihoods. However, decentralization policies that increase municipal governments' forest resource control, but do not simultaneously increase or protect local people's control, increase insecurity such as in the case of decentralization policies carried out in Bolivia.

Positive experiences of municipal governments are associated with mandates to support forest-dependent groups, local organization and sometimes broader social networks and movements (tenure issues for example), and sympathetic government officials who have the authority/ capacity to respond. A series of positive municipal government experiences are:

- facilitating services to forest-dependent groups,
- developing management plans for free or low cost,
- facilitating access or serve as intermediaries to central government/ approval process (exploitation/reforestation incentives),
- lobbying central government to provide forest service/donors on behalf of these groups,
- developing (participatory) local forest and environmental planning/policy documents.

On the contrary, a series of negative municipal experiences are:

- elite capture and/or support for logging companies over small and medium,
- anti-logging decrees,
- law enforcement (effect on poor),
- increased bureaucracy and cost,
- support for invasions of indigenous lands.

Conclusions:

-The main challenge to forest-based livelihoods is the dependence on logging companies/ intermediaries created by structural inequities, leading to lower prices, illegality and disempowerment.

-As it regards institutional and policy frameworks, it is necessary to address the specific needs of forest-dependent groups because "neutral" policies discriminate.

-Decentralization can increase or decrease tenure security depending on how it is designed and implemented. Direct and secure forest resource access (natural capital) is

needed for forest-dependent groups because municipal governments still have little direct authority over forestry decision-making.

-Access to political capital can help overcome other barriers to access, but there must be sufficient authority and capacity and be downwardly accountable.

-Improved livelihoods should be a specific mandate of (forestry) decentralization policies.

**Guatemala: Community forest enterprise development in Peten, Guatemala: The case of FORESCOM**

By Reyes de León, FORESCOM

Guatemala hosts 62 protected areas comprising 3 million ha or 31 per cent of the country area. Petén department alone has 83 per cent of the protected areas and the Mayan biosphere reserve alone, accounts for 2 million 113 ha.

FORESCOM is a community-based forestry services enterprise based in Peten. It was founded in July 2003 and currently involves 1 440 families (10,000 people) from 12 community associations.

FORESCOM is a profit enterprise integrated and managed by its community members and provides services such as:

- forest stewardship
- commercialization of certified timber forest products
- heavy machinery rental
- forest inventories, timber and non timber forest management and harvesting plans
- nurseries and reforestation services.

Important experiences have been made, some positive, and others useful as feedback to improve current procedures and actions.

Some of its successful initiatives are:

- group Certification of 7 productive groups, grouped in FORESCOM;
- niche market development and export of value added products of less known species without middlemen intervention;
- community members trained to take up all possible tasks in the enterprise;
- establishment of business relations with the private sector;
- delivery of forest extension services by 'community technicians';
- intermediation office for the commercialization of mahogany and cedar for other communities, who are not members of Forescom, in order to increase the supply;
- establishment of a timber processing plant.

A key aspect in FORESCOM success is that the legal and political framework ensures resource use through community concessions enforced by law, with the support of national institutions such as CONAP (National Commission of Protected Areas) and INAB (National Institute for forests) plus the support of NGOs and service providers who deliver capacity building and technical assistance. Another important aspect is that certification in Guatemala is mandatory by law after a few years of concession, therefore it may be used as a marketing tool.

According to FORESCOM procedures, the first years of economic activities provides no dividends to be distributed to shareholders in order to achieve enterprise capitalization.

Special attention is also given to find a balance between community benefits and economic sustainability of the enterprise.

The achievements of FORESCOM between July 2005 and May 2006 were:

- group certification;
- value added product development and export of less known species;
- community staff participation in productive and operative tasks, management and commercial activities;
- launching and establishment of business relations with private industries;
- intermediary role to buy mahogany and cedar timber from other communities and consolidate supply;
- project plan to acquire a processing plant for secondary timber product manufacturing.

Nevertheless, a series of elements related to the political framework have enabled or constrained enterprise development:

- the conservation approach of certification organizations does favour sustainable management;
- governmental organizations are unable to control illegal logging;
- government incentives for reforestation and conservation are in place;
- Appropriate international regulations for forest products commercialization exist.

In terms of the institutional environment, a series of regulations, traditions, habits, services and organizations have also enabled or constrained enterprise development:

- forest communities initiate forest use through non wood forest products harvesting,
- community concessions develop to become touristic places;
- yearly maintenance of roads and product processing plants require high costs;
- little infrastructure exists for added value products;
- different national and international organizations have provided support.

Conclusions:

-FORESCOM, a community-based forest enterprise has contributed to poverty reduction by involving people in productive tasks such as processing and commercialization, and by providing capacity building, thus generating manpower and human capital.

-Balance must be pursued in order to achieve local benefits and maintain the enterprise economic efficiency.

-The political and legal framework in place has enabled to work towards sustainable forest management both, through the legal concessions to communities and through institutional arrangements with national institutions such as CONAP and INAB.

