

Supporting small forest enterprises

A facilitator's toolkit



Pocket guidance not rocket science!



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The image shows a screenshot of the Forest Connect website. At the top left is the Forest Connect logo, which includes a stylized tree icon and the text "Forest Connect" and "Facilitating growth in the forest sector". To the right of the logo is a large photograph of a modern building with a thatched roof, surrounded by lush greenery and trees.

Below the header, there is a navigation bar with links for "Home", "My Page", "Members", "Forum", "Photos", "Events", and "Links".

The main content area is divided into several sections:

- Forum Threaded as a social network:** This section contains a list of forum posts. Each post includes a profile picture of the user, the post title, and a brief description. For example, one post is titled "Welcome to Forest Connect" and another is "Please do not post photos...".
- Members:** A section displaying profile pictures of various members.
- Pages:** A list of pages such as "About Us", "Contact Us", "Events", "Photos", "Links", "Members", "Forum", "Blog", "News", "Press", "Partners", "Sponsors", "Advisors", "Donors", "Volunteers", "Partners", "Sponsors", "Advisors", "Donors", "Volunteers", "Partners", "Sponsors", "Advisors", "Donors", "Volunteers".
- Recent Activity:** A section showing recent forum posts and their authors.
- Profile:** A section for the user's profile, including their name, location, and a bio.
- Photos:** A gallery of photos related to the forum or organization.
- Links:** A list of external links to related websites.
- Events:** A section for upcoming events, including dates, times, and locations.
- Partners:** A section for partner organizations, including logos and names.
- Sponsors:** A section for sponsors, including logos and names.
- Advisors:** A section for advisors, including logos and names.
- Donors:** A section for donors, including logos and names.
- Volunteers:** A section for volunteers, including logos and names.

At the bottom of the page, there is a footer with the text "Forest Connect" and "Facilitating growth in the forest sector".

http://forestconnect.ning.com

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Forest Connect is an international alliance dedicated to tackling the isolation of small forest enterprises. It was established in late 2007 following discussions between IIED and FAO at an international workshop ‘Small and Medium Enterprise Development for Poverty Reduction: Opportunities and Challenges in Globalizing Markets’ held at CATIE in Costa Rica from 23 to 25 May 2006. Its aims are to avoid deforestation and reduce poverty by better linking sustainable small forest enterprises to each other, to markets, to service providers and to policy processes such as National Forest Programmes (nfps). Forest Connect is co-managed by the Natural Resources Group within the International Institute for Environment and Development (IIED) and the Community-Based Forest Enterprise Development programme (CBED) of the FAO. It has involved partner institutions with funded facilitation plans in 12 countries: Burkina Faso, China, Ethiopia, Ghana, Guatemala, Guyana, Laos, Liberia, Malawi, Mali, Mozambique and Nepal plus a broader network of more than 800 supporters in 50 countries linked by an international social networking site (<http://forestconnect.ning.com>).

From 2-4 July 2008 partners of Forest Connect met in Edinburgh, UK to assess what guidance practitioners might find most useful to enhance support for small forest enterprises. It was this meeting that defined the structure of this toolkit, and we are grateful to the following participants (in alphabetical order) for their insights: Ambrose Bugaari (Environmental Alert, Uganda), Leena Chakrabarti (Community Enterprise Forum International – CEFI, India) Sophie Grouwels (FAO, Italy), Jennifer Heney (UK), Daphne Hewitt (Rainforest Alliance, UK), Marie Jaecy (IIED, UK), Yarri Kamara (Tree Aid West Africa Office, Burkina Faso), Cyril Lombard (PhytoTrade Africa, UK), Víctor Armando Lopez Illescas (Ut’z Che’ Association for Community Forestry, Guatemala), Xinjian Luo (Chinese Academy of Forestry, China), Rohit Magotra (Community Enterprise Consortium – CEC, India), James Mayers (IIED, UK), Peter Ngembeni Mbile (World Agroforestry Centre, Cameroon), Elaine Morrison (IIED, UK), Peter O’Hara (LTSI, UK), Sharon Ousman (Iwokrama, Guyana), Jukka Peltola (AgriCord, Belgium), Chris Penrose Buckley (Twin and Twin Trading, UK), Vanda Radzik (Iwokrama, Guyana), Ararsa Regasa (Ethiopian Oromia State Forest Enterprises Supervising Agency, Ethiopia), Matthias Rhein (DFID, UK), Tom Roche (Just Forests, Ireland), Mario Rafael Rodriguez Palma (National Forest Institute, Guatemala), Alda Salomao (Centro Terra Viva, Mozambique), Ram Hari Subedi (Asia Network for Sustainable Agriculture and Bioresources – ANSAB, Nepal), Tsegaye Tadesse (Farm Africa, Ethiopia), Ryan Temple (Sustainable Northwest, USA), Phuong Thao Vu (Enterprise & Development Consultants – EDC, Laos).

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The author is also indebted to the many unnamed Forest Connect partners who have dedicated their time and resources to shaping the Forest Connect idea and undertaking practical work to support small forest enterprises – the work on which this toolkit is based.

Executive summary

The goal of this toolkit is to help supporters of small and medium forest enterprises (SMFEs) work more effectively. We have written this toolkit for ‘facilitators’, for example donors at the international level and, most importantly, government extension services and non-governmental organisations (NGOs) at the national level. We have not written this toolkit for enterprises – although they may find some of the materials in component three useful.

We have arranged the toolkit in a series of self-explanatory modules (or tools) for different elements of SMFE support divided into three components. We begin in component one with broad international considerations on setting up capacity building programmes for SMFE support (primarily aimed at donors). We then move in component two to considerations on national level planning and capacity building, before providing in component three more hands-on advice for direct facilitation activities. The idea is that practitioners at any level can dip into sections that catch their eye, and those unfamiliar with enterprise support can read through the toolkit in a logical way.

Each of the sixteen modules (or tools) provides step-by-step guidance, followed by practical tips based on our personal experiences. We have also included a section pointing the reader to other useful manuals and tools already in existence. At the end of this toolkit is a reference list and a glossary of terms.

We invite readers to send the lead editor (Duncan Macqueen, email: duncan.macqueen@iied.org) examples of their own experiences in this field. We hope that these will enhance the quality of the guidance in any subsequent updates of this toolkit.

Acronyms and abbreviations

3Rs	Rights, Responsibilities, Revenues
4Rs	Rights, Responsibilities, Revenues, Relationships
ANSAB	Asia Network for Sustainable Agriculture and Bioresources (Nepal)
AOPP	Association of Professional Farmers' Organisations (Mali)
BDS	Business Development Services
BERSMP	Bale Eco-region Sustainable Management Programme (Ethiopia)
CBED	Community-Based Forest Enterprise Development programme
CEFI	Community Enterprise Forum International
CoC	Chain of Custody
CW	Controlled Wood Certification
DFID	UK Department for International Development
EDC	Enterprise and Development Consultants (Lao PDR)
ETB	Ethiopian Birr
FAO	Food and Agriculture Organization of the United Nations
FECOFUN	Federation of Community Forestry Users (Nepal)
FGLG	Forest Governance Learning Group
FLEGT	Forest Law Enforcement, Governance and Trade
FS	Financial Services
FSC	Forest Stewardship Council
G3	Global Alliance on Community Forestry, The International Alliance of Indigenous and Tribal Peoples of the Tropical Forests, and the International Family Forestry Alliance
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit, now GIZ (Deutsche Gesellschaft für Internationale Zusammenarbeit)
ICT	Information and Communications Technology
IFMSLP	Improved Forest Management for Sustainable Livelihood Program
IFOAM	International Federation of Organic Agriculture Movements
IIED	International Institute for Environment and Development (UK)
ISO	International Organization for Standardization
MRRRC	Microfinance Rural Resource Centres
NAPA	National Adaptation Plan of Action
nfp	National Forest Programme
NGO	Non-Governmental Organisation
NNN	Nepal NTFP Network
NPR	Nepalese Rupee
NRDDB	North Rupununi District Development Board
NTFP	Non Timber Forest Product
OFWE	Oromia Forest and Wildlife Enterprise
PFM	Participatory Forest Management
PROFOR	Program on Forests
REDD	Reducing Emissions from Deforestation and Forest Degradation
ROSCA	Rotating Savings and Credit Association
SAMFU	Save My Future Foundation (Liberia)
SEEP	Small Enterprise Education Programme
SFE	State Forest Enterprise
SLIMF	Small and Low-Intensity Managed Forest
SME	Small and Medium Enterprise
SMFE	Small and Medium Forest Enterprise
SNV	Netherlands Development Organisation
SOP	Standard Operating Procedures
SWOT	Strengths, Weaknesses, Opportunities and Threats
UGB	United Georgian Bank
USD	United States Dollar
USP	Unique Selling Proposition
VAT	Value Added Tax
VCA	Value Chain Analysis
VLC	Legal Verification of Compliance
VLO	Legal Verification of Origin
VOC	Volatile Organic Compound
WSR	'Whole System in a Room'
YLC	Youth Learning Centre

Introduction

High rates of deforestation pose a threat to our climate and biodiversity. Given that those regions home to the last forest frontiers also have a high incidence of poverty, the challenge lies in reducing poverty through economic alternatives that also maintain forest cover.

One alternative to agricultural conversion at the forest frontier is sustainable forest enterprise. Despite reluctance from governments to give control over forest resources to local people, small, locally run agricultural/forest enterprises are the norm in many of these regions. For example, small forest enterprises make up 80–90 per cent of enterprise numbers and more than 50 per cent of forest sector employment in most developing countries.¹

With spiralling demand for agricultural and forest products, supporting such enterprises to operate in a profitable and socially beneficial manner while continuing to be environmentally sustainable is critical – and indeed a pressing challenge.

We believe the only viable option is to establish a forest enterprise system based on secure rights to forest resources and strong local producer groups with the business capacity to produce products – be they food, energy, construction materials, pharmaceuticals, cosmetics or craft products – profitably and sustainably.

Supporting small forest enterprises is both a necessary and central response to the following five key global challenges:

1. *Sustainable consumption and green economies*: Ecological footprint analysis concludes that humans already consume more resources than can be sustained; in 2006, for example, 1.4 Earths were required to support consumption levels.² If we project a population of 9 billion in 2050 and levels of affluence consistent with OECD countries at present, in 2050 the global economy will be 15 times greater than at present. Such growth in consumption far exceeds potential factor productivity gains and is not sustainable. The poor are likely to be hardest hit in the scramble for resources. In the absence of strong governance and/or voluntary moves towards contraction and convergence, we believe there is a moral imperative to assist the forest-dependent poor in establishing their rights to natural resources to sustain their livelihoods and in building their organisations and capacity to make use of those rights in the face of growing competition for resources from more affluent people.

2. *Sustainable ecosystem services*: Competing demands for food, fuel, fibre and water require innovative and inclusive approaches to landscape management if the ecosystem services on which the planet depends are to be kept intact. Patterns of trade and agribusiness are shifting towards the tropics. For example, from 1995 to 2007 the agricultural land area in developed countries (including pasture) decreased by more than 412 million hectares (a decrease of 34 per cent), while developing countries saw an increase of nearly 400 million hectares (an increase of 17 per cent) over the same period.³ A response to these drivers of deforestation and degradation must be support for more intense, integrated and efficient small forest enterprises. It is also important to ensure that these enterprises maintain the regulating, supporting and cultural ecosystem services that are critical for long-term social and environmental sustainability.

1. Mayers, 2006a.

2. WWF, 2010.

3. Gibbs *et al.*, 2010.

3. *Climate change mitigation and adaptation*: Recognition of the importance of forests in climate change mitigation and adaptation has led to the development of major new funding streams, such as Reducing Emissions from Deforestation and Forest Degradation + (REDD+) and National Adaptation Plans of Action (NAPAs). This has created high expectations of quick progress. Most candidate countries, however, do not have the capacity or institutional conditions to meet donors' requirements and expectations. Transaction costs and gaps in the capacity to engage with the hundreds of millions of dispersed small agricultural and forest enterprises (which largely determine landscape uses) have hindered implementation efforts. Additionally, National REDD+ strategies and NAPAs have been plagued by non-inclusive processes that offer only token involvement of such groups and do not ensure equitable distribution of benefits. Support for the organisation of agricultural and forest producer groups, ensuring sustainable production and facilitating their engagement in decision-making processes, will be critical for both REDD+ and NAPA investments.

4. *Good governance, legality and social justice*: Independent reviews have confirmed that significant progress in governance reforms has been achieved by enforcing legal frameworks in the international timber trade through programmes such as Forest Law Enforcement, Governance and Trade (FLEGT).⁴ There is concern, however, that the limited leverage of export markets may be undermined by lack of progress in the domestic market,⁵ where the potentially negative impacts of enforcing legality on livelihoods are most keenly felt. Domestic markets are made up of agricultural and forest enterprises that, while small and often informal, have great scope to adopt more profitable, sustainable and socially beneficial practices. Therefore support to these domestic market actors can help improve legality and social justice in export markets.

5. *Effective investment for poverty reduction*: There is little evidence that investment in large-scale commercial forestry has helped reduce poverty,⁶ but prospects for investment in small forest enterprises are much brighter. The reasons are straightforward: small forest enterprises tend to accrue wealth locally, help to secure local resource rights, empower local entrepreneurship, foster the creation of social capital in local associations, engender greater local environmental accountability and maintain cultural preferences and diversity. As new investment opportunities through REDD+ and NAPAs grow, there is a pressing need to direct those investment flows through skilled intermediaries towards securing the rights, organisation and business capacity of sustainable small forest enterprises – with poverty reduction firmly in view.

It goes without saying that not all small forest enterprises are the same. They range from sole traders and small family businesses and companies to more democratic and social forms of enterprise such as associations and cooperatives. While working with all types of small businesses is necessary, analysis of the impacts of different forms of business shows that it is important to give particular emphasis to the latter forms of organisation where local social and environmental accountability is likely to be highest and where the greatest opportunities for poverty reduction and prevention of deforestation are likely to be found.⁷

4. Lawson and MacFaul, 2010.

5. Boot, 2011.

6. Mayers, 2006b.

7. Macqueen, 2006.

Moving such enterprises towards secure resource rights, responsible production and profitability is not easy. They face huge constraints to do with isolation, not only from neighbouring enterprises with whom they might increase scale efficiencies and bargaining power, but also from potential buyers and a diversity of sales options, from financial and business development service providers who help with sustainability and upgrading, and from decision makers governing their forest access and use.

Forest Connect is an international alliance dedicated to tackling the isolation of small forest enterprises. It aims to reduce poverty and improve sustainable resource use by better linking sustainable small forest enterprises to each other, to markets, to service providers and to policy processes such as National Forest Programmes (nfps). It is currently involved with action plans in 12 countries: Burkina Faso, China, Ethiopia, Ghana, Guatemala, Guyana, Laos, Liberia, Mali, Mozambique, Malawi and Nepal, plus a broader network of supporters in 50 countries linked by an international social networking site (<http://forestconnect.ning.com>). The Forest Connect alliance is co-managed by the Natural Resources Group within the International Institute for Environment and Development (IIED) and the Community-Based Forest Enterprise Development programme (CBED) of the Food and Agriculture Organization of the United Nations (FAO).

New support from the Program on Forests (PROFOR) is helping Forest Connect develop this toolkit for the facilitation of support for small and medium forest enterprises across Facility partner countries. The modules within the toolkit have each been adopted and tested through action-learning (or learning by doing), not only capturing lessons from the literature, but also from the real experiences of partner institutions in the many countries where Forest Connect is currently active.

The purpose of the first international Forest Connect workshop⁸ (2–4 July 2008, Edinburgh, UK) was for practitioners to decide what guidance would be most helpful to support their work. Through country presentations, these country partner institutions showed how they were already working to connect small forest enterprises. Almost all partners have now analysed the types and numbers of small forest enterprises in their country or region and are building databases of who is doing what and where. Many are starting to map out potential service providers. Some have gone further, supporting collective action within producer associations, helping to develop new products, identifying, benchmarking and linking them to service providers and exposing them to markets through newsletters, bulletin boards, mobile phone updates, buyer-seller meetings and trade fairs. More detailed value chain analyses to identify opportunities for upgrading are starting to emerge. The Edinburgh workshop identified 16 areas where further guidance and sharing of experience would help to progress this small enterprise support work.

Having commissioned a range of experts to draft the 16 modules of guidance, country teams then sought to make use of this guidance in their contexts. Country presentations at the second international Forest Connect workshop⁹ (16–18 February 2011, Addis Ababa, Ethiopia) were specifically linked to one or more of these guidance modules. We have captured the sharing of approaches and tactics for these different elements of small enterprise support and have used this to enrich this final version of the toolkit.

8. Macqueen and Morrison, 2008.

9. Macqueen and Rolington, 2011.

What is this toolkit?

This toolkit¹⁰ is simply a collection of tools to help you solve problems to reach a goal. For example, this toolkit might help international donors who want to support small forest enterprises but do not know where to start (the 'problem') to identify national partners who can facilitate such support (the 'goal'). The toolkit might help national partners confronted by unplanned and unprofitable businesses (the 'problem') to develop and spread business planning skills (the 'goal').

Figure 1. The role of a tool



The main reason that the Forest Connect alliance is developing this toolkit (alongside direct action to achieve specific goals in each partner country) is because tools are transferable. Most small forest enterprises and the groups working to support them are understandably concerned more with their goals than with the tools they use to reach them. Paradoxically, if more people shared the tools they had found useful, it would be easier for everyone to achieve their goals. Therefore, developing and sharing successful techniques, tactics and tips more widely is a priority.

In developing this toolkit, we have paid particular attention to the following questions:

- **Audience: whose problems is the toolkit aimed at?** We have restricted the focus of this toolkit to those involved in *supporting* small forest enterprises (while recognising that some of component three may be of interest to small forest enterprises themselves). It is *not* designed for small forest enterprises themselves (although some modules could easily be adapted by those enterprises). We have divided the target audience into two main groups: (i) external agencies seeking to support small forest enterprises indirectly (for example donors, international agencies, national governments, and so on) and (ii) national facilitators who are directly seeking to support small forest enterprises in the field (for example NGOs, umbrella associations, national extension agencies, and so on).
- **Demand: why are particular problems a priority?** We have identified key areas where our target audiences need more guidance through a three-day, participatory planning workshop that took place in Edinburgh from 2–4 July 2008.¹¹ This workshop directly involved both of our target audiences – representatives from 7 external agencies and 13 partner country institutions directly facilitating support for small forest enterprises, plus a number of invited experts.
- **Sequencing: in what order, if any, should these problems be addressed?** We have divided the toolkit into three main phased components: (component one) facilitation capacity building, largely directed at our audience of external agencies; (component two) facilitation planning and

10. This section draws on Vermeulen, 2005.

11. Macqueen and Morrison, 2008.

(component three) facilitation in action, largely directed at our audience of national facilitators. This pattern reflects the experience of current action-learning spread across multiple countries. Within each of these components are a number of specific tools aimed at a problem explicitly prioritised in the workshop mentioned above. Inevitably, the sequencing of such support activities is somewhat arbitrary and context specific. For this reason, each tool has been developed as a stand-alone module.

- **Logic: how might problems be addressed to meet goals?** Within each module or tool, we have taken pains to describe as accurately as possible the purpose of the tool (for example, how to solve the problem to reach the goal). The logical pathway has emerged from the collective experiences of Forest Connect partners in the 13 countries represented at the planning workshop.
- **Content: what particular techniques, tactics and tips might help to bring this about?** In the detail of each module, we provide an outline of the main steps that contributors to the toolkit have found useful in attempting to solve a particular problem. There will also be sections providing practical advice based on experience and case study boxes where appropriate.
- **Replicability: can the techniques, tactics and tips be generalised?** With such varied country partners, one of the main challenges is to try and ensure that the techniques, tactics and tips can be used beyond the particular context in which they were first developed. This may only be known once a tool is actually tried out in different contexts and revised accordingly. There are signs, however, that this is already happening. One example is that of a 'health check' methodology for forest cooperatives developed in Ethiopia and subsequently being tried in China. Our starting premise is that none of the tools or modules should be set in stone. Each one is a work in progress that will require further iterations of testing and revision. The intention of the Forest Connect alliance is to support small forest enterprises over a long time and allow for such progress.

We try as far as possible to provide a step-by-step procedure of how to implement each tool. A straightforward, concise explanation like this is an easy and flexible starting point for others to draw on the tactics and methods they want. We have tried to describe tools using four simple headings:

- Purpose – a few sentences describing what the tool is for.
- Outline – the main steps you need to try the tool out.
- Useful tips – practical advice based on experience.
- Further information – where to get further advice.

A step-by-step write-up is much easier said than done, for the following reasons:

- Enterprise development and business environments, even at very local scales, are far more complicated and unpredictable than baking a cake. Thus, a straightforward recipe cannot be guaranteed to work each and every time in the same context, let alone a new context.
- Steps in a process may overlap, or the order in which they are done might depend on circumstances.

- Those involved in the process may not have thought of it as a transferable or repeatable approach, so the tool is invented after the event, making it difficult to tease out the different parts of the procedure.

The main way to overcome these difficulties is to make them clear within the write-up. If the process was not linear, we have tried to give bullet points rather than numbered steps. If a tactic was successful once, but we are not sure it would work again, we have added it as a tip.

What is this toolkit aiming to deliver?

This toolkit aims ultimately to help reduce poverty and promote sustainability. It does this by providing guidance to *forest enterprise support institutions* to help them better link small forest enterprises to each other, to markets, to service providers and to policy processes (such as national forest programmes).

The immediate intention is to empower forest enterprise support institutions by giving them sufficient confidence to launch into some practical and useful interventions, based on tried and tested approaches and successes from elsewhere. Of course, those support institutions – or ‘national institutional hubs’ as we have also called them – must have direct contact with forest enterprises themselves.