-NGOs provided training and technical assistance on commercialization and value added.

-the service providers' role has been key for the technical assistance during the industrial process and commercialization.

**Mexico: experiences from indigenous communities in the northern mountains of Oaxaca in management, processing and commercialization of wild mushrooms**

By Fabrice Edouard, Methodus

This case study dealt with the collection and commercialization of wild mushrooms by a small forest enterprise based in Oaxaca, México. The study highlighted the constraints faced by the community and the resources required to achieve a successful enterprise.

Wild mushrooms are widely known by the indigenous communities living in the temperate forests of the country. Mushrooms are a very peculiar product because they cannot be cultivated, although improved forest management may encourage their propagation.

The case study refers to a farming communities consisting of 3 municipalities and 8 villages that integrate a single farming group located in the Northern Sierra in Oaxaca. Many land conflicts exist in this area because all three municipalities claim their respective autonomy and land. These communities are dedicated to many activities: agriculture, timber harvesting, spring water bottling, ecotourism and recently, the commercialization of mushrooms to the large cities and exports to Japan and the European Union.

Mushroom management has been developed at the community level and the owners are about one thousand community members that have official recognition and are represented by delegates from each one of the 8 communities. The Sierra Viva enterprise sells its products to a chain of Italian restaurants located in México and it exports the mushrooms to Japan through a broker.

The first constraint for the local enterprise is to collect a high number of mushrooms in order to obtain a full load for the drying machine and thus be able to satisfy the customers' request. This work implies several communities to associate in order to process and market the product efficiently and also requires them to create the social, organizational and legal conditions to achieve commercial sustainability.

Another constraint for these communities is accessing the market due to overregulation and the difficulty of obtaining permits and licenses to harvest these wild species. Communities who want to collect and export wild mushrooms need to present an environmental impact assessment. These operations generate high costs in terms of time and money.

Access to credit for a small enterprise is very complex and requires the support of an NGO or consultants to prepare the documents requested. In this specific case, market access has mainly depended from private actors (in Japan) and in some cases NGOs. The enterprise achieved successful performance when it shortened the value chain and found a niche market for its products, such as the Italian products distributors in Mexico.

The following actions in the policy domain may be listed as solutions to overcome many of the constraints faced by this type of community-based forest enterprise.

- establishing a legal and institutional framework to achieve a simpler mushroom harvesting process in favour of the communities;
- promoting the establishment of community regulations and certifying their implementation;
- establishing payment modalities for environmental services in the areas belonging to the same community system in order to encourage good management practices of mushroom collection and protection of the ecosystem.

Finally, the contribution of such community-based forest enterprises to poverty reduction needs to be recognized at the governmental level.

An enterprise such as Sierra Viva is not the solution to poverty, but it may give an important contribution to improve peoples lives, i.e. women are the majority of people dedicated to mushroom collection. This small forest enterprise has contributed to strengthen self-regulation of community activities and has reduced the vulnerability of the poorest and has finally contributed to train forestry technicians, harvesters etc. while at the same time enforcing protection of the environment.

**The Gambia: community-based enterprise development and strategies for adding market value to forest products and services**

By Kanimang Camara, NACO, the Gambia

Gambia has suffered severe deforestation throughout its history. Today 43 per cent of the country is forested, that is 460,000 ha, excluding mangroves. In the '90, The Gambia government changed the centralized forest management approach and started promoting community forest management.

Property of forest resources was transferred to the communities. The Gambia forest policy goal is to devolve 30 per cent of forest cover (170,000 ha) to the communities. A core of laws and regulations such as the Gambian Forest Management Concept (2001) provide an enabling policy environment for the management of forest lands by local populations, including long term utilization. Moreover, the Local Government Act and the Forest Act outline the responsibilities of regional institutions as to promote community participation in micro-project planning, implementation and management of local resources.

Four hundred committees managed by the communities were created; 275 committees registered to manage 28,505 ha, while 160 committees managing 16,000 ha were eligible for sustainable commercialization of products. Among these, 26 communities decided to adopt the Market Analysis and Development methodology (MA&D), promoted by FAO, who supported the enterprise development project. The objective was to develop small community-based forest enterprises. The communities established 72 interest groups focused on 11 products selected for commercialization.

Yearly enterprise development plans were prepared alongside forest management plans. Fuel wood, logs/timber and honey were selected as the most promising products. Other products such as 'Rhum' commercial palm handicrafts, palm splits, ecotourism, Netto fruit, oil palm fruit, tree nurseries and kembo fruits, (iron wood) were also selected.

These community-based enterprises yielded social and environmental benefits such as: women gaining visibility because of their role in the communities and enterprises; illegal harvesting was reduced in the forests and 14 wildlife species increased their habitat, and 60 per cent of profits were invested in social infrastructure and micro-credit, the remaining 40 per cent was reinvested in enterprise development activities.

The financial and institutional benefits include: increased economic incentives for local forest users and community forestry committees; improved employment opportunities; substantial revenue and royalties were obtained by the local governments; a number of goals stated in the forest policy, Forest Act and Local Government Act were achieved, particularly regarding the sustainable utilization of forest resources; diversification of implementing structures through collaboration with other organization or groups was accomplished; capacity building on sustainable utilization of natural resources was carried out at all levels; and finally, the Market Analysis and Development methodology for enterprise development, was integrated into the curriculum of the National Forestry school.

The obstacles and constraints found include: administrative procedures for hand over of forest ownership to communities take 4 or more years; limited governmental investment was identified at the programme and village levels; the National Forest Fund Procedure was cumbersome and slow; governmental staff should be increased as it was considered limited; illegal forest products continue to enter the market in large quantities, at the expense of legitimate enterprises.

The conclusions are: community property and responsibility over forest resources are key to generate good management practices. In addition, enterprise development using MA&D approach has led to involvement of communities and created a solid approach to enterprise planning and capacity-building at the community level; forest products that have greatest potential are not those that villagers were originally commercializing, vigorous and comprehensive training and skills building programmes are the key to organization; and technical success, and finally, the communities that hosted enterprises have better forest cover than those without them.

**Towards more accessible certification for small-scale forest producers: advances and challenges of a Forest Stewardship Council, FSC, initiative**

By Daniel Arancibia, FSC, Panama

This case study dealt with the role that certification, especially certification through FSC, can play to improve small and medium forest enterprises performance.

Certification enables communities to carry out more responsible management of natural resources; it increases the value of forest resources; reduces illegal logging in small forests, and finally, consolidates community structures and provides a larger market for forest products.

The objective of the Small and Low Intensity Managed forest (SLIMF) initiative, promoted by FSC is to make the certification system more accessible to forests managed by traditional and indigenous communities, or operations based on customary and communal land tenure rights, small private forests, Non Wood Forest Products (NWFP) collectors, small farmer cooperatives, and communities that have been granted concessions or use rights.

The main achievements of this initiative may be summarized as:

- better information and dissemination;
- time saving;
- cost savings between 10 and 69 per cent;
- better orientation to implement SLIMF;
- 29 SLIMF certifications achieved in 15 countries;
- 50% of certifications relate to groups.

The legal and political frameworks related to small and medium enterprises show that: small and medium enterprises (SMEs) are difficult to establish and monitor, they are often informal, family-based businesses operating outside national regulations. They are the most important economic activity after agriculture in the rural areas of developing countries. Income is essential, including the NWFPs used as medicine, food and handicrafts. Women have a high level of participation, and finally they are economies of scale isolated from markets and thus depending on middlemen.

The impacts of the FSC initiative involve: the identification of an issue with unique characteristics, the achievement of a clear orientation to support target groups, a more responsible management of forest resources, an increased economic value of resources. Plus, in terms of governance, certification facilitates governmental control of SMEs and related natural resources.

In addition, poverty reduction is possible through technical and financial strengthening, the empowerment of community structures and tenure and use rights (Principle 2 of FSC), communal relationships and workers rights (Principle 4 of FSC) and opening markets for their timber and non timber products are among the positive impacts of certification.

The challenges that FSC faces with regard to SMEs are: expanding its social impact, improving SLIMF implementation, tackling low enterprise/community development levels of SMEs that make sustainable forest management and certification difficult.

The questions are: what is the appropriate market for those products? How to compete with illegal timber? How to ensure quality in a value added product? Which new tools are necessary?

New tools could be: improving what is already in place, taking into account other scales and approaches, promoting team work and trade diversification, ensuring technical support and follow-up and promoting ecosystem-based services and focusing also on NWFPs.

**Guatemala: harnessing markets to drive conservation and rural development**

By Dean Current, University of Minnesota and Gustavo Pinelo and Juan Trujillo,  
Rainforest Alliance

This case study showed how harvesting of decorative *Chamadorea* palm fronds locally known as Xate -a product with a well established market- may be efficiently done in order to conserve forest resources and at the same time improve the livelihoods of harvesting communities.

Harvesters of palm fronds belong to the community-based enterprises of Carmelita Cooperative and S.COMYC who benefit from government forest land concessions in the Mayan Biosphere, in Petén Guatemala. The beneficiaries are a total of 400 people and their objective is to export competitive products with high quality standards to supply markets of ornamental products while securing their forest concessions through sustainable management practices.

Six hundred million *Chamaedorea* palms fronds are traded in the world floral market every year. These are mainly harvested in Mexico and Guatemala. The market is at least 40 years old and is well established but it mainly functioned through middle men. Harvest practices so far discarded 50 per cent of palm fronds after harvesting, thus producing further depletion of forest resources in the long term.