The main emphasis in this toolkit is on learning how to *facilitate* the provision of support to small forest enterprises, not to directly provide the services.¹² This emphasis is an important one in generating confidence within support institutions, as it immediately removes any perceived pressure to possess certain business and financial expertise internally. Support institutions can assist by knowing the right people to ask, rather than about knowing the answer internally. Facilitators perform functions such as: identifying needs for services together with enterprises, building capacity to provide those services where they do not exist, adapting services to meet the needs of the forest sector, linking service providers with those who most need them, and taking policy constraints to those with the power to do something about them. Through this toolkit, facilitators will also become repositories of information on small forest enterprises, and will hopefully establish new practices within their institutions and with their donors.

This toolkit aims to give facilitators *guidance* about different areas of enterprise support. It does not attempt to provide exhaustive coverage of each area, but rather to demystify each area sufficiently such that facilitators will have the confidence to develop their own experience through action. The guidance has been written in as concise a form as possible by people with experience in the field. It has been subjected to widespread review. But, like any good guidance, it is always a work in progress. We hope that users will propose better ways of working that we can capture in later versions of this document. Our vision for this toolkit is very much like the online ‘wikipedia’ information portal to which all contribute and from which all benefit.

12. Tanburn *et al.*, 2001.

Audience 1. External agencies

The target audience of this initial section is those external agencies (for example donors, international institutions and NGOs, multilateral banks) who wish to support either programmes or projects that target SMFEs. The aim here is to suggest ways of setting up and monitoring either multi-country support networks (such as Forest Connect) or national SMFE support programmes. The advice draws heavily on the experience of defining priorities for and then setting up and managing the Forest Connect alliance.

Component 1. Facilitation capacity building

Module 1. Designing an alliance for small enterprise support

Developed by Duncan Macqueen

© Duncan Macqueen



Second international Forest Connect meeting, Ethiopia

1.1 Purpose

This tool describes how to design an alliance to strengthen institutions that facilitate support for small forest enterprises through a process of peer-peer learning. It describes some of the steps that have proven successful in encouraging peer-peer interactions so that learning spreads quickly.

1.2 Outline

Step 1. Build on priorities of forest right-holder groups in developing objectives

Whether national or international in scope, the success of any small forest enterprise support initiative depends on the degree to which its objectives resonate with the needs of ultimate beneficiaries. Local or national demand surveys are obviously important in establishing exactly what is needed and by whom.

Such surveys need not occur in a vacuum, as demonstrated by the development of a mutual agenda by three global alliances of forest right-holders (the Global Alliance on Community Forestry, the International Alliance of Indigenous and Tribal Peoples of the Tropical Forests, and the International Family Forestry Alliance – together known as the G3). This agenda, 'Investing in Locally Controlled Forestry',¹³ prioritises the recognition and establishment of local decision making, tenure and commercial rights; the creation or strengthening of local organisations; entrepreneurial capacity building; and accessible finance. This forms an excellent starting point for the development, capturing and conversion of objectives into a fundable support programme for small forest enterprises.

Pre-dating the G3 initiative outlined above, the Forest Connect alliance also emerged as a result of demand from supporters of small forest enterprises. Forest Connect emerged over two years based around the following overlapping steps:

- Professionals interested in supporting small forest enterprises conducted informal discussions at a series of international meetings. These professionals observed that enterprise start-up programmes were abundant, but support for established enterprises was much more limited.
- These professionals connected with in-country partner institutions to form a working group and prepare a concept paper based on a shared perception of the core problem and how to address it. The perception was that isolation of small forest enterprises was a major problem and that better connection was therefore an appropriate response.
- The working group then garnered feedback from a wider range of practitioners from a variety of contexts to determine whether all, parts or none of the concept resonated in different situations.
- The working group then developed a clear objective and brand for the initiative (the Forest Connect logo and strap line) to clearly communicate the aims of the initiative.
- They also made some online enquiries to determine which institutions in different countries might already have a mandate and disposition to join the alliance.

13. Macqueen, 2011; G3, 2001.

1 Step 2. Secure funding of a scale and duration equal to the objectives

No alliance or initiative will go very far without at least some core funds to resource activities and interactions of a core group. Identifying one or two partners with the mandate and funds to incubate proposal ideas further is a good first step. Ideally, you should try to create links with longer-term enterprise training facilities with a view to training the next generation of enterprise facilitators (see Box 1).

Various failed fundraising attempts usually precede success as ideas are honed and those elements of work attractive to donors become apparent. For the Forest Connect alliance, the following steps proved useful:

- Develop a longer concept narrative to provide base material for members of the alliance developing more specific proposal ideas.
- Clearly break down constituent elements of the proposed initiative, for example participatory engagement of small forest enterprises, research, capacity building, communications, learning events and advocacy.
- Produce a flyer (a calling card) that succinctly communicates the problem and main constituent areas of the proposed initiative.
- Broker informal meetings with potential donors to assess their particular interest in different elements of the whole work programme and then develop tailored proposals.

Box 1. Empowering the next generation in enterprise development in Guyana

The Youth Learning Centre (YLC) of the Bina Hill Institute is a 'knowledge building' institution that caters for young, out-of-school indigenous people. Established in 2007, it builds the capacity for inter-generational transfer of knowledge, including modern and scientific as well as traditional ecological knowledge, skills and culture. The young people are given concrete examples of how to sustain the ecosystem of the North Rupununi through the curriculum. They are also prepared for jobs in a local 'green economy' that will hopefully come about through the framework of Guyana's REDD+ Low Carbon Development Strategy.

The Bina Hill Institute has incorporated various elements of this toolkit into youth training activities. For example, Modules 10, 14 and 15 are being integrated into those parts of the curriculum addressing eco-tourism and business studies, with the aim of building basic business planning and management skills. In addition, Module 15 is being integrated into the forestry course, boosting understanding of practical forestry and aspects of sustainable forest management and its related practices. This course provides students with practical forestry skills such as chainsaw milling and reduced impact logging.

YLC graduates are now employed in various positions in local institutions, such as the representative umbrella community-based organisation, the North Rupununi District Development Board, in positions related to eco-tourism, community fisheries and forest sectors, administration, financial management, communications and resource mapping. Two graduates are now engaged in a village cinema project where community radio programmes on natural, wildlife and environmental management have been produced alongside social issues such as HIV/AIDS, alcoholism and healthy lifestyles. Some have gone on to train and work with institutions such as the Iwokrama International Centre as forest tour guides and park rangers. Some have already been elected to leadership positions on their village councils. In these pivotal roles, they are actively participating in the production of community resource plans and other developmental programmes and forums, such as the Indigenous People's Plan on the Impacts of the Guyana Brazil Road and disclosures on the Guyana Low Carbon Development Strategy.

Step 3. Build in a set of annual, themed learning events

For an alliance supporting small forest enterprises, the capacity of support organisations is critical. It is therefore important to plan for thematic events that together constitute a learning journey on how to support small forest enterprises. If funds are scarce, these can be virtual events using email or wiki technology. Face-to-face interactions, however, inevitably offer better opportunities for learning. To make this work across different country contexts, it is essential that the thematic content is as specific as possible. For example, the Forest Connect alliance's two learning events to date have assessed: (i) what type of modular guidance supporters of small forest enterprise need,¹⁴ and (ii) what in-country activities have successfully made progress in those modular areas.¹⁵ These thematic events enabled the sharing of lessons drawn from various partners' approaches and tactics to deal with those specific areas of small forest enterprise support.

A number of tactics can help increase the effectiveness of these events:

- Ensure all participants pay attention to the same tactical areas by providing templates for country power-point presentations or posters.
- Involve event participants in the peer review of other teams presentations, approaches and work plans.
- Use participatory techniques to analyse shared problems, brainstorm potential solutions, debate contentious issues and agree on new ways forward.
- Include a local field event that illustrates and can help focus discussions on particularly challenging issues.

Step 4. Establish a knowledgeable board or steering committee

It is neither easy nor necessary to discourage particularly pro-active or well-funded members from driving the agenda within an alliance. Nevertheless, to build broader ownership of the initiative across different geographical regions, it is useful to make sure that the alliance is accountable to all. Electing a board or steering committee that makes strategic decisions, improves the profile, contacts and fundraising opportunities for the alliance and undertakes monitoring and evaluation can help create greater consensus and hopefully relevance.

Step 5. Develop a communication platform at an international level

Any alliance needs to be challenged by new ideas. Restricting the alliance to those that funding allows for (however generous or restricted) is likely to diminish innovation. New information technologies on the internet can allow for a much broader membership (see Box 2). It is possible to set up such sites to perform a number of useful functions. For example, the alliance might wish to:

- attract new members, including practitioners who might benefit from the information held by members, resource people with experience in particular areas, key decision makers or donors, including relationships with government institutions when possible;
- share recent documents, approaches, tools and tactics about how best to support small forest enterprises;
- provoke discussions about contentious areas where broader inputs can help to clarify how to approach a particular issue;

14. Macqueen and Morrison, 2008.

15. Macqueen and Rolington, 2011.

- maintain a database of relevant published resources or internet sites with useful content;
- spread findings, either as outcomes or to encourage critical review and revision.

Step 6. Invest in a single point of contact

Clarity about who is managing an alliance can encourage approaches from interested parties or potential supporters. Since Forest Connect was established, numerous spontaneous links have been made by SMFEs, potential new facilitation partners, complementary networks looking for greater synergy, donors, investors seeking out ways to engage SMFEs, journalists and researchers. The capacity to respond intelligently to such approaches and identify useful ways to build on any areas of mutual interest is an important component of an alliance and can develop into useful new initiatives over time.

1.3 Useful tips

- Spend time clarifying the problem, response and comparative advantage of an alliance before investing resources.
- Invest in the creation of a clear brand identity for the alliance using simple language.
- Don't let short-term needs and project deadlines drive out the longer-term vision or 'learning journey' to which the alliance is dedicated.
- Be as inclusive as time and money allow, especially with regard to management of an alliance. Innovation often emerges from unexpected sources.
- Factor in the time and resources needed to maintain an international communication platform.

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Prioritising what guidance small enterprise supporters most need at the Forest Connect workshop in Edinburgh

Box 2. Setting up a Web 2.0 international communication platform for Forest Connect members

Forest Connect was established in 2007 as an ad hoc international alliance of those seeking to better link small forest enterprises to each other, and to markets, service providers and policymakers. As interest in the alliance grew, the potential to do more creative networking emerged through developments in Web 2.0 platforms. Web 2.0 is a term describing new World Wide Web technologies and web design that allow greater information sharing and collaboration with options for both public and private communication between users.

IIED reviewed and then selected one social networking site that appeared most useful (www.ning.com). The advantage of this site was that it had pre-designed modules (for example, for members profiles, messaging between members, text boxes, blogs, discussion forums, video and photo sharing) that even the electronically challenged could click and drag to make a presentable and functional website. The blog and discussion forum tools provided a means to publicly add written text, while the messaging tool allowed members to communicate directly with one another (albeit in a way that others can see if they go onto individual members' profiles). Although it does not have a dedicated document repository facility, the site has the capacity to create a virtual library of useful documents through a link to another useful site (www.delicious.com).

The co-managers of the Forest Connect alliance targeted civil society groups, government departments and private sector representative bodies supporting SMFE development. Content was designed to build capacity of these organisations by providing guidance on approaches and tactics to supporting SMFEs, as well as national summaries of SMFE activities. The site was not deemed appropriate for SMFE managers themselves, many of whom do not have internet access, and whose needs are more context specific. For SMFEs themselves, more accessible country communication platforms have been developed by Forest Connect partners.

Initial discussions within the co-management team were held to determine what features the site should contain and what it should look like. The actual process of converting that design into reality took less than a day in January 2008, with one IIED team member developing the main framework, and the IIED and FAO Forest Connect co-managers stocking the site with useful reports and manuals on SMFEs, example blogs and discussion topics, photos and videos to stimulate interest. Forest Connect country partners were then invited to join in late January 2008. In addition, links were made to several existing websites of Forest Connect partners, the content of which had been driven by in-country decisions on the most useful national information on SMFEs in consultation with the IIED and FAO co-managers.

Once initial feedback was received from these initial Forest Connect country partners, a wider group of SMFE practitioners and known resource people were invited to join the site. All new members received a welcome message to encourage them to spread the word about the site to others who might find it useful. In two weeks, 100 new members had registered, followed by a further 50 after 9 weeks and 50 more after 20 weeks. One year after its launch, the site had more than 300 users. In the first two weeks, membership came primarily off the back of existing Forest Connect links and relationships, but this dynamic rapidly broadened out to include distant chains of 'contacts of contacts' and those who found the website independently using internet search engines. Problems of hacking and personal solicitation were solved by introducing a membership approval process by the co-managers.

To encourage repeat visits and new members alike, Forest Connect adopted a threefold strategy. Firstly, a concerted effort was made by the IIED co-manager of Forest Connect to upload a regular stream of useful new information drawn from the many other institutional sites dealing with SMFEs. Secondly, the project developments within the Forest Connect alliance were edited by the IIED co-manager of Forest Connect into news features (for example on workshop proceedings, country developments and managerial decisions such as the election of an international steering committee). Thirdly, a short email digest was initiated bimonthly to inform existing members of recent additions and developments under the headings of news, resources, discussions and blogs, and photos and videos. By highlighting such contributions, repeat visits by members have greatly improved.

1.4 Further information

The agenda of three important forest right-holder organisations for investing in locally controlled forestry is summarised in the following document: <http://pubs.iied.org/pdfs/G03079.pdf>

The first international Forest Connect workshop report both describes the nature of the alliance and activities currently in focus across the world, but also the process of running a peer-peer learning network in practice:¹⁶ <http://pubs.iied.org/pdfs/G02295.pdf>

The second international Forest Connect workshop report describes the approaches and tactics that in-country partners used to support small forest enterprises between 2008 and 2011: <http://pubs.iied.org/pdfs/G03112.pdf>

For a good example of another peer-peer learning group, look at the updates and information arising out of the Forest Governance Learning Group (FGLG):¹⁷ <http://pubs.iied.org/pdfs/G03145.pdf>

To see the Forest Connect networking site, please see the following link: <http://forestconnect.ning.com>

For further information on the Web 2.0 platform used by the Forest Connect alliance,¹⁸ plus a range of other Web 2.0 technologies,¹⁹ follow this link: <http://pubs.iied.org/pdfs/14563IIED.pdf>

16. Macqueen and Morrison, 2008.

17. <http://www.iied.org/natural-resources/key-issues/forestry/forest-governance-learning-group#resources>

18. Macqueen, 2009.

19. IIED, 2009.

Module 2. Identifying national small forest enterprise support institutions

Developed by Duncan Macqueen

© Duncan Macqueen



Treeaid facilitating a meeting with women shea butter producers in Burkina Faso

2.1 Purpose

This tool describes how to help small forest enterprises by identifying and engaging the institutions that are best equipped to facilitate support in different contexts. It provides a preliminary set of criteria for identifying a lead agency. It then outlines some tips for organising a steering committee to draw in other institutions that have important roles to play.

2.2 Outline

Step 1. Map institutions in-country through a scoping mission

Building competent, long-term institutional support is crucial for assisting SMFEs to develop and adapt to changing markets. Generic agencies that support small enterprises often have little specific knowledge of the forest sector, while forest agencies often have little business development capacity. Knowing where to invest to maximise impact on SMFEs therefore requires knowledge of the country context and an ability to manage trade-offs between forest sector and business expertise.

A first step is to undertake a scoping visit to national and regional centres, visiting and interviewing both those institutions set up to help small and medium enterprises (SMEs) in general, and forest development institutions in particular. Examples of these institutions are:

- national government agencies, for example small enterprise support programmes embedded in ministries of industry, commerce and economic affairs
- national initiatives such as programmes supporting competitiveness and/or export
- regional government agencies, for example regional or provincial development agencies
- private sector groups, such as chambers of commerce, industry associations and unions
- civil society groups, such as development or environment NGOs, forest campaign groups or project networks.

Step 2. Screen promising institutional facilitators

Any scoping visit needs a structured format to determine the optimal institutions you wish to invest in. Personal relationships with individual champions of enterprise development are important, but sustainable support to SMFEs also requires a sustainable institutional environment. It is worth formally scoring a number of other features that are likely to affect practical performance over time, such as:

- institutional mandate to support SMFEs
- sustainable financial base and staffing
- broad national presence and coverage
- good connections with relevant policy and decision makers
- past track record of independent engagement with existing SMFEs (avoiding institutions that have obvious vested interests in a particular company or sector)
- forest sector expertise (e.g. inventory, sustainable forest management, forest harvesting and processing, forest product markets)

- business development expertise (e.g. value chain analysis, business planning and marketing)
- economic/financial expertise (e.g. financial record keeping, ability to assess rate of return on investment, experience of group saving schemes)
- participation and facilitation skills (e.g. workshop facilitation, expertise in participatory methods such as brainstorming, problem and SWOT analyses, timelines)
- fundraising and project management experience
- information mining and packaging for dissemination (e.g. a track record of effective communication).

Step 3. Negotiate a mutual agenda with potential facilitation hub institution

Pre-existing institutional agendas are a valid starting point from which to assess how to develop mutual interest in providing more concerted support for SMFEs (see Box 3). From any existing SMFE support activities, it may be possible to agree on ways of expanding the target institution's facilitation role. Because it can be difficult to foresee an end to the many temporary facilitation needs, clarity on the scope of facilitation should be agreed upon.

Financial support for facilitation activities is usually time bound. This makes it important to strengthen or develop facilitation skills in institutions that have some degree of financial sustainability so that skills are not lost. This does not mean that suitable national facilitation hub institutions must aim for full cost-recovery on facilitation services; it does mean that such institutions would ideally have strong existing mandates to work with small forest enterprises and relatively robust funding sources to ensure retention of core staff. Any additional financial support should build on the existing base of activities, reducing any pain associated with an exit strategy that, at worst, leaves capable institutions better equipped.

Step 4. Create a flexible plan to develop facilitation capacity

Different institutions will vary hugely in their familiarity with approaches and tactics to facilitate support for small forest enterprises. For those institutions with a solid track record of supporting small forest enterprises (see Box 4), more far reaching interventions can be targeted (e.g. Modules 10–16).

Institutions new to enterprise support may need to work through a number of stages to get up to speed with small forest enterprise issues. Country partners have generally followed an initial set of facilitation steps, based primarily around improving information flows, which form a useful template from which to negotiate an initial facilitation plan. The steps are as follows:

- Familiarise staff with the various approaches to facilitation of support for small enterprises, especially literature on market system development (see Module 4).
- Prioritise and sequence further facilitation steps based on the outcome of the above for specific subsectors (see Module 5).
- Conduct small forest enterprise diagnostics and data collection in-country where this does not already exist (see Module 6).
- Map and benchmark financial and business development service providers both within and beyond the forest sector (see Module 7).

Box 3. Flexibility in identifying a national facilitation hub in Guyana

2

On the back of three years of work documenting Guyanese SMFEs and their associations, IIED conducted a scoping mission in 2006 in collaboration with the Guyana Forestry Commission and the Guyana National Initiative for Forest Certification respectively. Its aim, in consultation with all the relevant forest stakeholders, was to select an institution to act as a hub for future support to SMFEs.

Among the candidate institutions were: (i) government or quasi-government institutions such as the Guyana Forestry Commission, the Forest Training Centre and the recently established Forest Products Marketing Council; (ii) industry bodies such as the Forest Products Association, the Guyana Manufacturers and Services Association, the North Rupununi District Development Board and Ituni Small Loggers Association; and (iii) NGOs such as the Iwokrama International Centre for Rainforest Conservation and Development and Conservation International. IIED carried out semi-structured interviews with staff and other experts with reference to a set of criteria.

Iwokrama International was initially selected, based on the following features:

- its institutional mandate and mission to promote sustainable and equitable use of tropical rainforests through research, training and the development and dissemination of technologies
- its sustainable financial base and staffing, surviving a recent lean period partly through existing entrepreneurial success in eco-tourism and certified forest production
- its well-established reputation both nationally (where it has its own forest conservation area and certified production forest of 1,000,000 acres) and internationally
- good connections with relevant policy and decision makers
- a past track record of respected, non-aligned engagement with communities in North Rupununi and local entrepreneurs (e.g. in eco-tourism)
- forest sector expertise (e.g. in inventory, sustainable forest management, forest harvesting and processing, forest product markets)
- business development expertise (e.g. in its own eco-tourism and forest product value chain development, business planning and marketing)
- economic and financial competence (e.g. project administration for various international agencies)
- participation and facilitation skills (e.g. strong track record working with the Makushi people, including facilitation and participatory methods)
- fundraising and project management experience
- information mining and packaging for dissemination (e.g. a track record of effective communication).

While the initial work of Iwokrama was promising (documenting small enterprise associations, cataloguing existing enterprises, developing a web-based marketing platform), staffing issues meant that IIED had to find an alternative institution. Because of close work with the North Rupununi District Development Board throughout these initial phases, and its closer links with some of the enterprises being supported, IIED agreed that ongoing support should switch to this institution.

- Develop a communication strategy (see Module 8) that educates the wide range of stakeholders (e.g. SMFEs themselves, service providers, policy and decision makers) on SMFEs, policies, service providers and any subsector analyses and approaches.
- Identify promising subsectors and conduct a participatory value chain analysis to identify key opportunities and constraints for upgrading together with SMFEs (see Modules 9 and 10).

Box 4. Building on existing strengths such as those of ANSAB in Nepal

On rare occasions, there may be a dedicated small enterprise support agency in-country with a strong track record of work with forest enterprises, as was the case in Nepal. Established in 1992, the Asia Network for Sustainable Agriculture and Bioresources (ANSAB) is a civil society organisation working in South Asia and headquartered in Kathmandu, Nepal. It is committed to biodiversity conservation and economic development through community-based, enterprise-oriented solutions. ANSAB have usefully imparted their experience to other facilitator institutions within the Forest Connect alliance.