A market study was carried out to identify opportunities to develop sustainable practices and criteria for trade in wildlife in order to encourage on site conservation, create economic opportunities and benefit local communities. The study followed the regulations of the North America Free Trade Agreement and was based on documents, databases on trade statistics review, interviews and surveys to wholesalers and retailers and review of relevant literature on certification and green marketing of Non Wood Forest Products.

The market study results showed that a relatively stable demand with slight tendency to decline existed in the U.S and a more stable market was in place in Europe. The limitations to this market chain were the lack of consistent supply from the producers and the quality of those supplies. Failing in quality, reliability in delivering the products and timeliness were identified as key to determine the loss of clients and price justification also.

In the U.S. the *Chamaedorea* palm fronds are mainly used in funerals with a bump in sales for Palm Sunday in Christian communities, which were identified as a stable market. A pilot palm test was carried out to promote palms to Christian congregations on Palm Sunday. The communities agreed to add 5 cents per palm to reward communities for social and environmental purposes. This increase meant communities had a five fold increase in their gains.

The new market chain established, started from the forest to the warehouse for processing and then to refrigerated transport (all these operations managed by the community

enterprise) with continental floral greens in Texas or Los angeles where a main wholesaler would distribute them in metropolitan area to retailers or churches.

In the past the market chain used to be: collector-middlemen-processor-exporter-wholesaler-retailer. The new chain eliminated middle in Guatemala and enabled processing and export by communities, then the palms in the U.S. were marketed from the wholesaler to retailers and to religious congregations. The survey results showed that congregations were willing to pay up to 10 cents more per frond for social and environmental purposes. The pilot test showed that palm fronds were sold for USD 2.7 million on Palm Sunday while a potential USD 4.5 million worth could be possible if taking into account data extrapolated to all congregations.

The results were greater income through Palm Sunday sales and greater income through direct sales. The case study showed that harnessing markets for conservation activities and linking palm gathering communities to importers and consumers in the US was feasible and could improve people's livelihoods and ensure conservation of those forest resources.

The conclusions are that despite lower market trends of palm fronds, there was an increase in income for communities, Palm Sunday sales can help provide investment capital for community enterprises. Increasing sales is a realistic possibility and there is need to expand certified sales beyond Palm Sunday. Integration of additional communities in Mexico and Guatemala will also be suitable and finally, the market study proved to be key to achieve these results.

### **South Africa: partnerships for timber production**

By Mike Howard, (Fractal Forest Africa)

South Africa is a water scarce country; most of the areas are too dry to grow trees. Few opportunities for expansion of plantations exist and previous homeland states are characterized by communal land tenure from the Apartheid years and land restitution to compensate past injustices. The people living in these homeland states are previously disadvantaged individuals, mainly black population who were restricted from receiving good schooling and to join into the mainstream economy.

Poverty in South Africa shows a multifaceted state of vulnerability due to limited livelihood resources. Poverty is mostly prevalent in the black segment of population. Official poverty datum is an income of USD 200 per year, per household. Unemployment is also part of the landscape and rural areas are characterized by female and child headed households. Plus considerable problems of high HIV/AIDS incidence have been identified. High crime rates and drug or other substances abuse are also a cause of alarm.

High incidence areas of poverty are in rural areas suited for forestry. This is why linking these communities to forest enterprise is key to contribute to poverty reduction. The focus of this case is based on involving a broad segment of the black population in economic empowerment with the objective of reducing poverty in rural areas through plantation of forests.

Plantations proved to be an appropriate vehicle to achieve these objectives. There are About 200 000 ha of suitable and available land for this purpose, but securing permission is a complex process. Therefore, partnership arrangements to increase interdependence and structural formality are being sought.

The idea was to link independent entrepreneurs to timber procurement and marketing arrangements through grower contractor agreements with family and community groups in villages, using national cooperative outgrower schemes and create larger corporate joint ventures.

The factors that motivated these partnerships are:

- availability of land and labour
- existence of complementary resources
- processor companies have capital markets and knowledge
- Government is favourable
- redressing past injustice
- possibility of appropriate funding of projects through local government to communities
- conditions for transfer of State forest plantations
- Economies of scale
- individuals and communities pool resources such as capital, labour, knowledge, etc.
- There is possibility to access markets with sufficient quantities and regular supply.

Ten case studies were carried out and brought into 5 types of enterprises, some of them were non aligned entrepreneurs, government financed with technology support, procurement schemes, outgrowers.

The population involved in forest small and medium enterprises amounted to 25 thousand people involved in forest plantation for sawn timber and pulpwood from pine, eucalyptus and acacia species. The production was 20 million cubic meters per year with an approximate value of 3 billion per year. The impact on households incomes in 2004 amounted to a cash income lump sum of USD 29 million.

Moreover, there was a wider economic impact on the community through access to the resources, capital retention and circulation within the community, growth diversification of business support, cost savings to the community and a more efficient use of land.

The impact in terms of rights and representation were: securing land, having a more representative decision-making by increasing participation of women, acquiring new skills and awareness and greater equity.