ANSAB assumed the leadership of Forest Connect in Nepal in 2008 with a number of key objectives: (i) increasing the visibility of specific SMFEs in Nepal; (ii) increasing the level of organisation and connectedness of SMFE members to market, service providers and policy processes; and (iii) increasing the viability of SMFE members in the market. Its approach has been to study in detail forest product value chains with special emphasis on ecological sustainability, social justice and equity, and economic efficiency.

ANSAB developed and strengthened over 1100 economic entities, and 77,500 economic participants generated an additional annual income of USD 6.82 million in 2009. Approximately 100,000 hectares of forest and meadows were brought under improved community management alongside 8 Forest Stewardship Council chain of custody certified enterprises for handmade paper. Beyond paper and a major initiative on sustainable charcoal briquettes, ANSAB has also supported enterprises in spinning, weaving and sewing *allo* (a fibre yielding plant), collecting *Yarshagumba* (a caterpillar collected as traditional medicine), making wood furniture and handicrafts, harvesting oranges and ginger, producing essential oils such as *anthropogon* and juniper, collecting medicinal plants such as *guchhichyau*, weaving fibre crafts and harvesting spices such as cardamom. ANSAB has produced its own excellent series of short manuals to guide all aspects of small forest enterprise development (see <http://www.ansab.org/publications/books-manuals/>).

Step 5. Encourage the establishment of a steering committee

No single institution (unless extremely well resourced) will be able to access all relevant information and facilitate all that is needed for market system development for the full range of SMFEs. There are always useful allies to be had in other civil society organisations, private sector groups and government institutions. The creation of a steering committee can be an excellent way of drawing on such expertise and smoothing the path to real change as interventions become more specific (see Box 5). A national steering committee can also spread ownership of and skills to undertake facilitation.

Box 5. Development of a national steering committee for Forest Connect Ghana

At a national workshop on SMFEs in Ghana held in March 2009, participants discussed the need to create a steering committee for the Ghana project and put forward suggestions as to which institutions/stakeholders should be represented on the committee. The steering committee was selected at a subsequent meeting and letters were sent to the selected institutions, requesting them to nominate representatives.

At the committee's inaugural meeting, representatives discussed the committee's mandate, working modalities and an action plan for pursuing the mandate. More meetings have been held to finalise the action plan, develop a project proposal and steer its execution (in progress). The role of the project secretariat (Tropenbos International Ghana) has been to draft documents based on discussions, send drafts to members for their study ahead of meetings, coordinate execution of activities assigned to committee members and other people, conduct some of the project activities, call and facilitate meetings of the steering committee and report on activities undertaken.

The key outcome is a 12 member steering committee made up of representatives of Tropenbos International Ghana, the Ministry of Lands and Natural Resources, the Forestry Commission, the Kumasi Wood Cluster, the Association of Ghana Industries, the National Board for Small Scale Industries, the Rural Enterprises Project, ASNAPP Ghana (Agribusiness in Sustainable Natural African Plant Products), and SMFE practitioners (Portal Limited and the Brong Ahafo Regional Grasscutter Famers Association).

The committee has enriched the process; it has facilitated engagement with policymakers, resource managers and other relevant state and non-state bodies, steered the development of a two-phased project proposal in line with its action plan, and is steering the execution of the first phase with funding from IIED. The members have shared information and information materials, reviewed draft documents, executed some activities, and provided assistance to a survey team when the team reached their respective regions. The members also bring attention to the needs of the subsector.

2

2.3 Useful tips

- Start in places where there is strong national interest in market system development for SMFEs, whether or not this coincides with formal government policy.
- Remember the cross-sector impacts that affect small forest enterprises and invest time in-country speaking to institutions within and beyond the forest sector to triangulate divergent opinions on what institutional hub might be best for a particular national context.
- Use objective criteria in selecting an institutional hub and make information available publicly about why that institution was chosen (to avoid possible sabotage by competitor institutions).
- Make use of the steering committee to bring other useful actors into the facilitation process and increase ownership and funding possibilities.

- Build a network of individuals committed to a sustained facilitation environment for SMFEs so that any migration of staff from key institutions does not totally derail the broader agenda.
- Be flexible in choices of institutions and be prepared to adopt a learning approach that takes account of different capacity levels in different contexts. 'Good enough' facilitation is better than inactivity due to the search for 'perfection'.
- Don't assume a facilitator can do everything at once – get started and then build on success.

2.4 Further information

A background report was prepared as a core text for Forest Connect partners which outlines the main concepts behind and rationale for investing in national facilitation hubs:²⁰ <http://www.iied.org/pubs/pdfs/13548IIED.pdf>

²⁰ Macqueen, 2008.

Module 3. Setting up an evaluation process

3

Developed by Duncan Macqueen

© Duncan Macqueen



Evaluating local aspirations for fuelwood trade development in India

3.1 Purpose

This tool describes how to evaluate what is or is not working in a small forest enterprise support programme. It lays out possible sets of indicators based around different perspectives. The responsibility for evaluation must involve national facilitators as well as external agencies, so this module bridges the first and second audiences.

3.2 Outline

Step 1. Make sure you have a clear vision for the enterprise support programme and a theory of change to bring it about

Early on in the design of the enterprise support programme, programme partners should sit together and agree on an overall vision (i.e. desired changes). They should then work out the necessary actions to be taken by specific people that will bring about those desired changes (with a clear rationale). Credible evaluation depends on the degree to which the often multiple causal links leading to a vision can be presented and assessed (see Box 6). It is worth using a causal link analysis methodology to understand what must be in place to achieve the vision. For example, you might:

- Brainstorm together on what the overall vision is. Breaking a large group into smaller working parties to negotiate separate visions can be helpful, before presenting these back in plenary with a discussion to try and find a catch-all vision statement.
- Discuss together what specific desirable changes together constitute that vision. To do this, it is often useful to give all participants cards to write on so that all views are captured, before collectively grouping them on a wall into 'like-minded' clusters and working together to give a title to each desired change. Capture these desired outcomes on new cards below the vision statement.
- List the various actions that would need to be in place to achieve each desired change. Once again, it is useful to give all participants cards to write on before collectively grouping them on a wall into 'like-minded' ingredients under each outcome. If necessary, repeat and unpack more specific steps that need to be in place for each action to achieve the desired change (see Box 7).
- Link the actions, desired changes and vision with causal arrows. The actions may be within or outside the control of the enterprise support programme, but either way make up the content upon which an evaluation can be made.

Much of the content within such a causal links analysis would be greatly enhanced by information collected through a Value Chain Analysis (VCA – see Module 10). Whether VCA has been or can be done prior to the establishment of an evaluation system will vary with different contexts. Nevertheless, evaluation processes should be flexible enough to reassess different visions and indicators that evolve as deeper analyses are carried out.

Step 2. Be clear about what evaluation is needed by whom

Evaluation allows us to learn how to do things better. Complex adaptive systems such as evolving forest product subsectors (or the enterprises therein), however, challenge simple cause and effect models of evaluation.²¹ It is rare to get a simple link between an activity and a clear cut outcome; there are usually multiple influences that shape enterprise outcomes, which makes the attribution of success difficult (e.g. an enterprise outcome might have happened anyway with or without the activity). Better outcomes for one indicator (e.g. more cash income) may be offset by worse outcomes on another (e.g. environmental degradation or more gender inequity). Advances for one enterprise group (e.g. bamboo furniture producers) may come at the expense of another (e.g. wood furniture producers). The simple act of carrying out an evaluation may change the way people act or interpret how they act.

There is no consensus or ‘off-the-peg’ model on the best way to evaluate successful enterprise support.²² Rather than prescribe one route to follow, experience suggests placing greater emphasis on the vision that an enterprise support programme is trying to pursue and seeking out different perspectives that would together provide a ‘balanced scorecard’²³ to assess progress towards that vision. These evaluation perspectives,²⁴ in roughly escalating order of cost, might include:

- an internal perspective: performance against financial and activity plans towards that vision
- a client perspective: performance in terms of direct client satisfaction at achieving that vision
- an uptake perspective: performance against planned spread beyond direct clients
- a verifier perspective: performance against chosen controlled indicators of progress.

Because evaluation is costly (and can even exceed the costs of the original intervention),²⁵ think first about the aim and audience of the evaluation. If the main aim is to show a donor that their money has really been spent on what was planned, then an inexpensive internal evaluation may suffice. If, however, you want to demonstrate that your project has provable outcomes – discernable effects on the lives of particular people – then you may need to bring in a more costly verifier to perform a controlled quantitative evaluation of specified impacts.

21. Eoyang and Berkas, 1998.

22. Tanburn, 2008.

23. Kaplan and Norton, 1995.

24. Henderson, 1999a.

25. Henderson, 1999b.

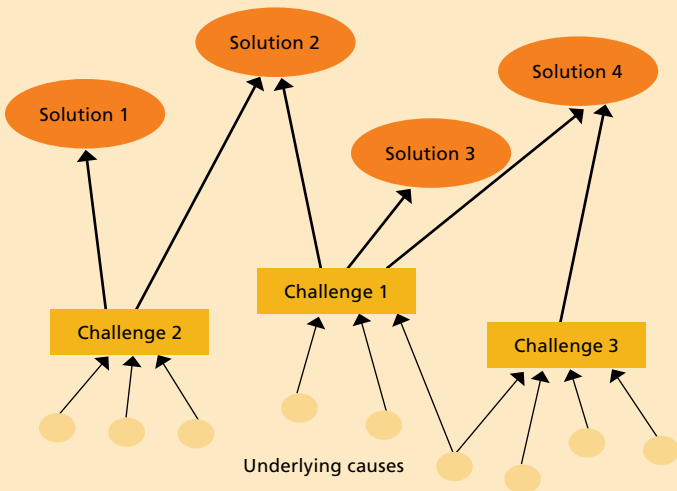
Box 6. Analysing causal links to address in improving prospects for South African SMFEs

A multi-stakeholder forestry SME conference – ‘Learning and Growing Together’, organised by MZ Technical Services and IIED in 2008 – brought together participants from large corporates, small contractors and other SMFEs, support services, government, civil society, academia and investment organisations. The second day was devoted to multi-stakeholder debate about the challenges facing the SMFE sector in South Africa and about possible ways forward.

To facilitate these discussions, participants divided into three working groups, with each group including a diversity of perspectives (corporates, contractors, support services, investors and academics). Working groups used a causal link methodology (a variant of the ‘problem tree’ analysis) to assess what was holding up SMFEs in South Africa and what the main elements of a solution would involve.

Writing on coloured cards, each participant described, from their perspective, the main challenges faced by SMFEs before all members grouped cards into clusters of similar challenges. Then each participant wrote on a different coloured card the root causes of any of the clustered challenges identified. Again, these root causes were grouped into similar clusters. Finally, each participant wrote on cards of a third colour potential solutions to any of the main challenges identified by the group. These sets of solutions were clustered as before. A final group discussion involved ranking the main solutions through a simple one-member-two-votes system. Back in plenary, the three separate groups presented their findings and a discussion was held to clarify an overall vision and plan of action for the way forward.

The methodology was effective in terms of time and facilitated contributions from all participants rather than just a few influential voices. The schematic outcome of working group sessions is illustrated by the diagram below. Solutions could easily be adapted into indicators of progress against which to monitor the outcome of this meeting.



Box 7. Theory of change analysis

To support the development of more profitable and sustainable biomass energy enterprises, consortium members used a variant of theory of change analysis to link key desired changes with concrete sets of activities that would help bring those desired changes about. Such analyses (like the one for African biomass energy below) can then form the basis of evaluations, since an evaluator can interrogate whether activities were performed, and whether they delivered the desired changes or a partial subset thereof.

STRATEGIC ISSUE PROBLEM

'Biomass energy is contributing sub-optimally to poverty reduction and to the provision of ecosystem services'

Desired changes

- Implement sustainable resource management, while addressing land rights
- Biomass for energy produced and utilised in a sustainable and efficient way
- Ensure legal framework for sustainable biomass utilisation is adequate and implemented effectively
- Create formal markets to deliver energy services from biomass that reduce poverty, while protecting ecosystem services
- Ensure equitable distribution of benefits throughout the value chain (for people and ecosystems)

Why have we selected those changes?

- Generalised solutions based on needs of target countries (e.g. adequate legal framework refers to legalisation of charcoal trade in Malawi)
- Community focus; equitable distribution; foster ownership of ecosystem services
- Changes perceived as achievable within timeframe/ESPA constraints
- Biomass is a diminishing resource; need balance of supply/demand; improve resource utilisation; reduce environmental degradation and poverty; protect people's needs and the ecosystems sustaining them

What's the consortium's role in bringing these changes?

All of the suggested activities can be carried out by the consortium members, in collaboration with other stakeholders. Consortium members propose to fill in their capabilities once a matrix of appropriate actions relevant to specific countries has been established for the ESPA proposal.

Who else do we need to engage to make these tactics work?

Communities as consumers; producers; implementing partners; local expertise on environmental science in the context of forests; enterprise/industry partners; charcoal/wood chain actors; regional departments of land use planning

[Malawi] Department of Forestry; Department of Energy; Malawi Energy Regulatory Authority

[Kenya] KEFRI (forest research institute); KEFS (forest service); Ministry of Energy

How are we going to make those changes?

Sustainable resource management

- Research to establish benefits of preserving ecosystem functions; link to influences of bioenergy usage
- Establish improved monitoring systems; include quantification of rate of change in resources (local/national)
- Develop key indicators for ecosystem services in natural/managed forests
- Land use mapping (agriculture and bioenergy)
- Promote good governance and recognition of land rights
- Devise methods for comparing different management options in a given forest and select most appropriate

Sustainable production and utilisation

- Disseminate information about benefits of integrated systems of food/fuel/agriculture/forestry
- Engagement, participation and understanding of fuel supply and demand issues at relevant scales
- Research into potentially useful technologies and assess relevance in-country (involve communities) – consider technology usage, adoption, development, transfer; promote access to relevant technologies
- Develop criteria for site selection
- Pilot projects to test approaches/methodologies

Adequate legal framework and effective implementation

- [Malawi] Lobby for legalisation of charcoal trade
- Lobby authorities for effective implementation of laws

Creation of formal markets

- Review of finance/investment opportunities; stimulate access to investment (locally/internationally)
- Develop data on investment attractiveness of commercial biomass energy initiatives
- Explore issues around valuation of resources, including feasibility of monetarisation approaches
- Develop economic data and arguments on market transformation
- Action research to implement and analyse market system development approach

Equitable distribution of benefits

- Political economy analysis
- Analysis of competing needs for biomass energy and potential opportunities
- Analysis/awareness raising of energy choices (is biomass No.1 option?)
- Explore ways that value chain analysis/approaches can contribute to poverty reduction and gender equity
- Promote increased income and food security from sustainable biomass energy usage at household level

Why have we chosen these strategies/tactics?

- Achievable/easy to implement
- Desirable (actions/strategies/impacts); is there a real need?
- Affordable/cost-effective, economically attractive to decision-makers
- Time frame 5-50 years
- Measurable impact, including short-term
- Strong element of good research
- High potential to reduce ecosystem degradation and poverty

Step 3. Develop evaluation indicators

Any programme team would benefit from having combined qualitative and quantitative/quasi-quantitative indicators, scored by key informants for each of the four perspectives listed above. These indicators should be based on those ingredients and outcomes that the enterprise support programme intends to address to achieve its vision.

3

For example, let us suppose that the vision of an enterprise support programme is 'Poverty reduced through new employment opportunities in sustainable SMFEs' and the main underlying desired outcomes have been identified as 'Available information on financial and business service providers'; 'Organised subsector represented by SMFE association'; 'Relevant and accessible service provision'; and 'Enabling policy environment'. Within this framework, four examples of qualitative and quasi-quantitative indicators, one for each evaluation perspective, might include something like this:

- Internal perspective indicator: comprehensive information on service providers provided to all SMFEs by target date. 3 – Fully achieved; 2 – Mostly achieved; 1 – Substantially unachieved; 0 – No progress.
- Client perspective indicator: enterprise performance improved through collectively organised marketing training. 3 – Training completed and applied to good effect; 2 – Training completed and applied to little effect; 1 – Training completed but inapplicable; 0 – Training not organised.
- Uptake perspective indicator: relationships and information sharing between government and SMFE associations improved. 3 – Association formed and regular dialogue channel with nominated government official established; 2 – Association formed and meetings with government officials held; 1 – Association formed but no interaction yet with government; 0 – No association formed or outreach by government.
- Verifier perspective indicator: increased income flows to the poor²⁶ in a specified subsector due to support afforded to SMFEs. 3 – Substantially increased employment/wages with strong causal link to support programme; 2 – Substantially increased employment/wages with contributory link to support programme; 1 – Marginally increased employment/wages with contributory link to support programme; 0 – No increase in employment/wages and/or no link to support programme.

Especially for indicators in the verifier perspective, this simple quantitative scoring may be accompanied by much harder quantitative data to do with employment numbers, income, gender distribution and so on, which can also be presented on demand. It is important, however, not to neglect qualitative stories of how and why change came about in order to interpret such hard data. The following steps lay out preparatory steps so that these indicators can be applied.

26. Ashley and Mitchell, 2008.

Step 4. Establish an internal monitoring process

The aim is to define both internal activity indicators, and the process, staffing and timing by which they are reviewed. Any enterprise support programme will probably face externally imposed reporting requirements that will shape the frequency of internal monitoring and reporting. For example, there may be a requirement for quarterly financial reporting against activity milestones, mid-term reviews or end-of-project evaluations. Costed logframe outputs and activities or their equivalent can quickly be converted into useful indicators with simple quantitative scales of progress as described above.

Step 5. Establish client expectation baselines and an evaluation process

While client consultation during project design is obviously desirable, the degree to which it happens in practice varies. It can therefore be helpful early in the programme to develop a baseline of client expectations and indicators to monitor progress. A sensible time to do this is at a meeting to negotiate with clients the vision for the enterprise support programme and the causal links to deliver that vision (see description in second bullet above). In consulting with clients, you might do the following:

- Build on client interactions to define a vision and the outcomes and ingredients necessary to achieve that vision. Open up a discussion to identify key indicators that the clients themselves feel would adequately evaluate the success of the programme.
- Develop these indicators as questions with a quantitative scale for scoring them in a questionnaire survey to be conducted after some agreed period of time.
- Time the evaluation carefully. If you conduct it too early, new ways of working based on support programme interventions may not yet have emerged. Conduct it too late and it may be difficult to track down and interview programme participants who can still accurately attribute changes to those support programme interventions.
- Think about sampling your interviewees. Sampling is necessary to ensure that enough people are interviewed for their views to form a credible basis on which to draw conclusions. Ideally one would sample people who have been affected by an intervention and compare their views with a sample of people who have not. In limited interventions that target only a few enterprises, it may be possible to contrast client perspectives with those outside the support programme (although sometimes innovations spill over to outside individuals too). Where the support programme targets an entire subsector, getting a control group is more problematic. Random sampling is unlikely to give an accurate picture of client satisfaction as it conflicts with a central tenet of enterprise support programmes: working with those whose enthusiasm is a basis for self-selection.²⁷ It might therefore be best to sample the views of (i) a subset of people who have been most successfully impacted by the intervention or show most promise; (ii) a sample of people least successfully affected or with least promise within the intervention; and (iii) a subset of people outside the intervention.

27. Snodgrass, 2005.

- Make sure that clients are consulted regularly, not just at the end of the programme. Facilitators also need to monitor progress in relationships and coordination among market actors (see below), as well as ensure the ongoing relevance of their facilitation as market trends evolve.

3

Step 6. Plan and assess an uptake and influence strategy

Relationships are crucial to enterprise support that has facilitation at its heart. So it is important to lay out a plan and then assess who has taken up or been influenced by your work – and whether this matched your initial expectations. Improving relationships between the facilitator and clients in the value chain, between different actors within the value chain, and between those actors and service providers or policymakers is likely to be a central aim (see ‘Design a communication strategy from information to reception’ in Module 8). There is no shortcut to thinking through in simple terms exactly how to reach different groups of actors with different approaches (e.g. informal brunches, expert trainings, enterprise to enterprise visits), events (e.g. programme launches, technical seminars, trade fairs) and media (e.g. written documents, software, radio or television broadcasts).

Once a plan has been devised, it is then possible to identify some indicators that the plan has been successful. This can involve direct interviews with prospective target groups (e.g. whether they are engaged with the programme and how), proxies (such as the number of press releases or document uploads on a website) or more detailed analysis of how relationships have changed as a result of the support programme. Tools such as the relationship matrix²⁸ have been developed to assess changes in the interactions between different groups along the value chain. This tool essentially asks evaluators to identify key value chain relationships and processes that indicate their health (e.g. how relationships with suppliers have developed, how transparent information sharing has been, how relationships have allowed value added services, moves from competition to collaboration) and then develop a baseline against which to monitor progress.

Step 7. Plan (and budget) for an external verifier to evaluate impact if needed

While qualitative and quantitative/quasi-quantitative indicators of internal progress, client satisfaction and spread of information may be sufficient to learn about how to work more effectively internally, they run the real risk of subjective bias. It can therefore be useful (though costly) to hire an external verifier, both to gather independent stories from key informants and to carry out a controlled quantitative evaluation at a particular time.

As already noted, the problems of evaluating complex adaptive systems mean that conventional controls, attribution and timing are much more problematic for such external verifiers. There is also the question of what to measure, either directly or through proxies. Ultimately the question of what to measure must be determined by the negotiated vision of the enterprise support programme, and the necessary outcomes, ingredients and consequent programme activities necessary to achieve this. Tanburn (2008) documents various evaluation programmes that converted programme activities into evaluation frameworks

28. See SEEP, 2008.

that could be assessed quantitatively, for example jobs created per unit cost, additional money levered from the private sector per unit cost, return on investment, reductions in labour turnover, percentage women employed, raw material price increased as a result of new demand, areas of new planting and so on. Five questions to consider in any evaluation process by an external verifier:

- Has the verifier benchmarked our enterprise support against global alternatives?
- Has the verifier's job been made easy because evaluation is integral to the support programme facilitation activities?
- Has the verifier traced upstream impacts on forest producers, or downstream impacts on value-added processors?
- Has the verifier disaggregated data by gender?
- Has the verifier succeeded in attributing change to causal factors?