The recommendations are to improve financial returns from forestry, reduce streamline government regulation, and increase access to state land and access to private land.

The conclusions are: commercial forestry is appropriate technology. Forestry enterprise development is not a panacea for poverty alleviation but an important contributor to its reduction. Partnership arrangements offer a practical means for poor people to access global markets.

## **Peru: small and medium tropical fruit enterprises, a case study of the Camu Camu chain in the Peruvian Amazon**

By John Belt, Rafael Meza and Marly López R. (SNV, Peru)

The camu camu case study, as other Non Wood Forest Products (NWFP) cases showed that similar problems and characteristics affect the NWFP value chain and generated insights about the political guidelines necessary to promote them.

Camu camu is a wild fruit very appreciated worldwide for its high content of vitamin C. Perú is the first world producer and most of camu camu supply (87 per cent) comes from natural stands, while only a very small part is produced in plantations.

The case study was carried out in the Loreto region, in the Peruvian Amazon. The first link identified along the chain was represented by the collectors from the natural stands and the producers from plantations. Harvesting and cultivation enterprises are family run micro enterprises located in the rural area and their final market is regional.

One of the characteristics of these micro enterprises is the lack of a labour division and specialized work because the owner “does everything”: he is a worker, salesman and manager of the enterprise, at the same time. The organizational structure of these enterprises is traditional, that is, top-bottom and vertical. Harvesters have permits to access local forests that often are scattered and geographically disperse. These harvesters have a low level of organization, few economic resources and very little education and technical knowledge.

Harvesting and cultivation are often complementary activities that do not compete with the main productive activities (fishing, agriculture, trade, timber harvesting).

The second link of the chain was represented by the local traders who commercialize the fresh fruit.

The third link is represented by the primary processors of fresh fruit who transform it into frozen pulp. These processors are small enterprises.

The fourth link of the chain is represented by secondary processors of frozen pulp, and in some cases powdered fruit. From here the international export process starts. These very last links are usually concentrated in the capital of the country and are medium enterprises.

The camu camu chain is currently in its initial development phase because of its organizational, articulation and competitiveness stages. All of these aspects need to be strengthened.

Many constraints affect the camu camu chain, just as is the case in other NWFP chains. These constraints are:

- Overregulation has an impact on the chain. As a result many of its actors break the laws and regulations and are the target of a series of problems.
- The relationships between the different actors or links of the chain are difficult because it is hard to build trust between them and there is almost no cooperation. Collectors do not trust traders who buy the fresh fruit, at the same time, primary and secondary processing actors do not trust traders.
- There is scarce or no access to information about local and international prices. There is also little information about the economic rights that assist small and medium enterprises with regard to natural resource conservation. All of these aspects generate a low negotiation capacity.
- The Government has little contact with the regional reality and is not interested in taking the lead of productive chain integration processes, with the exception of some projects that have very little human and financial resources.
- Support organisms such as NGOs, universities, have little technical knowledge on forest management and ecosystem conservation and their efforts are concentrated in very specific areas and do not reach the majority of people. Sometimes they work according to a traditional paradigm of traditional knowledge transfer that is able to focus only on the first link and does not contribute to the productive chain.

In order to successfully integrate small and medium enterprises into value chains there is need to create an enabling environment and thus facilitate policies, rules, and technical assistance for the small and medium enterprises. There is also need to improve the transportation system in order to lower costs, provide adequate entrepreneurial models to the local social, economic, and cultural reality. It is also necessary to promote product quality, reduce uncertainty in the chain through mechanisms that help in forecasting production volumes, and mechanisms that ensure legal security for the actors in the chain and facilitate a public-private agreement, promote cooperation, articulation and coordination and joint efforts by supporting institutions.

## **Colombia: integration of small and medium forest enterprises in the value chain**

**By Paola Lozada, Instituto Alexander von Humboldt and Jairo Gonzalez, IVIHAO (Incrementadores de Vida, Agua y Oxígeno)**

A biodiversity products enterprise development was implemented in Colombia from 2002 to 2004 with the support of FAO/FONP. The purpose of this project was finding alternative means for communities to sustain their livelihood needs, mainly those of coffee grower communities who have been severely affected by the fall of coffee prices or those of small-scale fishing communities where natural resources are at risk.

Development efforts in the past used to highlight the concept of marginality, initiatives were disperse and they would mainly focus on agriculture. Today, the emphasis is made on multiple sectors, for instance on biodiversity as an opportunity for development and in clusters/value chains and participation.

The methodology used in the project was the Market Analysis and Development (MA&D) promoted by FAO and adapted to different countries in the world. MA&D provides a framework to carry out selection, planning and biodiversity products enterprise development, both for forest users and facilitators.

Communities and local organizations supporting them belong to three different departments: Corpoguajira, in Uribia, in la Guajira department worked with seven fishermen committees from the Wayuu indigenous communities in Cabo de la Vela; while Fundación Natura, in Encino, Santander department worked with the communities of Veredas La Chapa, Rionegro, Patios Altos, who are coffee growers; and CRQ in Salento, in the Quindio Department supported the Veredas La Palmera and Canaán communities who are coffee growers.