The field of quantitative assessment is beyond the scope of a toolkit such as this – but one or two useful guides are suggested below.

3.3 Useful tips

- Remember that evaluation, either of activities or impacts, requires thought at the start of a support programme, not just at the end.
- Evaluation depends first and foremost on clarity of vision (what the programme is about and why) so it is worth investing early on in a meeting to define with clients your vision and the causal links between vision, combined outcomes and necessary ingredients to make it all work.
- Evaluation indicators can be best developed by asking, from different perspectives, 'How would you know if the programmes vision had been achieved?'.
- It is often most useful to combine persuasive, visually presentable quantitative data with qualitative stories that help to interpret that data.
- Don't underestimate the cost of quantitative evaluations, or the difficulty in gathering data or assessing it against a baseline if this has not been planned from the start.

3.4 Further information

The 2008 reader on private sector development deals, with a focus on measuring and reporting results for enterprise support programmes:²⁹
<http://www.bdsknowledge.org/dyn/bds/docs/649/PSDReader08E.pdf>

Guides also exist for assessing performance at the enterprise level (rather than enterprise support programmes):³⁰

http://www.amazon.co.uk/Performance-Measurement-Management-Appraisal-Sourcebook/dp/0874252652/ref=sr_1_1?ie=UTF8&s=books&qid=1249905731&sr=1-1

A thorough assessment of forest research and development programme impacts was carried out for the DFID Forestry Research Programme. A useful case study on evaluation can be found here:³¹

http://www.research4development.info/PDF/Outputs/Forestry/R6709_-_case_study_4.pdf

For a fuller understanding of quantitative assessment methods, a number of university level books are available for researchers, decision makers or businesses:³²

http://www.amazon.co.uk/s/ref=nb_ss_b?url=searchalias%3Dstripbooks&field-keywords=quantitative+methods

29. Tanburn, 2008.

30. Shaw *et al.*, 1995.

31. Henderson, 1999b.

32. Cresswell, 2008; Wisniewski, 2005; Morris, 2008.

Audience 2. National facilitators

This section switches attention to our second target audience: national institutions that are directly supporting small forest enterprises in the field (e.g. NGOs, umbrella associations, national extension agencies). The aim is to provide guidance to staff of these institutions who wish to help SMFEs through a variety of facilitation activities. None of the advice in this toolkit is directly aimed at the SMFEs themselves – although some of the more specific guidance often applies to both the facilitator and the SMFEs with whom they are doing the facilitation.

Component 2. Facilitation planning

We have divided this section for national facilitators into two parts: facilitation planning and facilitation in action. By facilitation we mean activities that link enterprises with service providers, rather than attempts to provide services directly. The divide between planning and action is slightly artificial, but our intention is to introduce preparatory work that facilitators need to think about before getting stuck into direct support to SMFEs. With each subsequent module, the advice becomes less generic and more specific. In effect, the modules in this component help facilitators to identify entry points for their engagement.

Module 4. Introducing a useful facilitation approach

4

Developed by Duncan Macqueen

© Sharon Ousman



Guyanese facilitation workshop

4.1 Purpose

Direct market intervention – paying for training, subsidising credit and so on – is often expensive and unsustainable. This tool introduces an alternative way of working based on facilitation and outlines the advantages of working in this way. It provides a basic framework within which to start supporting SMFEs.

4.2 Outline

Step 1. Think broadly

Rather than focus immediately on one support activity, it is often best to step back and first take in the big picture. An approach called ‘market system development’ is all about the big picture: expanding the numbers and scale of businesses that are resilient and responsive to market shifts and that benefit to the poor.³³

This approach requires facilitation that goes beyond one business, business cluster or value chain. Instead, practitioners of this approach look to develop an entire market system: (i) the core market (e.g. businesses selling forest products or services, their associations, their customers and suppliers); (ii) support markets (e.g. businesses supplying technology, financial and business services to the core market); (iii) other helpful institutions (such as NGOs, academic centres, business membership organisations); (iv) the business environment (government policies and regulations and the institutions that support and enforce them); and (v) the broader context (to do with economic, environmental, cultural or political influences on the market).

What might successful market system development look like? Indicators of success might include:³⁴

- an expanding market (growing sales, increasing numbers of firms or employees, strong linkages to other markets)
- a resilient and responsive market (increasing diversity of products, trusting business relationships, innovation in the face of market shifts, improving services)
- a market that channels benefits to the poor (increasing participation of the poor, offering increasing choice, meeting core social and environmental standards)
- a supportive business environment (policies and regulations free from corruption, transparent, efficient and enhancing public private cooperation)
- the presence of a change driver – someone who proactively takes the lead in making things happen (facilitating the above).

Step 2. Resist the temptation to do it alone

Traditional direct market intervention approaches for supporting small forest enterprises have sought either to provide or subsidise financial or business development services directly,³⁵ for example they have paid for training directly or bought start-up equipment directly. The demand from producer groups for such giveaways is likely to be high. Experience shows, however, that direct service provision tends to have poor reach and low sustainability, often driving out more sustainable private provision of the same support services (see Box 8). As a facilitator, you may have to brace yourself to resist

33. Miehlsbradt and McVay, 2006.

34. Miehlsbradt and McVay, 2006.

35. EDIAIS, 2003.

such demands. Extensive work on enterprise support has concluded that direct intervention approaches have the following weaknesses:³⁶

- Donor/project funds are limited, so relatively few people benefit.
- Direct interventions create gluts of products, services and skills which exceed market demand.
- Implementers often have an imperfect understanding of changing markets and needs and so supply inappropriate products.
- SME beneficiaries become increasingly dependent on support and increasingly isolated from the market.
- Other private service providers are discouraged or driven away, creating market distortion.

4

Step 3. Develop a simple plan of realistic facilitation actions

Most current advice on supporting small enterprises rejects direct intervention in favour of facilitating a sustained increase in the demand and supply of services.³⁷ As noted in the introduction and in Step 2, this shift was in response to some of the failings of direct market intervention projects. For many

Box 8. The dangers of direct technical support rather than facilitation of local capacity building in Malawi

This case study illustrates the dangers of providing technical support without due consideration to issues of sustainability. Buya beekeeping group is located about 22 kilometres south of Dedza Boma in Malawi. The group formed in 2007 with support from the EU-funded Improved Forest Management for Sustainable Livelihood Program (IFMSLP) and consists of 21 members.

Before IFMSLP, people in the area practiced beekeeping alone using traditional methods of hanging clay pots and tree barks as beehives. They harvested reasonable amounts of honey and sold it unprocessed in local markets. The practice had a negative impact on the Mua-Livulezi Forest Reserve, however, due to the debarking and subsequent death of indigenous trees during the honey collection process. Because of limited value addition and poor linkages with markets, the beekeepers' economic status did not improve with this practice.

The IFMSLP objective was to improve the livelihoods of people through forest based enterprises. Guided by technical experts, the beekeepers were grouped, sensitised and trained in modern methods of beekeeping with the intention of uplifting their economic status. The block management committee, a body overseeing all the activities within a forest block, provided leadership to the group, while forestry field staff facilitated the development of an enterprise development plan. Beehives and other tools required for honey processing were provided as starter pack. The group was trained in market development through the FAO-supported Market Analysis and Development Project, which was implemented by the Department of Forestry with technical assistance from FAO and the Centre for Development Management.

Of the 15 beehives provided, only 9 were colonised by bees. Because both the FAO and the IFMSLP projects came to an abrupt end, however, little follow-up support was provided to the community. The community had no strong internal vision for how to develop the honey business. Their queries regarding hive colonisation, processing and finding markets for processed honey went unanswered. Because local service providers were not involved, once the international projects left, few advances were made, despite considerable investment.

36. Griffith, 2008.

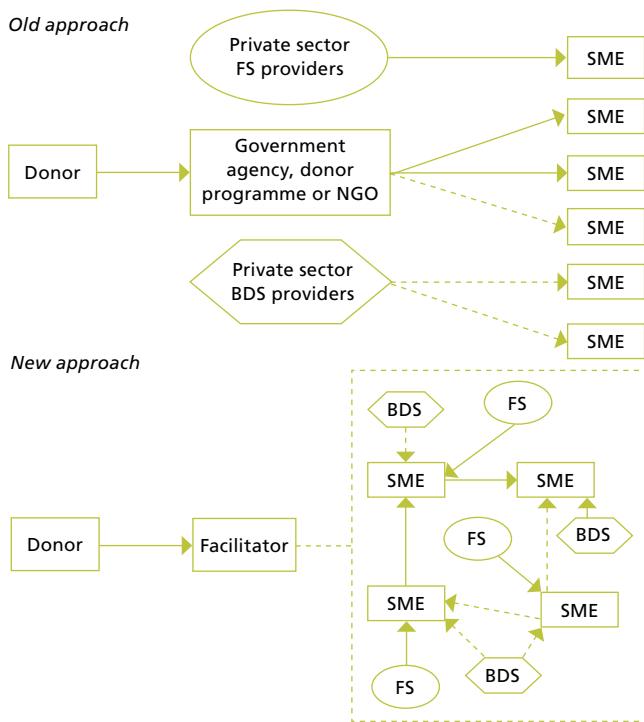
37. Tanburn *et al.*, 2001.

forest-based institutions, it may come as some relief to realise that enterprise support does not necessarily mean that you have to be a business expert or financial expert. Getting to know local centres of expertise is a much easier short-term aim.

Rather than provide services directly, institutional facilitation hubs can instead focus on facilitation activities, such as:

- improving information on the type and extent of SMFEs
- investigating who supplies what business support or financial services and where they operate
- exploring with businesses the opportunities and barriers along whole value chains (from the forest to the sales outlet) to help identify needs for technology, business or financial services
- pointing out to SMFEs the value of engaging technical assistance and potentially making investments in their business
- pointing out to service providers the potential value of SMFE clients
- helping SMFEs organise themselves into groups such that service provision is more cost effective
- building capacity to provide services where this does not already exist – for example by bringing in experts to train local embryonic service providers in specific areas
- networking with authorities and funders to support events, such as trade fairs, where SMFEs, customers and service providers can meet.

Figure 2. Old and new approaches to support for service provision to SMEs



Source: adapted from Tanburn *et al.*, 2001 and Hitchens *et al.*, 2004.
 NB: a donor could also be a self-financing agency such as an enterprise association.

Step 4. Be clear about the aim of facilitation: concentrate on upgrading

In Module 3, 'Setting up an evaluation process', we noted the importance of agreeing on an overall vision for the enterprise support programme. If this vision is about enterprise support, it will almost certainly involve a focus on upgrading (see Box 9). There are different types of upgrading that you might try to bring about:³⁸

- Process upgrading: increasing the production efficiency of an SMFE, either increasing output with the same input or decreasing input with the same level of output. For example, working with a timber processing SMFE to introduce a new sawmill that cuts more useable planks from each log.
- Product upgrading: making qualitative improvements to the product or service or to the way it is marketed that make the product more desirable to consumers. For example, introducing new designs for woodcarvings or cane baskets that attract new buyers.
- Functional upgrading: entry of an enterprise into higher value-added levels by taking on the role of intermediaries. For example, setting up a tropical forest coffee marketing unit to sell coffee directly to European importers rather than selling to intermediary traders.
- Channel upgrading: entry of an enterprise into higher value-added levels by product diversification. For example, diversifying an ecotourism business into one that also sells carbon credits from an area of conserved forest.

Step 5. Emphasise neutrality in facilitation activities

Neutral facilitation (with no commercial stake in the market) is preferable as a general approach to enterprise support. It ensures transparency and trust and maintains a focus that meets the negotiated vision of multiple clients.³⁹

Facilitation also requires an understanding of the roles of different players in the market: who is supplying who and on what basis. Some guiding principles of best practice suggest that such facilitation seeks to:

- install the notion of a market approach, namely that service provision should involve commercial transactions, whether full cost recovery is achieved or not
- ensure that the interventions are demand driven (i.e. perceived by the recipient enterprise, endorsed or stimulated by the analysis of the service provider and sufficiently important to generate willingness to pay)
- promote a strong sense of ownership by both recipient and service provider, giving preference to service providers who understand the context of recipients
- strive for maximum outreach channels that are likely to deliver that aim, which will often promote competition between service providers to ensure the best coverage
- encourage quality and cost effectiveness such that recipient enterprises see value for money, and service providers expand their business
- encourage regular monitoring of the impact of service provision such that it evolves in line with the needs of recipients (e.g. through benchmarking exercises – see Module 7).

38. Dunn *et al.*, 2006.

39. Kaplinsky *et al.*, 2003; Roduner and Gerrits, 2006.

Box 9. Upgrading production in strong existing markets in Ta Kamegwaza in Dedza District, Malawi

This case study illustrates the success that can come from process upgrading to cut costs within strong existing markets and product upgrading to improve sales.

The Mganja basket chair making group is along the Masasa-Golomoti road in Malawi. The group formed in 2007 with support from the EU-funded Improved Forest Management for Sustainable Livelihood Program (IFMSLP). Members of the group already had some traditional knowledge of basket chair making. The EC and FAO Market Access and Development project built on this existing knowledge to develop the group into viable business enterprises. The aim of the project, achieved by improving product design and adding value to existing products, was to improve local livelihoods while contributing to environmental sustainability.

Mganja is predominantly a charcoal-producing region and people have few economic alternatives beyond charcoal and basket chair making, with many people involved in both activities. As pressure from charcoal production on the already denuded Mua-Rivulezi Forest reserve was enormous, the Department of Forestry, through IFMSLP and the FAO Project, decided to assist the community in basket chair making as a means of reducing pressure on the forest resources.

Through this support, the department introduced a co-management system for the forest reserve as well as a benefit-sharing arrangement such that communities were allocated a larger share (60 per cent) of take-home revenues than the government (30 per cent). (The local forest management board was allocated 10 per cent.)

The project provided the group with a shelter for storing finished products and some furniture design training and tools (knives, files and glue) to upgrade their products. Through the FAO project, the group developed an enterprise development plan. Market survey and value chain analysis was conducted, facilitated by Forestry Department officials. Through the same support, the group identified traders who could link them to good markets in several places in Malawi.

Group members have noted significant improvements in their livelihoods, measured through higher prices per piece and a larger market share. The group is one of the more successful forest-based enterprises in Malawi. Since harvesting follows a strict management plan, the forest has been maintained and charcoal production (which was rampant in this forest reserve) has greatly decreased. Through exchange visits, people from other regions have begun to copy this success story without any support.

Step 6. Encourage experimentation – an ‘action learning’ approach

The best and perhaps only way to become competent in the facilitation of market system development is to engage with businesses in a particular core market and start something happening. Module 5 introduces some possible entry points and ways of sequencing activities. Perhaps the most important thing for an institutional hub to remember is that, as the facilitator, it does not need to be an expert in all or indeed any of the technical business or financial support areas that SMFEs might need. It does need to become familiar with those who have that expertise, and then to bring them together with enterprises that need that expertise – learning by doing – so active dialogue and engagement with both enterprises and service providers on a regular basis is essential.

4.3 Useful tips

- Don't worry too much about all the complex terminology of markets (such as 'market system development'). Understanding these terms will happen over time. The best way to develop capacity is to help small forest enterprises with the knowledge available to you and learn as you go.
- Keep small forest enterprise actors central to your thinking and let them define your priorities, rather than government authorities or private sector experts.
- Markets work when something is worth paying for, i.e. when buyers think that having a product or service outweighs the cost. If, as a facilitator institution, you have to constantly subsidise costs of products or services, then the market isn't working and you may be simply propping up something that's not worth paying for.
- If forest enterprises see real value in a service, they will pay for it. But often enterprises simply don't have the experience to see the value of investment in their business. This is where facilitation helps, either through pointing out the value of such investments or providing temporary matching funds to subsidise and so create interest in those services.
- The best people to provide specialist services are specialists, not facilitators. As a facilitator, you are as useful as the extent of your contacts. Work to expand that contact list.
- To attract service providers, you may need to organise enterprises so that the scale of demand makes it worth their while for service providers to establish links with them.
- Don't put all your emphasis on one new approach such as carbon finance. Start by trying to make the existing business model work.

4.4 Further information

Solid justifications for the need for 'market system development' have been produced for donors such as DFID⁴⁰ (<http://www.springfieldcentre.com/publications/sp0402.pdf>) or GTZ⁴¹ (http://www.value-chains.org/dyn/bds/docs/525/Implementation_BDS_Concept_0206.pdf).

A good foundation for understanding the 'market system development' approach is the report 'Business development services for small enterprises', synthesised for the committee of donor agencies for small enterprise development⁴² (<http://www.intercooperation.ch/sed/download/policypapers/donorguidelines.pdf>) followed by work of other similarly broad coalitions⁴³ (<http://www.donorplatform.org/activities/aid-effectiveness/aid-effectiveness-toolkit/guidelines-and-toolkits.html>).

Another useful summary piece of this type of approach is given by Development Alternatives Inc.:⁴⁴

<http://dai.com/news-publications/publications/enterprise-growth-initiatives-where-now-what-next-daideas-vol1-no1>

The 2006 Reader on Private Sector Development provides a very thorough grounding in the approach:⁴⁵

<http://www.bsdknowledge.org/dyn/bds/docs/497/PSDReader2006.pdf>

40. Hitchins *et al.*, 2004.

41. Waltring, 2006.

42. Tanburn *et al.*, 2001.

43. GTZ, 2003.

44. Snodgrass and Winkler, 2004.

45. Miehlabrad and McVay, 2006.

Module 5. Planning, sequencing and exiting activities

Developed by Duncan Macqueen

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Talking to tree farmers in central Ghana

5.1 Purpose

This tool addresses the problem that there are rarely enough resources to fully support small forest enterprises. It describes some simple ways of prioritising to get the best results.

5.2 Outline

Step 1. Start by embedding enterprise support into your institutional mandate

Institutions that support SMFEs will vary in their core objectives, from those with environmental conservation as the main focus to those with poverty firmly in view. Limited resources may make support to small forest enterprises seem like a luxury. Yet aligning the commercial ambitions of local forest communities with sustainable forest management is an increasingly respected conservation and poverty reduction approach.

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Recent evidence shows that facilitating community forest enterprise has a better success rate in reducing deforestation than protected areas.⁴⁶ Forests remain if they make profits for the local people who control their fate, and making profits through business is one of the only viable options for poverty reduction.

Whether you take an environmental or poverty reduction angle, facilitating support for SMFEs can be a unifying theme that delivers wins for all against a range of common environment and development objectives. Making it explicitly part of your institutional mandate can help to ensure cross-fertilisation of ideas and resources between enterprise support work and other existing programmes.

Step 2. Get up to speed by assembling background SMFE information

Despite a spate of SMFE country studies in recent years,⁴⁷ data in most countries is usually thin, except for that on formal, often large-scale, timber production. Because SMEs (especially informal ones) make up most forest sector activities in many developing countries, new data collection must often precede enterprise support work. As noted in Module 4, good facilitated support for SMFEs requires familiarity with a number of different actors:

- the SMFE businesses and their associations (the core market)
- technical, financial and business support service providers (support markets)
- other relevant institutions and programmes such as NGOs and industry bodies
- government institutions, policies and regulations (the business environment)
- the broader cultural and geo-political context.

There is no shortcut to going out into the field, or at least gathering a representative sample of contexts and assembling information on who is doing what. This should be as exhaustive as possible, but at least a representative sample of possible contexts should be researched. This will involve compiling lists of useful contacts and asking questions of as many people as possible about the nature of forest product value chains and perceived opportunities and constraints. Modules 6 (in particular), 7, 10 and 16 give further details on how to go about doing this.

46. Porter-Bolland *et al.*, 2011.

47. Auren and Krassowska, 2003; Lewis *et al.*, 2003; May *et al.*, 2003; Saigal and Bose, 2003; Sun and Chen, 2003; Thomas *et al.*, 2003; Kaboré *et al.*, 2008; Kambewa and Utila, 2008; IIA, 2008; Nhancale *et al.*, 2009; Gebremariam *et al.*, 2009; Luo *et al.*, 2009; Phimmavong and Chanthavong, 2009; Utz Che, 2009; ANSAB, 2009; Osei-Tutu *et al.*, 2010.

Step 3. Be realistic by focusing on a manageable and promising subsector

A two-fold structure amongst SMFEs usually prevails,⁴⁸ and is made up of the following: (i) a large number of very small, rural, low-input low-output enterprises that proliferate to meet household needs where there is easy access to resources, and few barriers such as capital and skills shortage (these enterprises are important in coping strategies for the poor); and (ii) smaller numbers of larger, more productive enterprises, often linked to urban or peri-urban areas, that respond to market opportunities and which require capital and skills to set up (enterprises that are important in breaking out of poverty). For many types of development assistance, it is legitimate to target the smaller enterprises, but enterprise support programmes might be better directed towards upgrading in the more productive value chains (see Box 10).

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To identify the more productive value chains, you will need to develop a set of criteria to which you subject the different value chains that you encounter in this initial diagnostic work. Essentially, this will involve identifying value chains where:

- demand for the product or service rises with rising income (people stop gathering a product from the wild and start buying a product from shops), rather than products whose demand falls as income rises
- the production process is not easily outcompeted by large-scale manufacturing efficiencies (for example, it is as or more cost effective to tailor make furniture in a small carpentry workshop compared to a large factory)
- the production process can be made more efficient in a step-wise manner as competition increases (for example, mechanised tools can be added to a carpentry workshop bit by bit) rather than products that become uncompetitive as labour and other costs rise (for example, the production of hand-woven baskets)
- parts of a larger production process can be efficiently produced by outsourcing to small producers.