The project followed MA&D methodology, according to the three main implementation phases. Phase 1 evaluated the current situation. A preliminary study was carried out and discarded non feasible products. Phase 2 identified products and markets and conducted a feasibility, classification and selection study, and phase 3 planned sustainable enterprise strategies, a business plan and the final selection of products. All of these phases were carried out taking into account the social, institutional, market, environmental and technological related aspects.

Difficulties during the bio-commerce enterprise development were found in different fields. In the science and technology field a lack of infrastructure, communications and a primitive technology without value added, were identified. From the economic point of view, a lack of marketing structures, scarce knowledge on markets, and the lack of mechanisms to access credit and entrepreneurial capacities were detected.

From the social and institutional points of view, the communities lived in isolation, far from the national institutions and offices. While from the environmental and resource

management points of view, management of biodiversity resources was very complicated and dealt with seasonal products.

The products selected in La Guajira department were sea weeds. Fishermen were trained to establish *Gracilariamammillaris*, *Hydropuntia* sea weed farms to grow them as well as drying techniques to market them.

In the Scamander department the choice fell on plants to dye woolen textiles. The communities were trained to weave and dye the wool and grow the plants.

In the Quindío department, six species of heliconiae flowers and 4 species of ornamental leaves were chosen. The communities were trained in post-harvest management and floral decorations.

The number of beneficiaries totaled 226 people and the implementation of the project took 23 months.

An example of community associations that grouped to form small enterprises were the Canaan Tropical Paradise and IVIHAO located in Salento, in the Quindio Department.

In the past, these communities had participated in a series of development projects and environmental activities. This time, community participation consisted in implementing all the phases of MA&D until the creation of small enterprises. The local facilitators also participated in market research.

The integration of community associations in the value chain was made in the following order: IVIHAO/Tropical Paradise of Canaan producers- traders: C.I. Flora Tropical Doima Flowers Ligth Flowers 10 Flower retailers in Armenia, the department capital – final consumer.

The role of service providers to community associations consisted in facilitating and orienting the enterprise development process and in promoting the creation of associations, as well as orienting them on marketing and quality standards and training them to achieve leadership focused on management and negotiation.

The benefits of integrating community associations into value chains were:

- the identification and selection of a product with commercial potential;
- the planning of sustainable enterprise development strategies;
- management and access to financial sources;
- better integration among producers;
- leadership decentralization.

Future plans include: to improve the organizational capacity and be less dependent on supporting actors; to obtain financing; to diversify markets and products and to achieve sustainability on the long term.

The challenges of MA &D will be to establish a follow-up mechanism that allows to measure the improvement at the community level after the project is over; and replicate the methodology in other regions, with the participation of trained community members.

The conclusions about this experience are:

- There is need to include a preparatory phase for the implementation of MA&D methodology;
- a follow-up system must be established in the field to avoid the use of introduced species non authorized by national regulations;
- phase two of MA&D may be used as a pilot test, especially when dealing with new products;
- the implementation period of MA&D phases should be longer
- the alliance between an international organization like FAO, a Research institute and local institutions was key for the success of the initiative.

## **Ecuador: from project to independent business, the offer of forest services to smallholders in the Ecuadorian Amazon**

By Marco Romero, Servicio Forestal Amazónico

This case study shows the experience of the Amazon Forestry Service (SFA), an NGO based in the central-southern region of the Ecuadorian Amazon. This organization provides technical advice on forestry issues to land owners, settlers and indigenous communities working in timber trade, and also to project and organizations' staff.

SFA services relate to the design of forest harvesting plans and programmes, forest stewardship, advice and training, reforestation, facilitation of forest information, project implementation and specific product development through studies and consulting services.

The policy of SFA is to charge for its services in order to ensure sustainability, thus allowing to:

- avoid institutional paternalism because usually the delivery of free material, economic and business resources creates dependence;
- it provides training and education in order to prepare specialists, which means it exclusively works with people who are interested and have the skills to learn ;
- it uses an approach aimed at the individual, family producer and not to the communal associated members;
- it generates economic profits from the forestry activities because it leads to a better appropriation of the best practices by producers and the profit they can make from these practices.

The social and economic conditions of these land owners make it difficult to charge for the services, therefore SFA challenge is to offer quality services at accessible prices for low income owners thus enabling a business culture for those services and the enforcement of forestry rules and regulations.

This presentation underscored some of the constraints to be faced in order to improve the services:

- illegal trade and low prices associated with it disincentives legal trade;
- the market is reluctant to pay better prices for better quality products;
- the lack of incentives for good forest management practices and the lack of forestry regulations enforcement make services demand to drop.

## **Brazil: certification and business opportunities for small and medium enterprises**

By Mauricio de Almeida Voivodic, Instituto de Manejo e Certificação Florestal e Agrícola (IMAFLORA).