In the absence of quantitative time series data, make an educated guess about where to focus attention based on criteria such as the above (or use the more detailed set of criteria in Module 9, step 2).

If data is available, however, use it. For example, in southern and eastern Africa, employment in woodworking enterprises grew at 31 per cent annually, but in cane, bamboo and grass-working enterprises it grew at just 3 per cent. In woodworking enterprises, 55 per cent of new jobs came from expansion of existing enterprises, while 80 per cent of jobs in the cane, bamboo and grass-working enterprises came from new start-ups.⁴⁹ Woodworking enterprises therefore have more potential for enterprise support programmes than cane, bamboo and grass-working.

48. Arnold, 2006.

49. Arnold *et al.*, 1994.

Box 10. Sequencing small forest enterprise support interventions in Ghana

Forest Connect partner Tropenbos Ghana International undertook a diagnostic study to provide a broad overview of the SMFE subsector in Ghana. It remained quite difficult, however, to map the way forward with regard to helping the informal and isolated SMFEs (mostly operating somewhat illegally) to achieve poverty alleviation and sustainable resource management. The SMFEs were found to face many challenges. It was not clear what to do and where to start. The diagnostic study provided a categorisation of the SMFEs in Ghana with a list of the SMFEs in each category. It did not provide details on the specific challenges faced by individual SMFEs in specific regions of Ghana, the people engaged in them, their priority needs and other enterprise specific information.

Through deliberations with the project steering committee, it was concluded that the first priority should be a better grasp of key SMFEs. The first line of action was to identify those SMFEs the project should focus on. From a list of 26 SMFE categories in the diagnostic study report, the committee settled on 14 with 'real' poverty alleviation potential based on the number of people engaged commercially and the revenues generated. Since the diagnostic study provided limited information on individual enterprises, the next line of action was to develop a sourcebook that would throw more light on the 14 enterprise subsectors. Completed in draft in 2011, the sourcebook provides information on activity centres, producers, processors, local markets, exporters, regulation, support institutions, opportunities and challenges for the 14 SMFE subsectors. It also provides information on associations/groupings of SMFE proprietors and service providers in Ghana. This information showed quick wins that could be made in the honey and charcoal subsectors for further support activities.

The next step agreed by the steering committee was to strengthen the associations/groupings of SMFE proprietors in those subsectors in Ghana and facilitate the formation of a national federation of SMFE associations in Ghana. Without proper organisation, representation in sector governance processes becomes an issue. According to the plan of facilitation intervention, once these associations and federations have been catalysed, facilitation activities switched towards activities targeted at two subsectors (charcoal and honey production) and at individual SMFEs based on their peculiar needs. The plan to start facilitation activities at the general level, and then narrow down to key SMFEs and ultimately to individual SMFEs, is proving worthwhile.

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Step 4. Work with your clients to develop a vision for the programme

Getting to know actual entrepreneurs within a subsector, building market understanding (Module 7) and conducting participatory value chain analysis (Module 10) pave the way to reasoned sequencing of activities. Where facilitation is actually carried out by a producer organisation (e.g. an enterprise association), client interactions and value chain knowledge are much more embedded. For external facilitators, once a particular subsector has been chosen as the core market, it is essential that adequate efforts are taken to engage with the SMFEs that make up that subsector to work out a properly sequenced intervention plan (see Box 11).

Box 11. Planning and sequencing facilitation for particular subsectors in Lao PDR

Enterprise and Development Consultants (EDC) in Lao PDR have embarked on a programme to support small and medium forest enterprises. EDC was set up as an enterprise development consultancy firm. With funds from FAO, EDC started to assemble material on SMFEs to prioritise and sequence activities.

Based on an analysis of various SMFE value chains, it was decided to select four for further development: bamboo and rattan furniture, mulberry bark and two medicinal herbs, galangal and cardamom. Through value chain analysis, it was possible to characterise two main types of SMFE: producers at village level and processors/traders based in the towns.

Having made this selection and analysis, the first step was to engage with the producer groups at village level to discuss their needs and encourage them to work as a group so as to make support easier, both from EDC and from various financial and business development service providers.

The next step was to set up a communication system that provided market information at village level, as well as a website to encourage networking at the national level and build interest in the products under development.

As work has progressed, facilitation at village level is leading to the organisation of producer groups that can be more easily linked to financial services and business training institutions.

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Adequate participation by the SMFEs themselves is key. Setting up an early workshop with these clients to run exercises on developing a vision with them is a good starting point. A 'visioning exercise' simply allows target enterprises to state their aspirations, tailoring the format of the exercise to the type of enterprises involved.

A number of tools can help clarify the vision for enterprise support programmes (see Box 12). An example of a pictorial visioning exercise with Indian fuelwood collectors is described in Box 13. Such exercises can then pave the way towards participatory value chain analysis described in more detail in Module 10.

The core concept is fairly simple: engage with a wide range of market actors together to identify blockages and opportunities in the market system and allow them to build their own strategies to tackle the former and take advantage of the latter. Practical Action note from their work in Bangladesh, Peru, Sri Lanka, Sudan and Zimbabwe that moving from analysis to action hinges on 'the relationships, knowledge and trust generated throughout the process, and the concrete actions are agreed by market stakeholders to improve the market system (composed by the business environment, the market chain and the providers of inputs and services)'.⁵⁰ An early facilitator/client workshop to thrash out the programme vision and outputs can help get things off to a good start (see Module 3).

50. Griffith and Osorio, 2006.

Box 12. Using a 3Rs framework (rights, responsibilities, revenues) to redirect support to small forest enterprises in Ethiopia – an example of a visioning exercise

A Non Timber Forest Product – Participatory Forest Management (NTFP–PFM) Project in Ethiopia had originally adopted a philosophy of ‘taking pressure off the forest through domestication of Non Timber Forest Products’ – with a particular focus on domestication of backyard honey, combined with initiatives to improve agriculture/land management.

The project set up non-profit making institutions (Forest Management Associations) to focus on forest protection, with separate profit-making marketing institutions (Private Limited Companies) to sell domesticated non timber forest products and cut out the middle man to get a better price. With limited success in forest conservation, the team explored with community members what their perceptions of progress were. They adapted the 4Rs method (dropping the 4th R, relationships) to look at forest management incentives.

They used the following method: first, they asked villagers to describe on cards criteria for (i) feelings of secure rights or ownership before and after the project; (ii) feelings of responsibility for forest management; and (iii) indicators of revenue from the forest as a percentage of total household revenue.

After discussing and grouping these cards, each person was given 10 seeds to place in two circles per category – one for before the project, and one for the PFM project (10=100%, 0=0%). They individually placed the seeds in each circle according to how they felt about each criterion. Percentages were then calculated for each category before and after the project.

Feelings over rights increased from 33.75 to 55 per cent. Feelings of ‘responsibility’ increased from 38.75 to 56.25 per cent. Feelings about ‘revenue’, however, dropped from 66.25 to 65 per cent. In the resultant discussion, the project team realised that they needed to adopt a different philosophy of ‘conservation through use’ so that instead of trying to take pressure off forests, the team would try and help small forest enterprises to make money from the forest areas – thereby giving a greater incentive to communities to conserve the forest.

By aligning the project vision with the small forest enterprises that were operating in the forests, the programme has made significantly more progress and has also aligned itself with other PFM projects throughout Ethiopia.

Figure 3. Visioning exercise to capture Indian fuelwood collectors' hopes for their enterprises



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Box 13. Visioning exercise to capture Indian fuelwood collectors' hopes for their enterprises

The fourth international meeting of the Forest Governance Learning Group, from 4–7 December 2007 in Bhopal, India, carried out a series of visioning exercises with SMFEs. The international theme of the meeting, 'Making small forest enterprises work better for social justice in forestry' included practical fieldwork to highlight the hopes and fears of SMFEs to an international audience.

In the countryside outside of Bhopal, fuelwood collectors assembled in a community signed up to joint forest management. After introductions and a setting of expectations, the fuelwood collectors were given A4 size paper and marker pens. They were asked to draw what they thought would be an ideal situation for them and their enterprises. With the emphasis that all visions were a valid point of view, the collectors were asked to explain to the group what their drawing meant. The sketches were all placed on a free standing board, and, if time had allowed, could have been grouped with those with similar features. Common elements, such as the desire to work together to share transport costs or the need to maintain the resource base emerged as a basis for further discussion.

Step 5. Have an exit strategy appropriate to the resources and timeframe of the facilitation programme

Facilitation activities change over time as enterprises (and facilitators) develop. Facilitators furnish information to kick-start action, introduce different actors to one another, help to organise producers into useful organisations, build capacity among service providers, and prompt the establishment of systems that link SMFEs in the core market with service providers in support markets.

With myriad possible subsectors to engage, and indefinite new entrants that need to be pointed in the right direction, there is often no obvious facilitation endpoint or need for an endpoint. If facilitation is built into an institutional mandate and funding can be sourced from multiple ongoing initiatives, a facilitation role might usefully endure. Yet in real life, pragmatic concerns such as the end of project funding usually intervene. With such restrictions, a clear exit strategy is obviously helpful to all parties. But how do you exit without collapsing what you are trying to achieve? Recent discussions at the SEEP network (<http://www.seepnetwork.org>) indicate that there are no comprehensive toolkits to help facilitators design good exit strategies or assess when exit is appropriate. Nevertheless some key pointers adapted from those discussions include the following:⁵¹

- Communicate to market actors clearly and from the very beginning what your role as a facilitator is and for how long funds will last.
- Stay in the background as much as possible throughout and create spaces and opportunities for dialogue of market actors. This is their market, not yours.
- Don't promise continuing engagement that you cannot deliver.
- Avoid subsidies whenever possible.
- Be clear about and constantly review the business sense of what you are trying to facilitate.
- Explicitly set up indicators of success that include involvement by incipient organisations that might take on the roles you are currently facilitating.
- Monitor these incipient organisations over agreed periods of time, usually dictated by your resources or length of project. Commercial interest from them is a sign that you can leave facilitation actions to them. Lack of commercial interest might indicate that you should withdraw.
- Involve relevant service providers, both public and private, from the very beginning of programme design so that they develop ongoing relationships with your core market.
- Keep up a dialogue with multiple stakeholders and use their and your intuition about when it is right to move to something new.

Step 6. Find ways to keep in touch with those you are trying to support

Knowing how to sequence activities and when to exit requires good communication. Developing a communication strategy from the outset is therefore a central consideration in any support programme (see Module 9 for more detail).

5.3 Useful tips

- The more you can make facilitation of enterprise support integral to your other environmental and developmental objectives, the more sustainable such work and outcomes will be.
- Think of facilitation as a continuous circle of dialogue – spotting an entry-point, facilitating an intervention, exiting, encouraging further dialogue. You can start at any point, providing you move on.
- Information of all sorts is the life-blood of good facilitation. If you don't have it, make links with people who do.

51. Osorio, 2008.

- Start with the most promising subsectors and most motivated small forest enterprises. Nothing breeds success like success, and a desire to try again and again. Conversely, there is little you can do to alter the fact that a high percentage of small enterprises fail.
- Really get alongside the clients you are trying to support. The more you know about them, the more you are likely to be useful to them.

5.4 Further information

The Enterprise Development Impact Assessment Information Service lays out some generic steps needed to facilitate enterprise support:⁵²

<http://www.sed.manchester.ac.uk/research/iarc/ediais/pdf/HowtoSupportBusinessDevelopmentServices.pdf>

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The 2006 reader on Private Sector Development outlines various entry points to the facilitation of enterprise support and how these can then build into a programme of work:⁵³

<http://www.bdsknowledge.org/dyn/bds/docs/497/PSDReader2006.pdf>

A report to GTZ examines how to plan and sequence activities, noting that you must not underestimate the time needed to build general awareness of the need for 'market system development' as an approach:⁵⁴

http://www.value-chains.org/dyn/bds/docs/525/Implementation_BDS_concept_0206.pdf

52. EDIAIS, 2003.

53. Miehlebradt and McVay, 2006.

54. Waltring, 2006.

Module 6. Conducting necessary background diagnostics

Developed by Duncan Macqueen

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Assessing community enterprise activities near Kumasi, Ghana

6.1 Purpose

This tool describes ways of overcoming the widespread lack of information on small forest enterprises that stacks decision making and service provision against them. It outlines useful ways to start collecting data on the scale, nature and challenges facing such enterprises in different countries. It introduces a set of different categories within which data should be collected to improve the visibility of the sector, identify the major subsectors within it, assess at the enterprise level some of the main opportunities and constraints, and prioritise areas for intervention.

6.2 Outline

Step 1. Decide what the diagnostic is for

An SMFE diagnostic is a preliminary study that helps a national institution get to know small forest enterprises and what type of support they need (see Box 14). It assembles relevant information that will allow facilitators to plot a way forward. It is not supposed to be the definitive work on all aspects of SMFEs in a country or necessarily cover all forest value chains. Indeed many of the subsequent modules in this toolkit will necessarily amplify a facilitator's understanding of particular areas of enterprise support (e.g. Module 7 on mapping and benchmarking support services; Module 10 on value chain analysis; Module 16 on policy research for change).

A diagnostic is supposed to provide a starting point in the process of facilitation and be as comprehensive as possible (i.e. covering as many forest subsectors and value chains in as much detail as time and resources allow). Experience across the country teams involved in the Forest Connect alliance shows that the process of carrying out an SMFE diagnostic can help achieve some useful aims, such as:

- increasing the familiarity of institutional staff with the key actors and programmes that affect or are already involved in small forest enterprise support
- raising the profile of the importance of SMFEs so that they receive attention from decision makers, business and financial service providers
- providing a foundation of information upon which to plan the facilitation of enterprise support (for example, identifying clusters of SMFEs that share similar challenges, might usefully work together in association, might form a profitable clientele for service providers)
- starting to identify particular value chain challenges for further detailed investigation (as detailed in subsequent modules of this toolkit).

Box 14. Conducting a diagnostic of small forest enterprises in Burkina Faso

Because of the forest type in Burkina Faso and other Sahel regions, small forest enterprises mostly develop around non timber forest products (NTFPs). Within the framework of Forest Connect, the NGO Tree Aid undertook a number of activities, including a diagnostic study on small forest enterprises in Burkina Faso. The main objectives of the study were: to fill in the existing information gaps on the operations and number of SMFEs operating in Burkina Faso, highlight the types of SMFEs, their products and markets, and highlight the potentials and challenges faced by the SMFEs.

The study was based on a review of the literature and on surveys of existing SMFEs. Surveys were carried out in March 2008 based on individual or group questionnaires and semi-directed interviews targeting different categories of actors: producers/gatherers, processors, traders and support services operating in the NTFP sector. SMFE associations were also included in the survey.

A total of 169 actors were surveyed in the course of this study dealing in twelve main NTFPs within the six regions. Moreover, support structures operating directly (direct support to SMFEs) or indirectly (support to SMEs or to micro enterprises in general) in the SMFE sector were met in Bobo-Dioulasso, Fada O'Gorman, Ouagadougou, Ouahigouya and Tenkodogo for the purpose of this study.

The diagnostic concluded that the NTFPs sector in Burkina Faso has been generally neglected, is unstructured and generally informal, but has much potential for development in the areas of economic improvement, nutrition, health and the environment. The study recommended various measures be undertaken at the level of legislation, market development and support services. More than 1000 hard copies of the French version have been distributed in the West Africa sub region. Demand is increasing and more soft copies in English have been forwarded all over the world.

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Step 2. Clarify the terms used in the diagnostic

It is not always clear to facilitators exactly what qualifies as a small forest enterprise. Indeed the definition of what a forest enterprise is and whether it is 'micro', 'small', 'medium' or 'large' may vary by country. It is usually best to start with a broad definition – including both product enterprises that sell either timber or non-timber forest products, and service enterprises that sell forest management, tourism, conservation or environmental and wildlife protection services. It is definitely worth including both formal and informal enterprises, even if statistics for informal enterprises are difficult to find as they often make up the majority.

Step 3. Identify an appropriate team of researchers to carry out the diagnostic

There are a number of important considerations in choosing who should carry out an SMFE diagnostic.

- Because the diagnostic affords an excellent opportunity to start networking and building relevant contacts, which will help later with facilitation, at least one member of the team should come from the proposed national institutional hub.
- Any diagnostic will require engagement with a wide range of informants in very different contexts, from face-to-face meetings with policymakers on the one hand, to collective meetings of community forest producers on the

other. Having someone in the team who is a skilled communicator, familiar with participatory methods, would be an asset.

- There may be issues with language. In many cases, SMFEs are marginalised precisely because of communication barriers such as speaking local rather than national languages. Having someone familiar with local dialects is essential.
- Both business management in general and forest business management in particular require complex skills sets. To understand what is going on in the field, it is useful for a diagnostic team to have such skills.
- Finally, there are issues of cost. Where it is impossible to take a multi-disciplinary team of ideal composition, try and favour those who are able to communicate with key stakeholders and belong to the national institutional hub. An important issue – especially important where there is more than one field team collecting information – is to train enumerators/data collectors adequately. If possible, take the teams on a short pilot exercise to test out any questionnaire or interview techniques so that information is consistent and high quality.

Step 4. Involve key people to give you feedback

If one of the aims of the diagnostic is to raise the profile of small forest enterprises among decision makers, then it is important to include them in the design of the diagnostic. An initiation workshop, as well as offering to make drafts available to key decision makers (e.g. in forestry departments or other business support programmes and finance institutions) for comment prior to publication, can raise the profile of the report. But it is not only decision makers who you may want to involve. It is also important to set up a review panel that checks the accuracy of findings and how they are interpreted.

Step 5. Develop a logically structured reporting framework that covers all areas of interest

The quality of any diagnostic often hinges on the degree to which information is systematically collected under different information categories across different sites. Too often, expensive field work delivers anodyne conclusions simply because researchers do not bring a checklist of relevant questions that cover all the areas of interest, they fail to write the responses down, or they cut corners in analysing all the material pertaining to a particular category.

Policy-changing perspectives of key informant groups in quotable form are often left out of the write-up, or mangled in translation simply through lack of careful documentation. Numerical data, for example on production volumes and costs, is often the most convincing for policymakers but the most neglected by researchers.

Start by determining the different categories of information that you wish to assemble data in. For example, the recent series of IIED SMFE diagnostics⁵⁵ used the following structure:

- **Background**
 - the nature and extent of forestry in the country
 - prior work that this diagnostic builds on
 - aims of this diagnostic and how it was done.

55. Auren and Krassowska, 2003; Lewis *et al.*, 2003; May *et al.*, 2003; Saigal and Bose, 2003; Sun and Chen, 2003; Thomas *et al.*, 2003; Kambewa and Utila, 2008; Nhancaie *et al.*, 2009.

- **Current status of SMFEs**
 - national definitions of SMFEs
 - a typology of the different product and service SMFEs with a summary table describing their scale in terms of numbers, size and turnover (e.g. fuelwood and charcoal, NTFP collectors and processors, timber extraction, primary processors, secondary processors, wildlife and tourism ventures)
 - a more detailed description of subsectors (including numbers, scale, employment, locations, ownership models, value chain structure, links to other businesses).
- **Governance**
 - the nature, influence and effectiveness of policies and institutions that have a bearing on SMFEs both inside and outside the forest sector
 - what policies and laws affect SMFEs, including variations due to decentralisation (e.g. business registration, labour laws, land use and tenure rights, forest extraction rights, environmental impact assessments, transport permits, export permits)
 - how laws are interpreted and enforced in the field (NB: there may be a big discrepancy between policy and practice)
 - degrees and types of formality, informality (and illegality).
- **Markets and finance**
 - sources of market information
 - general trends and perceived prospects for different product subsectors in the light of globalisation
 - patterns of investment (including Foreign Direct Investment)
 - balance of domestic versus export opportunities and the challenges common to each
 - nature, accessibility and consequent extent of financial support services
 - insurance or collateral issues
 - other revenue and finance rules and bureaucracy that affects profitability
 - support programmes and what they offer.
- **Labour issues, associations and business support**
 - general employment conditions, representation possibilities
 - numbers and types of formal and informal groups
 - their main objectives
 - what they offer to member enterprises in terms of organising and aggregating production, training, quality control, marketing policy representation
 - conflict management
 - types and scale of other external business service providers
 - perceived effectiveness of support.
- **Key challenges, opportunities and conclusions**
 - a prioritised list of barriers to be addressed
 - key subsectors with opportunities for upgrading
 - thoughts on who should do what to make it all happen.

Box 15. Gathering information for Mozambique's SMFE diagnostic

In mid-2008, a team comprising a community forestry specialist, two new small business development staff from the NGO Centro Terra Viva and a forestry professional from the Universidade Eduardo Mondlane set out to collect data on SMFEs in Mozambique. They structured their data collection into seven sections: introductory material, data on SMFE subsectors and enterprises, governance, market and finance, links and associations and labour issues.

The team carried out a literature review in Maputo. While there was little literature specific to SMFEs in Mozambique, a number of studies analysing the forest sector or small and medium enterprises in general provided a good starting point.

The team then devised a sampling strategy and carried out field visits in all ten provinces (sixteen districts in total). Several provinces had two district field sites according to that province's proportion of forest coverage estimated by Marzoli in 2007. Within each district, the team selected enterprises and visited in such a way that at least one enterprise of each type (where applicable) was approached. They made their decision about which specific enterprise to visit (of the same type) on a pragmatic basis, largely based on accessibility. District government staff played a very important role in helping the researchers identify useful enterprises to visit and translate where appropriate. They used semi-structured interviews to assess the main opportunities and constraints.

The research team also undertook a programme of semi-structured interviews with professionals and academics involved in the sector to substantiate the findings from the literature. They circulated questionnaires to forest department professionals at national, provincial and district levels, to owners of forest enterprises, and to service providers.

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Step 6. Design an information gathering strategy and process

Research budgets rarely allow as much information gathering as you might like. The trick is to balance different ingredients and budget for them. You might consider gathering information through the following methods (see Box 15):

- Literature reviews: don't waste past efforts of other researchers. Often there is a great deal of useful information buried in 'grey', unpublished consultancy reports and the like. Getting this from key contacts and referencing it properly helps to build a body of knowledge.
- Field visits, focusing perhaps on particularly important forest areas or subsector clusters, provide an accurate snapshot of what is happening across different areas of the country. Statistical sampling can be used to extrapolate national estimates of SMFE numbers, types, employment numbers, levels of value-adding activities, and so on. Do not underestimate the value of taking photographs or video clips, as these can help to make a much more attractive and persuasive final product.
- Interviews (both in the field and by telephone) allow you to obtain perspectives of entrepreneurs themselves, government authorities at different levels and service providers or support organisations. It is particularly useful to interview different people along value chains (e.g. from the honey collector to the processor to the village shopkeeper) as this can help identify tensions and barriers to upgrading. Capturing direct quotes – allowing people to speak out on issues in their own voice – can be surprisingly effective at making a point.

- Dialogue is a very useful tool to improve the quality of and distribute your findings. You might want to convene a meeting to discuss your draft report (for critique and to anchor its conclusions in the heads of those who take part). More ambitiously, you might want to allow stakeholder groups to discuss and present their key recommendations to each other. For example, get a particular stakeholder group to write on cards their main problems and recommendations, allow them to work together to group these, picking democratically what they feel to be the most important issue. Once each group has their ideas in order, a nominated spokesperson can present this in a structured debate with the other groups. O'Hara's fish bowl debate method⁵⁶ works particularly well for this (see Figure 4 and Box 16).

Figure 4. Forest Connect members argue the future of the alliance using a fish bowl debate method



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Step 7. Validate and then launch the diagnostic

Collecting useful information is just the beginning. It is vital that the information is then subjected to peer-review, perhaps using the feedback panels described earlier in Step 4. Some country teams have used a validation workshop where draft information was presented and feedback invited. This can also be useful in filling gaps in knowledge.

Once the diagnostic is finalised, it needs to be presented well, and to the right people. Presentation is a key concern. Clear graphics can reveal what a report says and should show data in such a way that the viewer thinks about the substance of what is being presented in the text.⁵⁷ Eye-catching images with human interest help publications stand out from the black and white loose leaf piles of paper that clog up tables (or email inboxes). Quick experiments at international conferences have shown that the same material presented with a colour cover is much more readily picked up than its black and white alternative. Keeping reports succinct, unexpected (e.g. with new data), credible (e.g. backed up quantitative data), concrete (e.g. with plenty of examples)

56. O'Hara, 2007.

57. Tufte, 2001.

Box 16. Using a fishbowl debate to air different stakeholders policy recommendations following the publication of a charcoal enterprise diagnostic in Malawi

Charcoal making in Malawi can theoretically be licensed against a sustainable management plan, but to date no licences have been issued despite charcoal being Malawi's third largest industry after tobacco and tea. A national diagnostic of charcoal production ('Charcoal – the reality'), which showed the scale of this illegal but potential green and poverty-reducing energy source, was formally launched at an international meeting of the Forest Governance Learning Group in December 2008.

To bring home the findings to key decision makers at that meeting, subsets of those same decision makers visited different stakeholder groups, including charcoal producers, new community co-management block committees, and a local environmental group working with the Forestry Department to shut down illegal charcoal production. Each group separately brainstormed what they felt to be the main problem, and what policy recommendation they proposed. Groups were then brought together for a 'fishbowl debate', designed especially to air divergent views and give the opportunity to justify and then debate them. Its strength lies in the way it does not allow particular individuals to dominate the discussion.

Over approximately 2 hours, 60 people debated 4 different policy recommendations. The 'fish bowl' was prepared by having 4–5 chairs in the centre of the room, facing each other. Roughly 60 other chairs were arranged in a ring on which most people sat. A flip chart was used to display just one of the policy recommendations. The elected presenter for that policy recommendation had three minutes walking in the centre to justify the statement before sitting down. Then respondents (supporters or critics) were allowed to come and sit in the centre to debate the issue. Only those in the centre of the 'fish bowl' (the 'fish') were allowed to speak for one minute. Only one person at a time was allowed to speak, based on who arrived in the centre first. As many people could come into the centre as there were chairs free. The respondents had to leave the central circle immediately after they had made their statement, returning to the outside ring and waiting until at least one other respondent spoke and there was space available before coming back to the centre again. After each respondent had spoken the initial proposer was allowed to make a one minute response. Time cards (one with '3 minutes', one with '30 seconds' and one with 'Stop') proved to be a useful tool for the facilitator to manage the timing.

It was extremely powerful to hear poor charcoal producers argue their life or death need to earn a living with well-meaning officials tasked with forest conservation. In this instance, the fishbowl debate ended after all the position statements had been debated. It is also possible to end by placing a card on one side of the room with 'Agree' and a card on the other side of the room with 'Disagree' and asking people to stand near the card they agree with as each position statement is reviewed. Asking if anyone changed their mind during the debate about a position statement and why brings the method to a close.

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and based on stories and images that tap into people's emotions makes them stick in people's minds.⁵⁸

Once a publication is ready, a launch event can help to alert the right people. Building up media contacts (e.g. through linking to a press club) and preparing a newsworthy press brief can help you get key messages across.

58. Heath and Heath, 2007.

6.3 Useful tips

- Work with local partners to track down a lead author who has sufficient experience and grasp of the small forest enterprise sector to produce a quality piece of work.
- Take time to develop detailed terms of reference for the different categories of information that it would be useful to collect. Stress the importance of numerical data on issues such as: national consumption of different product types, export volumes and values, areas of land allocated to SMFE production, enterprise numbers, employment figures, financial turnover, and so on. Such figures can perform the dual role of raising the profile of the sector (when the diagnostic is published) and help the facilitator to prioritise which particular subsector to focus their activities on.
- Capture qualitative descriptions too. Recording the actual words of small forest enterprise managers when they talk about their perceptions of opportunities and constraints can be very powerful.
- Invest in a thorough review process. If possible, draw in some of the national players who are involved in small enterprise support activities both to critique findings and spread awareness of your work.
- Use the report with individuals and at key events to build up support for the programme.

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6.4 Further information

There are no ready guidelines to the production of diagnostic reports on SMFEs, but there are plenty of previous examples that could provide some insights, both in terms of strengths and weaknesses.⁵⁹ See for example:

<http://www.iied.org/pubs/pdfs/9538IIED.pdf>

<http://www.iied.org/pubs/pdfs/13546IIED.pdf>

<http://www.iied.org/pubs/pdfs/13553IIED.pdf>

59. Auren and Krassowska, 2003; Lewis *et al.*, 2003; May *et al.*, 2003; Saigal and Bose, 2003; Sun and Chen, 2003; Thomas *et al.*, 2003; IIA, 2008; Kaboré *et al.*, 2008; Kambewa and Utila, 2008; Nhancale *et al.*, 2009; Gebremariam *et al.*, 2009; Luo *et al.*, 2009; Phimmavong and Chanthavong, 2009; Utz Che, 2009; ANSAB, 2009; Osei-Tutu *et al.*, 2010.

Module 7. Mapping and benchmarking support services

Developed by Leena Chakrabarti and Rohit Magotra

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Assessing the need for technical support in Guyana

7.1 Purpose

This tool describes steps through which facilitators can identify and locate service providers for small forest enterprises. It introduces elements explored further in value chain analysis and market mapping (Module 10) and deals with how to benchmark service providers against one another so as to allow SMFEs to select the right service provider and get value for money. A key element is also the engagement with SMFEs to motivate them to work with service providers, where this often requires an up-front investment and payment for services that they may not be willing to make at first.

7.2 Outline

Step 1. Think first about the nature of SMFEs requiring service provision

One of the most useful functions of a facilitator is the ability to put SMFEs in touch with people who can help them. This module is designed to provide decision support for identification and evaluation of service providers (or vendors as they are sometimes called).

One of the most important constraints in developing and sustaining SMFEs across different contexts is lack of support services and trained extension resources. There is a galaxy of potential support services that might make a difference. For clarity of purpose, we have categorised SMFEs into four categories so that facilitators can customise the advice to fit the needs of the particular SMFEs they are supporting. The categorisation is based on scale and maturity:

- *Group I – Basket of products and usually run on subsistence mode.* In most cases, these SMFEs are based on a seasonal activity and are not operational year round. They are usually owned and operated by very low-income families, with women often managing the activities. In many cases, the enterprise might be a one-off, i.e. they may not function in the next season due to uncertain investment. In some cases, SMFEs of this type use different products in different seasons to maintain subsistence needs.
- *Group II – Single activity enterprises, run year round with supplies coming in from relevant sources if not available locally throughout.* The majority of these SMFEs are run by families, but often with lead individuals and some committed investment from private or other sources at regular intervals or as required.
- *Group III – Growth phase SMFEs.* Investment here is channelled into upgrading (of the four types described in Module 4, Step 4). For example, essential oil extraction units moving into perfumery production. Men usually outnumber women significantly in this group of enterprises.
- *Group IV – Highest form of SMFEs.* These SMFEs are mature in terms of their capacities and business knowledge base. They are usually connected to financial institutions (more formal than informal ones), and ownership and titles are in most cases clear and legalised. Product lines are diversified and management is more complicated.

Step 2. Explore with SMFEs possible areas where inputs might be necessary

The need for service provision increases moving from Group I to Group IV, but constraints in accessing services remain similar. There are innumerable different types of service provision that might be required to set up, operate and improve SMFEs in scale, resources, capacities, profits and sustainability – including, but not limited to, services in two rather overlapping categories. It is useful to meet with SMFEs in your chosen subsector to identify gaps in service provision, perhaps using a checklist like the one below.

Operational or generic services

- business plan development
- business process design advice and counselling
- bookkeeping and accounts management
- preparing investment proposals for credit and insurance services
- financial services
- information technology services and advice
- generic approaches to marketing and market research
- courier and delivery options.

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Strategic or specific services

- legality compliance support
- inventory management
- logistics (transport/power/storage/warehouses) support
- inputs sourcing (raw materials, technology, plant and machinery)
- specific market intelligence
- product design and development (see Box 17)
- quality management, assurance and certification
- sales support
- diversification planning
- quarantine services (specially for export oriented units)
- carbon credit consulting
- waste management.

Box 17. Bringing in handicraft design training in Guyana

Many of the Amerindian communities within the Guyanese interior supply the growing tourist trade in the country with traditional handicraft items. Analysis by the Forest Connect team, based out of Iwokrama International Rainforest Centre, indicated that a constraint to sale was the design of handicraft products, namely that it was not optimised for the tourist market, both in terms of the type of product and the colours and style of production.

In order to remedy this situation, a series of four training events was organised involving two designers from the USA during the month of February 2009 in the villages of Moraikobai, Rupertree, Surama and Santa Mission. The aim of facilitating the specialist design training was to review existing craft products against trends in handicraft design within the USA, noting features of design and colour that were more acceptable to the likely tourist trade. The hands-on training helped local artisans adapt their traditional designs in line with new thinking on style and colour.

Step 3. Decide how broadly to map the service provision 'universe'

When narrowing down the long list of service options, keep in mind the specific target group of enterprises and the support they need. You can develop a checklist with these clients that specifies as far as possible the nature of services they require. The facilitator might then map out the possible service provider options within the 'universe' open to those SMFEs. For instance, for a Group II SMFE, the small scale and likely limited ambition of these enterprises might make a 20 kilometre radius around the enterprise adequate as its mapping 'universe', while for a Group IV SMFE with greater scale and ambition, a 500 kilometre radius from the location of its unit/activity centre or the country as a whole could be its mapping 'universe'.

The scale of the mapping exercise will depend on a number of factors:

- the group, as identified above, that the SMFE falls under (less developed SMFEs often need less specialist services and can benefit from local provision)
- the need for specialist services both now and for the future (generic services can often be found more locally than specialist ones)
- the potential for the SMFEs to group together to cover costs of more distant service providers
- the ability to pay for services (if cost is no object then a large spatial mapping exercise may be called for)
- the timeline and facilitation resources, i.e. the time and cash available for facilitators to look for relevant service providers
- success of the search, i.e. if no local service providers can be found, it may be necessary to look further afield or even bring in specialist train-the-trainers to build local capacity.

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Step 4. Identify the service providers within the scale of mapping decided above

Having clarified the requirements of client SMFEs and how extensively to search for available service providers, the next step is to locate and identify the service providers (see Box 18). There are two main methods that we advocate for locating service providers: a referenced search and an advertising search.

A referenced search is the process of using existing business registries and contacts to track down appropriate service providers. A starting point might be to refer to local directories such as the yellow pages or use online directories. Another approach is to identify and interview users of similar services (not necessarily within SMFEs but other value chains as well) within the mapped locations. Usually one piece of information leads to another and it is soon possible to build up a list of service providers.

For generic services, these are usually specific to the service they provide and not to the value chain. For example, accountants are accountants and not specifically SMFE servicing accountants. For more specialist services, there might be areas like fair trade timber certification where specialists are exclusively linked to the sector. For some more generic types of service provision, there may be an overarching association or body where lists of members can be found. In more advanced economies, a simple web-search can help to identify links that can be developed into fuller listings over time. It is important

to record the contact details of each option on a list and begin to phone or meet up with these service providers to get a feel for what they provide.

An advertising search is the process of advertising for service providers. When time is limited, a simple advert requesting service providers of a particular type can be surprisingly effective. Such adverts can vary in their complexity, but its usual tenets include a request for: (i) the set of services required by the SMFEs; (ii) the required vendor background and experience with a checklist of the information required (e.g. lists of clients, nature of services provided, registration of business, professional affiliations); (iii) contact details of references from 2–3 clients that they have serviced in the area of work relating to the advert; (iv) contact details and curriculum vitae of key staff; (v) basic features of the service that the vendor will provide; (vi) guarantees of quality and complaints procedures (this is used as an important evaluation/benchmarking criteria for decision support); (vii) the budget and timeline within which the work must be carried out; (viii) the deadline for response.

Advertisements can be placed by word of mouth, as posted bulletins in particular town meeting places (chambers of commerce, community halls, trading centres), in local newspapers (dependent on circulation within the service provider spatial map that was identified in the first step), radio (community radio/mainstream channels/internet radio), online, or through more specific service provider networks if these exist and are already known. Once responses have been received, these can form the initial basis on which to proceed.

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Box 18. Developing a 'yellow pages' of business service providers in Ghana

Small forest enterprises serve as main, additional or alternative income sources for about 3 million people in Ghana. But their full potential for local livelihood improvement has not yet been realised. This is because they have not been supported adequately in forestry planning and management. The enterprises lack the organisation, legality and tenure security characteristic of enterprises in the formal timber subsector. The unorganised manner of their operations makes it difficult for small forest enterprise owners to access available support services. Many of the proprietors are not even aware of the existing support structures and services. On the other hand, the paucity of information on the nature of small forest enterprises and the actors involved presents a challenge to support service delivery.

To address this challenge, the Forest Connect partner, Tropenbos International Ghana, undertook to produce a yellow pages that provided detailed information on 16 main categories of small forest enterprises and their associations, and existing business development services or programmes to whom they might turn for support. Details of the name, service offered and contact information were provided for 30 main business development service providers throughout Ghana, plus an additional 8 micro-finance operations. The intention is that greater awareness of the available service provider options on the part of entrepreneurs will be matched by greater awareness of small forest enterprise opportunities on the part of service providers.

Step 5. Benchmark the service providers over time

The success or failure of service providers is seen in the degree to which client SMFEs become more sustainable in the widest sense of the word. It is hence essential to select the right service provider, although in most developing contexts both the availability of service providers, and their visibility to enterprise support programmes, remain as key constraints. Tools have been developed to help service providers do a self assessment of whether their services are relevant to SMFEs (see Junkin, 2008). But in many instances, an independent external view is useful. There are some elements of a service provider's character that can be assessed immediately, and some elements that can only be accurately discerned once a service has been provided.

The quality of service may also change over time, so it is important to review assessments on some regular basis (e.g. every 2–5 years). A number of criteria can be used to develop a rough scoring matrix to allow SMFE clients to differentiate between the different service provider options. It should be emphasised that the categories are not listed in any order of importance and that scoring can be quite basic, i.e. scoring from 0 (worst) to 5 (best).

Some of the criteria might include:

Experience of the vendor / service provider. It is a good idea to look at how long the service provider has been operating. A good track record might indicate some degree of quality (and hence commercial survival over time). Some experience in the forest sector or at least similar natural resource markets elsewhere might be an indication that the vendor would be able to serve your client group. For instance, the facilitator and SMFE clients might have to decide whether a service provider who has done market analysis for teak furniture in Indian metro cities will be able to conduct a market analysis for wooden planks mainly used by the construction and ship building industry; alternatively, whether a service provider who has worked on compliance requirements for metal exporters in Guyana is the right provider for advising and supporting compliance meeting for timber export. Optimising the fit between the need and the vendor's experience requires good judgement which benefits from experience.

Value of proposition – lowest cost versus total cost. While low bids are always attractive, facilitators need to decide between pursuing the lowest bid for the service and attempting the more difficult task of weighing up the total cost (especially recurring costs) of achieving the desired outcome among client SMFEs. Will cutting costs now optimise impacts on client SMFEs in the long run? Does the lower bid simply reflect a lower level of service provision, such that additional future inputs will be needed? Does the lowest bid imply a change that is impractical for the client SMFEs? Does the lowest bid include adequate post-service support?

Total cost includes not only the procurement cost for this immediate service, but also the cost of implementing changes brought about by the solution, such as capacity building within the enterprise and an escalation of resource usage of items such as electricity, human resources and administrative support. By explicitly considering broader costs (even if these cannot be easily calculated), the lowest cost bid is usefully interrogated, which can help to improve decision making.



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Assessing the capacity of a local sawmill in Java, Indonesia

Capacity to deliver. Understanding the capacities of the service provider to implement the solution is useful in comparing one vendor to another. One way to minimise disappointment is to look for service providers who can start supporting the SMFEs without bringing on new staff, reorganising or developing a new product. You should ask whether the service provider has demonstrated to your satisfaction the workability of their solution, or whether this is a new approach that they are going to try for the first time. Especially if the service is complex (e.g. certification, compliance support, market intelligence, market assessment), it is important to assess vendor capacities in terms of whether they depend on a single individual or have necessary skills across several individuals within their organisation. If the only highly skilled individual leaves the institution midway, the implementation and service support provided by the vendor can be jeopardised.

Attitude to service support. Assess the willingness of the vendor to provide support services before procurement of the main service and to tailor the service to your needs. In trade parlance this is called 'pre sales customer service'. The quality of interaction is usually an indicator for the kind of support clients would get after the service contract has been signed and initial payment made.

References. While vendors will almost always provide references when asked, these might be biased. Your decision is best made after hearing from 2–3 independent referees. One way to do this is to talk to the referees provided by the vendor but ask them who referred them to this service provider – and base any assessment on these second referrals, one stage removed from the vendors selection. Another way is to ask for a list of clients from the vendor and conduct a random reference check, especially among clients who operate in the same industry or same market.

Risk. An important benchmarking criterion is to try and quantify the risks associated with particular service providers. Their size, financial credibility, turnover of staff and so on all give a perception of risk that can be useful.

Actual performance of the service provider. As a facilitator engages with client SMFEs and helps to catalyse service provision, the facilitator will be able to assess the actual performance of different service providers through discussion with client SMFEs. These assessments can weigh heavily in deciding whether to continue to use or drop a particular service provider.

The SMFE context will ultimately determine the weight given to each criteria. This list is less a strict ranking exercise and more a number of characteristics to use in evaluating vendors.

Step 6. Information sharing on service provision

If a facilitator institution can compile useful information, the next challenge is to put this out in a useful format (for example, a 'yellow pages' of useful business development and financial service providers). This could be as simple as an annotated contact list, or as complicated as a complete web-based compendium of service providers, depending on the type of SMFE in focus. To avoid creating dependency, it is important that the facilitator restricts their role as much as possible to information sharing, rather than actually paying for training and services. If a service is truly valuable, it should be worth paying for. Nevertheless, in the initial stages of enterprise support, subsidised training may help to create awareness among some SMFEs.

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7.3 Useful tips

- Conducting a site visit invariably helps in making a decision. Visit the vendor's office to get a first-hand view of work methods. You may also meet the implementation team and assess their skills in line with the requirements identified by the SMFE.
- Experience suggests that it is better to use a referenced search approach to finding service providers rather than an advertising search approach (in which an advert for service provision is placed). If you do place an advert, back this up with references.
- Keep the spatial map for services to SMFEs as small as possible. It is much easier to follow up a local service provider if you require further input or clarification.
- The capacity of a service provider to impart knowledge and train entrepreneurs and staff employed by SMFEs is usually a key skill that needs to be assessed beforehand. It is no good knowing how something should be done if a service provider does not have the skills to pass that knowledge on.
- Involve the SMFEs in the selection process. The selection of a service provider has a direct and long-term indirect impact on profitability of the enterprise. The ability to make this decision is a key part of building SMFE capacity.

7.4 Further information

A good source of information on business development services in general is that of the USAID Microenterprise Learning Information Sharing and Knowledge site: <http://www.microlinks.org>

An introductory article on using a balanced scorecard to select which service providers to use:⁶⁰ <http://www.ciupdate.com/trends/article.php/3559381/simplifying-the-vendor-selection-process.htm>

A toolkit for self-analysis and planning for service providers has also been developed in Spanish by FAO and CATIE:⁶¹ <http://www.fao.org/forestry/19635-0f312e2a0eee50b4e5cd6fbc3af13be.pdf>

60. Lakey, 2005; Miller, 2009.

61. Junkin, 2008.

Module 8. Designing communication strategies

Developed by Leena Chakrabarti and Rohit Magotra

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Working to reach community forest user groups in Nepal

8.1 Purpose

This tool is designed to help facilitator institutions produce a coherent communication strategy that allows delivery of different information to different target groups, using specific communication channels, products and activities. It is essentially a way of thinking systematically so as to identify any gaps that better communication approaches might be able to fill.