IMAFORA aims to help the communities in approaching FSC certification system in order for them to have access to the benefits of certification, and mainly, to new markets and better prices for their products, as well as to achieve the social, environmental and sometimes, political recognition of their enterprise, including the possibility to access to subsidies, financial support from governments and NGOs.

IMAFLORA organizes courses for community leaders and prepares simple guides about certification in order to inform the communities about the importance of this tool.

Nevertheless, it is important to notice that certification does not always represent a solution for small and medium enterprises due to a series of risks that must be taken into account in advance:

- certification costs could be higher than the benefits;
- the loss of the certification could be perceived as a decrease in the quality of the enterprise;
- the market of certified products could not be appropriate for small and medium enterprises;
- Requirements for certification (the establishment of rules, document preparation) could create internal conflicts to the community.

The most important fact for a successful certification is that the community be informed about the certification process and be able to decide if they wish to start it or not. The idea is to empower the community for it to be able to decide whether they want or not to adopt certification. If the community decides by itself, the process will work and may open up market opportunities and achieve profitable benefits. On the contrary, certification may be only a wishful thinking from NGOs and does not represent a good opportunity for the enterprise.

One of the positive examples was achieved in a rubber producing community in the state of Acre in Brazil. The community is now exporting certified rubber to Sao Paulo State and its benefits are three fold, compared to their sales in Acre State. This community was able to count on the support of banks and state authorities to subsidize the payment of transportation requirements for timber and thus reduce its costs.

IMAFLORA has worked with many communities in the Amazon region and has certified NWFP and timber products for a total of 10 FSC certifications corresponding to a production area of 35 thousand ha. Moreover, this year the organization has been working with ICCO in a South-South cooperation project in Cameroon, where NGO staff is being trained to introduce forest certification to the country.

Certification services for communities in the Amazon region are carried out through a social fund supported by fund raising aimed to pay the staff, prepare the materials with the main information. Nevertheless it is also necessary to train local NGOs through courses and simple guides about forest certification in order for them to adapt them to the languages of the local communities who must be informed in order to participate in a responsible way in the certification process.

The conclusion leads to acknowledge that certification opens up space for new species and forest products from the communities; nevertheless, certification is not a solution but an opportunity.

## **Honduras: CUPROFOR foundation and the development of the wood and furniture sectors in Honduras**

By Luis Cerna, Fundación CUPROFOR.

CUPROFOR foundation was established by the British cooperation and devolved to the Government in 2002. The challenge today is achieving self sustainability. The foundation has the objective of promoting sustainable forest management in Honduras through the provision of services such as technical assistance, training, research, project implementation and promotion of less known timber species.

According to CUPROFOR, service provision should adapt to the new demands of the forestry sector and the best service delivery mechanism is the creation of strategic alliances within the value chain and the creation of industrial clusters.

The creation of strategic alliances includes establishing projects in coordination with national institutions, universities, associations, municipalities and local communities. A series of projects have been identified in coordination with communities and small industries in order to expand CUPROFOR intervention and engage in efforts to strengthen small and medium enterprise competitiveness and productivity.

In addition, the foundation is trying to reduce the pressure over well known and over exploited species such as mahogany and cedar, by working with less known species. Nevertheless, one of the difficulties is supply availability and dispersion of those tree species, thus making transportation difficult and only by animal rudimentary means.

The conclusions are that the service provision should innovate and update continuously according to the demand. The best mechanism for service provision is the creation of strategic alliances within the value chain and CUPROFOR is heading to become a leader in training the staff for the timber and furniture industrial cluster in the Northern coast of Honduras. Another objective of the foundation is improving timber productivity by using waste timber in order to have an impact both, on poverty reduction and environment conservation.

## **Nicaragua: organization of community forest enterprises**

By Ken Nicholson (FAO), Miguel Shion and Jason Donovan (Learning Alliance- Project IDB/MIF-CATIE)).

The Learning Alliance is currently working with the Miskito people in Nicaragua; and women from communities in Peten, Guatemala.

Enterprise development is carried out through the Market Analysis and Development methodology (MA&D). This approach is usually implemented at the national level and addresses many different users such as: project technical staff working with rural microenterprises, governmental agencies, potential enterprise clients, producers, entrepreneurs, indigenous communities etc.

This is why MA&D is a tool undergoing continuous adaptation, according to the user. The objective is to generate capacity in the area, on a long term basis and train facilitators that may provide those services to other projects later on. Local facilitators may be government officers, local NGOs extensionists, local enterprise members, community members and activists, business school students who may work on a volunteer basis or have a salary.

When enterprises are already in place, sustainable services are provided i.e. to ensure product quality. In order for service provision to be appropriate it needs to have the following characteristics: technical services that address enterprise needs. The service must have an appropriate cost, according to the enterprise, the timing and place of delivery must satisfy the client request, i.e. some training materials have to be adapted to the needs of the client, they may either translated to the local language, or be more graphic and have less text etc.