8.2 Outline

Step 1. Identify the problem that a communication strategy needs to solve

A range of communication possibilities can be used and customised to improve information flow (see Box 19). In this module there are two primary objectives: (i) to help the facilitator institution clarify its own communication strategy and; (ii) to introduce basic concepts that can be passed on to SMFEs as they prepare their own communication strategies.

Different approaches may be needed for communication between facilitator and SMFEs, compared to communication between SMFEs and customers, service providers or decision makers. International meetings of supporters of SMFEs⁶² have identified many different communication problems that affect SMFEs directly or indirectly. First, it is worth giving thought to the main communication problems that the facilitator or the SMFE is trying to solve. Often there are closely interrelated issues that need to be unpacked, including the following:

- Language barriers and illiteracy can make it difficult for facilitators to reach some SMFEs. Cultural sensitivities can make discussions with policymakers difficult.
- Geographical remoteness can be a significant barrier to regular communication between facilitators and SMFEs, and SMFEs and their customers, which can lead to dependency on a few intermediaries.
- SMFEs may not be aware of the need to communicate to share costs for service provision.
- Mistrust between facilitators and SMFEs can result in a deliberate withdrawal due to a desire to shield informal or illegal activities from scrutiny.
- Irrelevant information is developed by some facilitators with strong agendas, for example regarding environmental certification.

62. Macqueen and Morrison, 2008.

Box 19. Setting up website communication platforms in Liberia and other Forest Connect partner countries

The Liberian Forest Connect partner, Save My Future Foundation (SAMFU), was selected as the national hub for small forest enterprise support through a stakeholder analysis conducted by FAO in Liberia in 2009. Project activities started in January 2010 and are ongoing. One of the first steps that SAMFU undertook was to increase awareness of the importance of this role by developing a national Forest Connect website (<http://forestconnectlib.org/index.php>). While still under development as SAMFU surveys the nature, scale and extent of different categories of small forest enterprises within Liberia, the intention is to gradually add information to the website to provide an accessible resource for those wishing to engage with the sector in Liberia.

Different Forest Connect partners have developed websites in different ways. For example, some have merely used the website to advertise the work they are doing in support of forest enterprises (for example, in Burkina Faso: <http://www.treeaid.org/our-work/where-we-work/forest-connect-in-burkina-faso/>). Some have used their website to keep their membership abreast of decisions, meetings and reports – especially where multi-stakeholder steering committees are involved in running Forest Connect such as in Ghana (<http://www.forestconnectghana.com/>). Others, such as the Nepalese Forest Connect partner (ANSAB), have made their website a repository of information, training manuals and reports on small forest enterprises in Nepal (<http://www.ansab.org/fcn/>). In Guyana, Laos and Mali, attempts were made to provide detail on actual enterprises and the products they offered as a means of encouraging market interest and building Forest Connect membership (e.g. <http://iwokrama.org/forestconnect/about/aboutus.htm> or <http://edclaos.com/lfc/> or <http://www.aopp-mali.org/spip.php?article48>). Most have used a website in conjunction with other forms of communication which are more accessible to rural forest producer groups.

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Step 2. Review communication options that might provide solutions

Once work with value chain actors has shown where the communication problems lie, facilitators may need to lead some basic brainstorming with those groups about the types of solutions that might be possible (see Box 20). Here are some options to consider:

- Make sure you consider options wider than written materials such as face-to-face dialogue, mobile phone conversations, pictorial materials, theatre pieces and peer-to-peer visits – especially if literacy of your audience is an issue.
- For policymakers, create safe spaces where frank informal discussions can occur.
- Recognise that information flows through key local people, group leaders or through places where local entrepreneurs regularly go such as supply stores, antenatal clinics, and so on and target these individuals or places.
- Collate information that publicises numbers, types and locations of SMFEs, and which encourages them to get in touch with each other and with benchmarked service providers that they can turn to.
- Help to build acceptance of groups of small forest enterprises that register formally and represent the interests of their members.
- Work with small forest enterprises to explore what information might be useful and provide incentives for service providers to respond.
- Develop feedback mechanisms for any new communication approaches so you can learn from both successes and failures.

Box 20. Designing a communication strategy for small forest enterprises in Burkina Faso

The NGO Tree Aid undertook an analysis on the information needs of SMFEs in Burkina Faso. The general objective of this study was to use a participative approach to identify the type of information needed by small forest enterprises in Burkina Faso. Specifically, the research sought to gain an understanding of how information is transmitted and acquired among the various actors in different value chains, the information needs of the different actors involved in several natural product value chains (shea butter, honey, moringa, cashew nuts, dried mango, dawa dawa), the type of the information the actors would like to transmit, the appropriate channels through which they would like to send and receive information and how to make the flow of information sustainable.

The analysis was based on literature reviews, observations, interviews (structured and semi-structured) and informal discussions with some members of the target group, including 30 small forest enterprises and associations (12 in Ouagadougou, 9 in the Gourma province and 9 in the Nahouri/Zoundweogo).

The results highlighted the dynamics of information flows, with low use among the rural producers and artisanal processors but very high use among the primarily urban processors. The main information channel used by rural producers was word of mouth. The urban processors used the internet, newspapers and radios. Mobile phones played an important role for all actors. The main types of information needed by all the actors were market information on commodity prices and location of buyers. Information on the availability of business development and financial services was also marked as highly important.

This study, though limited in scale, was unique in Burkina Faso; this was the first time a report focusing on small forest enterprises and NTFPs was published, and actors in the sector used it as a reference.

The impact of the study was not limited to Burkina Faso. In Mali, it was a reference for the establishment of a market information system for NTFPs, recognised internationally for its success. In this system, Tree Aid supports the spread of market information on products such as honey, shea nuts and butter in 20 villages in Tominian in the Ségou region. Producers use mobile phones to verbally communicate information (product, quantity, price and contact phone number) to a local NGO coordinator (Sahel Eco), who sends the information via the internet (from a cyber cafe 20km away) to three radio stations to be broadcast. A hard copy of the information is also given to Radio Mountain in Tominian. Potential clients either phone Sahel Eco to be put in touch with the producers or phone the producer directly (phone numbers are broadcast) for more product/price information and to negotiate. Based on the success of this system, Tree Aid is developing another market information system based on SMS in Ghana.

Step 3. Understand what a communication strategy involves

As your understanding of communication problems and possible solutions grows, it can be very helpful to develop a formal communication strategy, either for internal use or for assisting SMFEs with their communication needs, for example by setting up a market information system (see Box 21).

Your communication strategy defines what is communicated, how, to whom and for what end. It also helps to identify how to cut costs, plan the timing of communication activities, create awareness and advertise events, and plan for expected responses.

Box 21. Developing a marketing information service framework for Nepal NTFPs

The Nepal NTFP Network (NNN) is coordinated by ANSAB and includes over 50 organisations and 300 individual members. At a meeting in 1999, NNN members realised that inadequate access to marketing information was one of the major constraints of NTFP enterprise development in Nepal. They advised ANSAB to develop a marketing information system programme for community producers, and complementary system at the central national level. An NNN task force, formed in early 1999, discussed the system for community producers, while another task force, formed in May 1999, developed a framework for the central level system that would allow collection, analysis and dissemination of marketing information for a greater range of NTFP stakeholders (including government and NGOs).

Based on the task force report and suggestions from the NNN, ANSAB began to implement the marketing information system project in 2001 in a series of logical steps. After an initial planning phase, ANSAB staff began detailed stakeholder consultations about products, information required and where it could be reliably collected, best formats for information sharing and so on. They then organised a participatory workshop to design the system. The workshop started with a presentation of results from the consultations, and then participants worked on defining the objectives of the system, the scope, responsibility for oversight, and methods of information collection, quality assurance and funding. Once an agreed framework was in place, ANSAB was then tasked with setting the system up.

The system is now functioning as follows: key informants (traders and NTFP organisations identified by forest sector officials) are contacted on a monthly basis by telephone and email and supply information on 32 prioritised NTFPs. The marketing information system centre stores this information in a database, and price lists are then generated in appropriate languages and distributed to 80 local NGOs, government departments, traders, manufacturers, education institutes and journals. Regular quantitative and qualitative data analysis provides information on price trends, demand, quality requirements, technology and processing information, and contact details for key buyers.

You can access more information on this system via ANSAB's website: <http://www.ansab.org/market-information> (see ANSAB, 2010b).

Many different types of stakeholders, with varying degrees of understanding, skills, influence, impact and effectiveness, are involved in SMFE survival and growth and your communication strategy needs to factor this in (see Box 22).

As a facilitator of support to SMFEs, it is critical that you have clarity on what you want to achieve or what you want the SMFE you are facilitating to achieve out of this communication strategy. The following elements will be useful in designing your strategy:

- *Objectives:* This is the most important element in designing a communication strategy. First decide why a particular communication initiative is needed and by whom. For example, do you want to set up a communication system that informs SMFEs of market prices? Or do you want to provide information to service providers on the financial returns involved in working with SMFEs? Once your objective is clear, work out how this objective can be met and who is responsible for action.
- *Target audience:* For any communication strategy to work, you need to identify your target audience. Your objective may point you to one or more target audiences; select the audience that allows you to reach your objective in the most cost effective way. For example, if the objective of your strategy is to change a particular policy, one option might be to choose the mainstream media as your target audience. But is the allocation of resources towards communicating with the mainstream media likely to be more effective than setting up a direct lunchtime meeting with a politician?
- *Timed activities:* Once you identify your audience, identify specific activities. The nature of these activities will depend on your audience and the kind of message you want to communicate. Activities can range from advertisements for new SMFE products on local TV channels to emails to forest advocacy groups to influence policy change.
- *Resources:* A communication strategy cannot be implemented without using resources (physical, financial and human) and as the facilitator, you should be very clear about who should pay for what at the outset. A simple rule of thumb is for facilitators to restrict any payments to their own communication strategy related to market system development. Market actors should pay for communication about a particular product or service. Make sure your communication strategy includes a careful budgeting and allocation of time and resources.
- *Evaluation followed by correction:* After implementing your strategy, you should always check whether communication has been effective – often referred to as a performance audit. Asking someone who has not been involved in the communication strategy to evaluate its effectiveness is a good way to avoid obvious biases. The evaluation can help inform you of any adjustments you need to make to the strategy.

Box 22. Installing a communication strategy in small forest enterprise support work in Mali

A diagnostic of a project run by Forest Connect's Mali partner, the Association of Professional Farmers' Organisations (AOPP), identified the need for information services and support networks for small forest enterprises.

In 2008, in collaboration with government departments (Direction Nationale des Eaux et Forêts), NGOs (Sahel ECO, PACCINDHA, MARA, AJE Mali, AMEPPE, ARAFD) and grassroots groups involved in the project's implementation, AOPP formed a steering committee and hosted information sharing meetings on the progress of support activities. These activities included a national diagnostic on small forest enterprises in Mali, product development (such as for baobab fruit products) and policy research to improve the business environment.

AOPP also began to routinely monitor product interest groups (within associations and cooperatives) to follow the development of particular products. As part of this work, they developed a new database of NTFP small forest enterprises, drafted articles for wider dissemination and set up a website to distribute the articles (www.aopp-mali.org). They also initiated a weekly bulletin to distribute information on small forest enterprise activities and product prices, aimed at producer groups and business and financial service providers.

This communication strategy has prompted a number of different outcomes, including: better links between project stakeholders working in support of small forest enterprises; better knowledge of the products developed by the groups involved; an increase in awareness by enterprises of product prices; price data is produced in the timeframe demanded by enterprise groups; better knowledge of the NTFP-related policies in force; and finally, creation of a climate of trust between state and civil society with regard to natural resource management.

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Step 4. Design a communication strategy from information to reception

A communication strategy simply allows you to think through, in a logical manner, how to achieve your objective. It is useful to explicitly consider the following main strategic elements:

Information source: Who or what generates the information that is relevant to your communication strategy? Knowing how to source your information, and developing a cost effective strategy to obtain it, is an important initial step in any communication work. For example, you might source information on market prices from market traders on a daily basis, or you might need to generate information required to overturn an unfavourable tax policy via careful economic analysis over several months. From the outset, conduct research and mine information from your informants.

One point worth remembering is that figures usually speak louder than words, so investing in quantitative research can be valuable. Don't forget to triangulate information using internal and external sources to check its accuracy. If you are working with SMFE associations, finding ways of exchanging information between their relevant partners and networks can help you to obtain the range of information you need to achieve your objective. When compiling information, identify (and communicate) any weaknesses so that the target audience is not misinformed and you can develop a strategy to fill the gaps.

Message: Generate your message from ideas and information that will elicit a particular response.

It is not enough for you to transmit the message – your target audience also has to understand it. With this in mind, consider making your message more: (i) succinct – try to avoid multiple concepts; (ii) credible – try to ensure your message is based on sound research and cannot be easily refuted; (iii) consistent – prepare to restate the message in different ways but with the same meaning to drive home what you intend to say; (iv) direct – express your message in a way that has meaning to the target audience. Remember that each audience has different skill sets, knowledge and ability to interpret meaning.

Channels of communication: A communication channel is the medium used to convey your message (see Box 23). Examples of different channels include print, web and electronic media, telephone or mobile and personal interactions (see Box 24). Each channel type has its advantages and weaknesses for different target audiences, so getting the mix right is crucial. For example, there is little use sending written instruction manuals to illiterate recipients, communicating in the wrong language or broadcasting messages in formats where the recipient cannot afford the right receiver.

Here are some examples of communication channels used to achieve particular objectives:

- *Creating general awareness*, for example of a policy that is unhelpfully constraining SMFE business. Using mass media via a range of channels (posters, booklets, radio, television, newspapers, leaflets/flyers, videos, and announcements through loudspeakers, press conferences and press kits) can be effective, but there are obvious costs. Nevertheless, mass media can inform a large audience, reinforce facts and legitimise information, help develop pressure groups around the target issue, and reach out effectively to influential decision makers.
- *Marketing*, for example developing brand recognition among consumers. You can develop striking designs using particular colours, symbols, words/names, and accompanying music to drive the product into consumer consciousness. You can use a range of channels, such as advertisements through local print/electronic media, endorsement by celebrities or well-known local personalities, co-branding with other products or services (that believe in the same value system and target the same clientele), event-based marketing, sponsorships, third party endorsements, and stimulated discussion through online networking sites (increasing in popularity at present). Working with SMFEs to understand the importance of branding and how to increase brand recognition can be a fruitful area of intervention.
- *Enterprise staff behavioural change*, for example improving labour practices. With this type of objective, it is often effective to use interpersonal communication, either with a group or one-on-one. Examples include seminars, workshops, group discussions, private and public meetings, festivals, religious events, exhibitions and fairs. Facilitation is the key to successfully using these particular communication channels to build ownership or consensus about the desired behavioural change and empower

multiple champions of the cause. You can also use the growing number of social networking sites, online discussion groups, blogs and push messaging through mobile networks for similar purposes.

Feedback: This is usually the last step of a communication strategy and, if the feedback is negative, one the designers and implementers of the strategy find the most difficult to accept. Here are some tips to manage negative criticism: agree with the critic, garner more information from the critic and interact further to identify the source of the problem or the criticism.

There are four types of feedback: (i) feedback that clarifies – your response may be to restate instructions and clarify different facets of the message to avoid confusion later; (ii) decoding feedback – this form usually makes observations on different parts of the message and the communicator or the tools used to communicate; (iii) judgmental feedback – this form of feedback centres on drawing conclusions from the communication activity; (iv) reactive feedback – this is usually about expressing personal opinion or feeling about a message or communication activity or tool.

Box 23. Commonly used channels of communication

Letters – Letters are commonly used to communicate non-routine information, for example job offers or refusals, awards or special announcements. They are also widely used as a tool for advertising in the form of a personalised letter to target individuals. The down side is a growing antipathy to so-called junk mail.

Emails – These are widely used today for routine communication, bulk communication and summary informers. Email is also used to lead to other channels of information. A variant of this is the video email message, which is more media-rich than text emails.

Verbal presentations (including radio), theatre and cartoons – In areas where literacy is an issue, there may be effective ways of communicating through verbal and visual means.

Videoconferencing – This channel is one of the richest in terms of media content. It allows individuals to interact without being present at the same site and is cost effective. This is a preferred channel when the alternatives are expensive or the need is immediate.

Telecom – Communication over telephone is richer than printed words. This mode also provides for immediate feedback. However, there is a disadvantage – some target audiences find this mode invasive and may rebel the effort. This channel should only be used after careful perusal of the audience group that is targeted through this channel.

Interactive websites in local language, accessed through kiosks – Websites are increasingly becoming an effective way of reaching out to remote communities in developing countries. Getting uninitiated communities to access the internet via a kiosk can be a challenge but, once surmounted, this channel is effective for transmitting information.

Box 24. Using mobile telephones to communicate market information

The use of mobile phones is revolutionising the way in which small enterprises can communicate. For example in South Africa, a survey of small businesses run by black people showed that more than 85 per cent rely solely on mobile phones for telecommunications. One of the more widespread uses of mobile phones is to get access to better market information. For example Tradenet.biz (http://www.mobileafrica.net/tradenet_brochure_web.pdf) covers 500 markets in 15 countries and supplies subscribers with price updates, harvest outlooks, transport information, trading offers, news of disease outbreaks, weather and more.

Recently, mobile phones have evolved such way that they can provide access to 'cellular banking' to those previously without a bank account. Mobile phone companies have a particular advantage in delivering banking to the poor. Their success is closely linked to their 'coverage' and so they tend to have networks of selling agents all over the country. They have to invest in marketing and so are well known to the poor (a good starting point from which to develop trust). They specialise in pre-paid platforms that are accessible to the poor and control the content of exchanges through a SIM card that can be adapted to allow financial exchanges.

Many local entrepreneurs can now make use of such mobile banking solutions. Increasing numbers of telecom companies now offer pre-paid accounts or 'mobile wallets'. In the Philippines, telecom company SMART has developed pre-paid accounts operating via their mobile phone platform. The main SMART account is held by five commercial banks in the main urban centres. In remote rural areas, people who want to use their phone for banking simply pay a local SMART telecom agent to put money onto a pre-paid account (e.g. just like any other pre-paid telephone charge). Instead of spending the money on calls, however, the money can then be transferred to other users simply by sending an SMS message.

Source: Samii, 2009.

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8.3 Useful tips

- There are a few critical communication problems common to most organisations, including SMFEs. Watch out for:
 - poor accessibility of information – using technology that recipients don't have
 - lack of clarity – especially long words and jargon
 - poor timing – especially using media such as radio
 - overload of information – failure to balance the flow of communication.
- Training people entrusted with the job of communicating a message – individual communication styles can range from passive to aggressive to assertive. It is the communication channel and the target audience, however, that should be used to decide on the communication style. Each individual communicator should be carefully trained to use that particular style.
- Identify a single individual or a core team that controls communication.
- Communication should revolve around what is currently happening within the organisation. In other words, a communication strategy should reflect the core values of the organisation.
- As far as possible, use multiple channels to communicate.
- Adjust the strategy to any changes happening in the environment.

8.4 Further information

A general manual on communication for partnerships contains some useful communication tips:⁶³

<http://www.commddev.org/content/document/detail/2021/>

A basic template for writing a communication strategy can be downloaded from the Economic and Social Research Council:⁶⁴

<http://www.esrc.ac.uk/funding-and-guidance/tools-and-resources/impact-toolkit/developing-plan/index.aspx>

Recent thinking on how multi-channel communications can lead to better results can be found at the following link:⁶⁵

http://www.tukaiz.com/index.php?option=com_content&task=view&id=190&Itemid=39

A good introduction to communication specific to marketing can be found on the Chartered Institute of Marketing website:⁶⁶

<http://www.cim.co.uk/filestore/resources/10minguides/communications.pdf>

A specific toolkit on Marketing Information Systems has been prepared by ANSAB:⁶⁷

<http://www.ansab.org/wp-content/uploads/2010/10/4.-MARKETING-INFORMATION-SYSTEM-ToolKit.pdf>

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There is material available on establishing information centres that work for:⁶⁸
Farmers clubs:

<http://www.nabard.org/development&promotional/farmersclubprogrammomore.asp>

Illiterate audiences:

<http://www.ruralfinance.org/library/client-advice/literacy/literacy-details/en/?src=11858&t-det=training&t-det2=&t-det3=2&referer>

Both genders:

http://www.ruralfinance.org/fileadmin/templates/rflc/documents/1157047413017_Globalisation_genderbrief3_SME_development.pdf

63. McManus and Tennyson, 2008.

64. ESRC, 2009.

65. Tukaiz, 2009.

66. CIM, 2009.

67. ANSAB, 2010b.

68. DFID, 2002; NABARD, 2006; Heney, 2007b.

Audience 2. National facilitators

Component 3. Facilitation in action

In the preceding modules, we have provided guidance on laying important foundations for SMFE support and identifying entry points for facilitation. In this third component of the toolkit, we now turn to the core business of facilitation itself. If it becomes obvious that you do not have the background information or capacity to follow the guidance provided here, we suggest you explore some of the preparatory modules provided in Component 2.

Module 9. Developing market understanding

Developed by Yarri Kamara

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Business training in Goba, Ethiopia

9.1 Purpose

This tool moves away from the broad national overview of previous modules and introduces some initial awareness building activities to develop market understanding among small forest enterprises. After all, to survive, these enterprises must be able to sell and to sell at profit. Facilitators thus need to be able to support not just the provision of market information, but also the long-term development of the capacities of small forest enterprises to understand markets and make profits.