In the case of the Miskito community, for instance, all the guides were translated into the local language. Threats to local natural resources and their vulnerability were identified. Livelihood strategies were analyzed and promising products such as honey, local agricultural products and associated constraints and advantages were identified.

MA&D aims to coordinate information, distribution, credit services and market demands, a process may be put in place, but it requires a link to the market and therefore needs: Training of extension staff; an entrepreneurial vision to replace paternalistic approaches. Enterprise development requires informed and responsible community actors.

## **Mali and Burkina Faso: building entrepreneurial capacity and marketing skills for pro-poor tree products enterprises development in the West African Sahel**

By Yacouba Ouedraogo and Ludvic Conditamne

The TREE AID project in Mali and Burkina Faso was implemented through the Market Analysis and Development methodology with the support of FAO/FONP, the Government departments and local NGOs and CBOs. The project was launched on demand of participants on previous TREE AID projects who asked for support on income generation activities. The idea was to improve the poor linkages of producers with urban markets and help in coordinating the different actors along the product chains.

The needs and constraints found were related to the lack of business and planning skills due to other demands on household labour and the lack of organization among the producers themselves. In terms of capital resources, there was limited access to financial capital and limited extent of forest resources and declining tree and forest resources.

The institutional and policy framework also presented a series of difficulties i.e. there was no structured approach for delivering support to grass roots level; there was insufficient coordination between agencies working on Non Wood Forest Products (NWFP); there was a void in national forest policy on NWFP development and the regulatory framework for NWFP was ineffective, finally the rights of access to forest resources was not clearly secured.

The scientific and technological aspects showed that there was poor access to appropriate labour saving technology; dissemination of output from biological research was ineffective; there was limited capacity for product quality testing and problems in storing products, plus a lack of training/skills in product processing and transportation problems.

The purpose of using the Market Analysis and Development (MA&D) methodology was to focus on village entrepreneurs such as poor rural households, especially women groups and place “village entrepreneurs” at the center of the process. The methodology also provided a structured approach for delivering support at the grass root level and allowed for capacity building both at local and national levels, including institutional arrangements in project design to ensure institutional sustainability and replicability of the approach. The basic premise was to link opportunities for the poor to generate income from trees and forest while preserving and improving the resource base, which is the basic vision and mission of TREE AID.

The MA&D approach was piloted in Burkina Faso and Mali with the following objectives:

- Strengthening expertise in MA&D at local and national level
- Facilitating MA&D application in the field and supporting village entrepreneurs to develop their business plan
- MA&D training materials to be tested and adapted to the local context
- MA&D pilot information to feed National policy development on NWFPs

The outcomes achieved were:

-the capacity building, at the village level, including the provision of skills and knowledge to 1 032 thousand potential entrepreneurs through their participation in the MA&D phase I and II that addressed a first round of 23 villages or 70 -230 potential interest groups.

-At the Project partner level, 17 Government and 17 NGOs field staff members received training in all 3 phases of the MA&D approach and are now competent to facilitate this MA&D approach in the field to promote NWFP enterprise development for the benefit of disadvantaged families.

-At the national level 3 MA&D co-facilitators have been trained to facilitate training sessions on MA&D approach. They have successfully carried out MA&D phase 1 training for the second intake of 9 project facilitators with the support of the consultant trainer.

MA&D implementation and training strategies were based on theoretical training, immediately followed by field application in a pilot site context –3 phases each one lasting about 6 months. The staff from the government department worked alongside the NGOs staff and established a joint ‘Piloting committee’.

As a result, marginalized women and men were brought into dialogue with the local forestry department staff. The villagers participating in the pilot scheme started seeing the forestry department staff as potential agents of change with regard to tree products development and sustainable natural resource management. The villagers also created a village level tree product interest group as an opportunity for individual business development, and finally, the government agencies participating in the project are building working relationships with the producer groups, thus facilitating local influence on governmental staff about the service provision they need.

In terms of institutional and policy at the national level, the project opened up new avenues through which TREE AID and its partner NGOs can engage at high level with government service providers and policy makers and advocate on behalf on small producers. The pilot scheme is providing a foundation for national and sub regional networking on NWFP. The lessons and experience from this project are directly informing government decision-making. As a result, the Forestry department in Burkina Faso has now prioritized NTFP policy development for support through FAO’s Technical Cooperation Project mechanism.

## **Conclusions**

There are impressive barriers to tree products development in the context of West African Sahel. The participatory and iterative nature of MA&D was particularly relevant to support villagers in addressing these barriers. This also highlighted the importance of

process issues such as the selection of field facilitators and the challenge of moving from top down approaches to process which put rural villagers at the center of the decision making process. Another important aspect was bringing on board the government service providers and establishing NGOs and Government agencies cooperation in order to share costs and benefits. Finally, post business plan development support will be a key in the success of many enterprises.