9.2 Outline

Step 1. Build in a market focus to the support programme

The very first step in increasing market understanding lies in the design of the support programme itself (see Box 25). In the past, forest enterprise support programmes have often focused on sustainable management of the forest resource or on improving production, with little attention paid to any existing or potential market outlets for the products or services. This has generally led to disappointing results in terms of improved rural incomes. For small forest enterprises to be successful, support programmes need to place market considerations (i.e. who will buy the product or service) at the heart of the design process, including consideration of (i) product, (ii) price, (iii) placement and (iv) promotion.

As the facilitating institution, you should find a way of involving the target group to ensure that they have or start to develop a market orientation (see Box 25). You could take either a 'top-down' approach whereby you identify vibrant market demand and then seek producers to work with to satisfy that demand; or a 'bottom-up' approach whereby you identify your target group according to institutional or other criteria and then undertake research to determine what markets the target group can supply.⁶⁹

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Box 25. Building market understanding in Mali

The Forest Connect partner in Mali, the Association of Professional Farmers' Organisations (AOPP), in partnership with the main producer associations and trade organisations in Mali, wished to develop a strategy to collect data on market trends for their main products.

A national-level meeting took place between service providers and small forest enterprise and association leaders to share information and put in place a common strategy to monitor, collect and disseminate commercial information on NTFPs and the market. This meeting defined the scope and aims of the programme, and AOPP subsequently began to consolidate and disseminate information on market pricing trends for their main products.

To expose those same small forest enterprise and association leaders to the market in more detail, AOPP organised their participation in agriculture shows (FIARA, SIAGRI) where producers and buyers could meet and exchange information.

The result of these two activities has been a much greater understanding among producer groups of why NTFP prices vary. They have also gained an appreciation of untapped markets. Small forest enterprises began to develop links and deals among themselves through participation in the agricultural shows, and discovered new business opportunities.

69. Shepherd, 2007.

Participatory value chain analysis (see Module 10) is perhaps the most valuable tool for identifying market potential and the kind of support activities needed to reach these markets. Ideally, support activities should be defined by considering the whole value chain and the different actors and relations within that chain. This means that, apart from working with small forest enterprises, as a facilitator you should also consider working with trade intermediaries, buyers, service and input providers, and with regulatory authorities and donors.

Step 2. Select promising subsectors

There are many different types of small forest enterprises, from timber and non-timber forest product enterprises, to enterprises that rely on ecosystem services such as ecotourism ventures. You can group these different types of enterprises into subsectors that have common issues to resolve. Development organisations need to make strategic choices about who to support and select subsectors with two key factors in mind: (i) market potential – to what extent do increasing numbers of customers want those particular products or services, and (ii) poverty reduction potential. A focus on these two points will help ensure that the facilitation support will benefit more than a lucky few SMFEs – a situation typical of so many donor funded projects. Furthermore, this approach helps to ensure sustainability because activities will be underpinned by a viable market (responding to ‘demand pull’ rather than ‘supply push’).

As noted in Module 5, market and poverty reduction potential can be unpacked by considering whether: demand for the product or service rises with rising income; the production process is not easily outcompeted by large-scale manufacturing efficiencies; the production process can be made more efficient bit by bit with small technological improvements as competition increases, rather than products that become uncompetitive as labour and other costs rise; and parts of a larger production process can be efficiently produced by out-sourcing to small producers.

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It is helpful to have at least two phases in the selection process, starting with a long list based on the two initial criteria above, followed by a detailed comparison of the top few subsectors using some of the following sub-criteria:⁷⁰

- strong and unmet demand in the market for particular products
- sufficient natural resources to meet supply sustainably (note emphasis in Modules 11 and 15)
- potential for sales to feed into increases in household incomes of the poor
- comparative number of small forest enterprises in this value chain compared with alternative value chains
- potential for employment generation within those enterprises
- existence of potential collaboration between business along the value chain where useful interventions can make quick gains
- potential interest and synergy with donors and government programmes
- degree to which the value chain has been neglected by other support programmes
- degree of representation of women in the value chain versus alternative value chains
- degree of representation of youth in the value chain versus alternative value chains
- potential for positive effects on the natural environment (e.g. forests).

70. Adapted from AFE, 2009.

Selection of other criteria will depend on the objectives of your organisation and the programme. Once criteria are established, use them to compare different subsectors and choose those that rank the highest for more detailed analysis.

Step 3. Explore how to get necessary marketing expertise in house

In adopting a stronger market orientation, facilitators must be able to develop or to co-opt real marketing expertise, including a good understanding of how markets and the private sector function (see Box 26). In the forest sector, however, extension services generally only have technical forestry expertise and little or no training in marketing. NGOs also often lack staff with commercial acumen. For example, at a sub-regional workshop on agricultural marketing, organised by the FAO in Uganda, NGOs indicated that training for their staff in marketing and enterprise development was a key priority.⁷¹ At the same FAO conference, participants also suggested that NGOs use marketing and business professionals as a shared resource or outsource marketing services.

Box 26. Training in market understanding in Burkina Faso

A small forest enterprise diagnostic, conducted by Tree Aid in Burkina Faso, identified the need for the producer community to have better knowledge and understanding of how markets work. As market issues are universal to all enterprises, regardless of the product they are dealing with, the theme of 'developing market understanding' was chosen for Forest Connect's first training workshop.

To ensure that the content of the workshop was demand-driven, participants were asked to list their expectations for the training on their registration forms. The key themes that emerged from these expectations were related to practical marketing issues, value chain relations, organisation to improve sales and knowing how to price products correctly. A key concern for several processors was that they were not recovering all the costs of production in their sales price. Accessing information on product prices did not seem to be a key concern for participants, most of whom were urban-based processors.

The workshop was held over two days from 24–25 November 2010 in Ouagadougou and was facilitated by experienced trainers and consultants. A total of 16 participants attended the workshops from Banfora, Bobo-Dioulasso, Diebougou, Loumbila, Orodora, Ouagadougou, Reo and Ziniare. Participants came primarily from enterprises, often representing an association or even NGO. These enterprises were involved in sale of shea nuts, shea butter and derived cosmetic products, honey, moringa, cashew nuts, dried mango, dawa dawa and other natural products. Three participants were working with support and state structures and had an interest in getting a better understanding of marketing issues to improve their support to small enterprises.

Participants took part in a group exercise over the two days to develop a marketing strategy for two specific forest products – moringa and baobab pulp.

The main themes covered over the two days were:

- basic concepts of marketing
- elements of market analysis (supply, consumers, product)
- understanding your market, and what information you need

71. FAO, 2005.

- marketing strategy (the 4Ps of marketing, target, positioning)
- costing and product pricing (what costs to consider in setting the price of your product)
- sales techniques
- participating in trade fairs
- market chain relations and linkages for improved marketing.

The most immediate impact of this training was participants' attendance at the 'Journées agroalimentaires', one of the biggest national fairs for forest products. It is important to note that participating in trade fairs was covered in one of the modules. Subsequent contact with small forest enterprises that participated in the training showed a much-improved professionalism in product processing and marketing.

Step 4. Catalyse meetings within communities and build in exchange visits between small forest enterprises

Engaging small forest enterprises often involves working with isolated producers based in remote rural communities. To many in such communities, the language of entrepreneurship and business may be unfamiliar, even if they are engaged in quite sophisticated market and trade arrangements in practice. The facilitation of introductory meetings to explore what communities know about a particular product or service business, and what they might need to know to improve their business, is a good way of introducing basic business concepts. Useful guides on how to encourage entrepreneurship development⁷² do exist.

For such producers, market understanding and access can often be greatly facilitated if the producers are taken to see other successful examples of enterprise development (see Box 27). Such exchange visits can be beneficial, not only in giving confidence to embryonic enterprises that it is possible to succeed, but also in helping entrepreneurs gain practical insights into a wealth of specific issues about what makes a particular business work.

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Box 27. Field exchanges to develop tourism enterprises in Guatemala

The Forest Connect partner Utz Che in Guatemala perceived the need to develop market understanding among potential eco-tourism operators within the country. They organised an exchange between community operators in different tourist destinations so they could learn from the successes and failures of their peers. The sites included the Mayan biosphere, the West Highlands region of Guatemala, the Caribbean coast and tourism operators in the coffee plantations.

Through these exchange visits, an idea emerged to develop an integrated communication strategy and platform so that tourists could see a range of potential eco-tourism destinations – a package that was more interesting than any of the destinations in isolation. To facilitate this development, a new national Guatemalan platform for community forest enterprise tour operations was developed, which involved founding the 'Heart of the forest' limited company to develop and promote the agreed communication strategy. The exchange visits resulted in an outcome that is mutually beneficial to all concerned – far beyond the individual insights that operators gained about how better to run their tours.

72. ANSAB, 2010a.

Step 5. Help to strengthen the formation of enterprise groups/associations

The predominantly wild and therefore low-density production of some forest products, NTFPs in particular, means that ‘bulking up’ – the collection of sufficient volumes of the raw or partially processed material to make any subsequent processing step economical – is a key function in the value chain.⁷³ Organising producers into groups can be very useful (see Module 14 for more detail). The advantages of organising producers into groups include:⁷⁴

- economies of scale and lower transaction costs (both in the sourcing of service and inputs and in the marketing of products)
- increased bargaining power (both in the market and with policy and decision makers who help shape the business environment)
- agreements on quality control that help to improve the uniformity (and often saleability) of whatever product or service is being produced
- sharing of knowledge and the capacity to develop specialist staff functions that serve the group as a whole.

Group organisation is a delicate issue and as a facilitator you need to take care to not be heavy-handed in imposing a set group structure upon individuals who are not truly motivated to work together. Explaining the advantages to be gained from collective marketing, presenting examples of successful groups and some guidelines for group formation is advisable. Then let producers decide on the composition of their groups themselves. It is worth advocating a sensible balance between being big enough to exploit economies of scale and market potential but small enough to keep management decision making agile.⁷⁵

There are of course different levels of group organisation. You may work with small groups of producers in the same locality, or with a collective of group units organised to form cooperatives or federations with a wider geographic coverage. You might start with small groups before encouraging the regrouping of these small units into a larger collective for greater efficiency and market power, again taking care that this process works from the bottom up. Besides organising producers, facilitators may also want to support the formation or consolidation of traders in trade associations to help achieve greater efficiency in the marketing chain.⁷⁶

Once groups are established, you will need to facilitate support on organisational aspects to consolidate the group and help ensure its long-term sustainability (see Module 14). Apart from training linked to production and marketing activities, groups will also greatly benefit from training and technical support in developing by-laws, in leadership and conflict resolution skills, and in record-keeping.

73. Belcher and Schreckenberg, 2007.

74. Robbins *et al.*, 2005.

75. Shepherd, 2007.

76. See Shepherd, 2005 for a discussion on roles of associations of market traders.

Step 6. Facilitate better contact between small forest enterprises and buyers

Recent agro-enterprise development parlance frequently uses the phrase 'linking producers to markets'.⁷⁷ In an agricultural context, this phrase describes a common problem whereby large buyers often complain about inadequate supply while producers complain about lack of markets. The same often holds for forest products (see Box 28). Facilitators have a key role to play in bringing supply and demand closer together.

As you lead participatory value chain research (see Module 10), you will gain a solid understanding of the needs of buyers (traders, retailers processing companies, exporters) and can begin to help educate small forest producers in the value chain about the quantity and quality requirements of the market. As a facilitator, you can also inform potential buyers of existing or potential supply options from small forest producers. You should not ignore private sector actors such as local traders and middlemen; they can be a useful resource as potential providers of market information and services to producers and may need (and be worthy of) support on the same level as producer groups.

Box 28. Dangers of inadequate attention to customers and markets – the Nkhalango Carving Group, Malawi

This case study shows what happens if the community is not adequately supported with marketing and market development. Nkhalango curio (craft carvings) group is located at Monkey bay Turn-Off along Salima-Balaka road. The group started in 2006. Members of the group were already working in curio business but not in an organised way. They did not have legal sources of trees for their business. They harvested trees from Mua-Livulezi Forest Reserve illegally.

Staff of the Forest Department through the Improved Forest Management for Sustainable Livelihoods Program (IFMSLP) saw the need to organise all curio makers in this part of the reserve to assist them improve their business. The group was then organised and sensitised on a more sustainable way of curio production to ensure that forest resources were well managed to sustain the production. This group began to work under the leadership of a Block Management Committee which planned sustainable harvesting and all other activities within the forest – that had been divided into annual felling blocks. They developed a block management plan that guided them in implementing activities within the block including harvesting and replanting of suitable tree species for curio making.

The IFMSLP programme supported the group to establish a curio shop and gave technical training for them to make curios of high quality. The group with support from the same programme conducted a market survey and value chain analysis to see how they could maximise profits from sales of their products. Some good markets were found in the nearby city of Lilongwe and further afield in Blantyre for high quality curios, but no clear trading linkages or guidelines on how to develop them were established. Because of this and despite this opportunity afforded by the technical inputs, the group was not able to get its products to those markets. The few finished products from the group that were produced were sold to tourists who came to Salima to see the beautiful Lake Malawi, at very cheap prices. In addition, because most of the group members were illiterate and untrained in English, only very few could communicate with visitors to sell their products and negotiate a fair price. As a result, the training and infrastructure provided by the enterprise support programme achieved little in terms of value addition.

77. Shepherd, 2007.

Market research needs to be proactive and continuous and the facilitator should aim to facilitate long-term business relationships not just one-time sales. They should resist the temptation to get involved directly in the value chain (e.g. transporting produce, holding stock, etc.) but should instead insist on reliance on commercial marketing channels, which in most cases are more sustainable than marketing channels developed by NGOs. One trick is for the facilitator to maximise the amount of direct contact between small forest producers and their clients as this is an important hands-on manner of increasing their market understanding. In practical terms this might mean:

- organising buyer visits to producer sites or vice versa
- facilitating the participation of small forest producers in trade fairs – depending on the capacities of the SMFEs it may be important to provide prior training to the SMFEs to equip them to participate profitably in such trade events
- organise workshops between producers and buyers to discuss issues affecting the product chain – quality criteria, transportation issues, etc.

The importance of the development of mutual trust between trading parties is to be underscored and facilitators need to pay attention to the nurturing of such trust in their linking activities (see Box 29).

Box 29. Helping SMFEs make contact at national, regional and local levels in Burkina Faso

One of the most useful things facilitators of market system development can do is to put market chain actors in contact with one another so that they can see new market opportunities. The scale at which this happens can vary enormously (and depends on available resources).

At the highest level, facilitators can help to organise trade expositions for the whole forest subsector at a national level – or subsidise travel costs to enable key sectoral representatives to participate in international trade fairs.

At a more modest level of ambition, regional meetings can be arranged that focus on particular subsectors. For example, the West Africa Trade Hub, a USAID financed project, has since 2007 organised two sub-regional workshops for the shea value chain. The last workshop in March 2008 brought together over 300 actors from West Africa and beyond from all parts of the value chain – producer organisations to the largest international buyers – and was an opportunity for international buyers to learn about new supply opportunities and for producers and processors to improve their understanding of the quality criteria of buyers.

Beyond these major events, a lot can be achieved by much more localised action. Under Tree Aid's Village Tree Enterprise project, project facilitators have identified key local traders, informed them of the existence of organised groups in their zone and organised informal meetings between traders and some producers to see whether there were market opportunities that would work for both sides.

Step 7. Support sustainable access to information on market prices

Market information, and especially information on current product prices, constitutes a core element of the 'power games' of markets and access to relevant market information thus contributes to the empowerment of local producers and traders. A lot of efforts have therefore been focused on and continue to be focused on providing producers with information on product prices to improve their bargaining position (see how this forms part of a communication strategy in Module 8). Whilst national market information systems certainly have an important role to play in increasing market transparency,⁷⁸ facilitators, especially at the NGO level, should think less in terms of static provision of market information and more in terms of supporting producers to set up flexible and sustainable systems for continuous access to information on prices. The FAO manual on marketing information systems for NTFPs gives good practical guidelines on how to support producer groups to develop sustainable market information systems.⁷⁹ Manuals such as the FAO's 'Understanding and Using Market Information'⁸⁰ give useful guidance on how facilitators can help producers better *interpret* price information, such as how to estimate farm-gate prices from wholesale selling prices.

One issue may be to see how SMFEs can access such information if it is currently inaccessible. In the absence of suitable sources of price information, you should support SMFEs in developing and implementing tools to ensure regular access to information on prices. Several NGOs are exploiting mobile telephony to increase access to price information. These range from simple 'market spy' systems, whereby producers identify trustworthy informants located in their target markets and regularly call or text message them to get up-to-date price information, to more complex systems set up with mobile telephone service providers.⁸¹ In some value chains, processors and wholesalers can be convinced of the benefits to the chain as a whole of more transparent price information and may be willing to sponsor the development of ICT (information and communications technology) based information systems.

Another area in which you may need to assist in building capacity is in contract negotiation. To shift the power balance in favour of small-scale producers such that they get better deals from buyers, it is important that these producers develop skills in contract negotiation. Successful contract negotiation requires that producers are not only good negotiators, but also that they have sound background information to enable them to negotiate.⁸² A vital backdrop to such negotiations is record keeping – especially so that SMFEs understand their production costs and profit margins (see Module 12).

78. National bodies in charge of such systems, often linked to agricultural ministries, should be encouraged by facilitators if possible to integrate some key forest products in their database.

79. FAO, 2003.

80. FAO, 2000.

81. See www.manobi.net for examples from Senegal and South Africa.

82. Shepherd, 2007.

Step 8. Nurture interest in and capacity to conduct market research

Market information is all the data that can help those involved in the enterprise identify and meet customers' needs, which are generally dynamic.⁸³ To develop a comprehensive marketing strategy, SMFEs will also need to undertake some qualitative research to be able to adapt their sales methods and techniques to fit their customers' needs. As a facilitator, you can help identify what information is most useful; that is, information most likely to increase the profitability of their enterprise (for example, identify challenges posed by direct competition or substitutes, assess opportunities to improve production efficiency, inform new product design and so on). You can then help the SMFE frame research tools towards a specific objective – introducing a simple list of key questions is a good starting point.

On a general level, the following key questions can offer good insight into customers' needs. For existing customers, an SMFE might want to find out:

- what they think about the products or services currently being offered
- what they think of the asking price
- why they need this product or service – don't assume anything
- why they choose to buy from your SMFE and not your competitors
- how they think the product or service could be developed or refined
- what they expect in terms of quality, delivery, reliability
- how they rate the 'customer service' being offered.

As well as existing customers, it is also useful to facilitate some research about potential customers (those who do not currently buy the product or service). Again it can be useful to ask some questions, but this time to a random selection of people who are not customers (e.g. in the market). This may help to answer the following questions:

- Who might be persuaded to buy the product or service but does not now, and what groups do they fall into?
- What is the percentage of non-customers to potential customers?
- How much of the product or service do they already buy from competitors?
- What criteria do they use to choose where they buy?
- What would persuade them to buy from you?
- What product or service developments on your part might help sway them?
- When and where do they prefer to buy?

Looking at the competition can also be very helpful. You should encourage SMFEs to look carefully at what their competitors are doing, asking questions such as:

- What new products are in the competitor's pipeline and could they make yours look out-dated?
- How are competitors changing? What are their plans?
- What are competitors offering and what prices do they charge?
- How do competitors advertise and promote themselves?
- How might customer requirements and buying behaviour change in the future?

83. FAO, 2003.

The combination of price information and market research should enable an SMFE to develop a comprehensive market strategy covering the '4Ps' of the marketing mix:

- Product: what product (product and product specifications) corresponds to existing or potential market demand? (See Module 11)
- Price: at what price should the product be offered? What price offers a balance between what the market will stand and what the SMFE needs to get a return on their investment?
- Placement (or distribution): what are the appropriate distribution channels for getting the product to the customers (i.e. through wholesalers, establishing a retail outlet at the production site or in an urban centre)?
- Promotion: what sales promotion and publicity is needed to convince buyers to buy their particular product (business to business promotion, advertising to end consumers, product branding, etc.)?

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Discussing how to improve market prospects for products in Goba, Ethiopia



Developing attractive product showrooms for Javanese furniture

9

9.3 Useful tips

- As a facilitator, it is easier for you to provide adequate marketing support if the range of products being promoted is limited. This allows you to develop more in-depth knowledge of the product markets and better facilitate contact between clients and SMFEs.
- You should pay attention to the risk of ‘fallacy of composition’: where lucrative markets lead to facilitators all rushing to push SMFEs into the same market, resulting in falling prices as supply comes to outstrip demand. With forest resources, a rush to the same product may also create problems of overexploitation of the natural resource base. At a national level, government, donors and NGOs should strive for market linkage coordinating mechanisms to facilitate exchange of information and avoid competition for the chance to work with the most promising market outlets and potentially viable producers.⁸⁴
- You should be realistic when trying to link producers to markets and take into account the capacity of producers to adapt to new systems such as those often required by export, organic and fair trade markets. If producers are struggling to make the grade for a more exacting market – perhaps try to make improvements in local markets first.

84. Shepherd, 2007.

9.4 Further information

There are many good guides for starting and running a business. Two of the best are produced by:⁸⁵

UNESCO: <http://unesdoc.unesco.org/images/0014/001449/144933e.pdf>

FAO: <http://www.ruralfinance.org/library/client-advice/cooperation/cooperation-details/en/?src=10698&tdet=training&tdet2=&tdet3=2&referer>

A step-by-step toolkit for entrepreneurship development has been published by ANSAB, helping the reader to build market understanding:⁸⁶

<http://www.ansab.org/wp-content/uploads/2010/10/1.-Entrepreneurship-Development-ToolKit.pdf>

A good general overview of market-oriented support to rural producers is widely cited above and listed below:⁸⁷

<http://www.share4dev.info/ffsnet/documents/3616.pdf>

For those wishing to organise producers for collective marketing, a good guide is also available:⁸⁸

<http://www.nri.org/docs/farmergroupnov04.pdf>

An analysis of roles and functioning of market traders associations can be found on the web:⁸⁹

<http://www.bdsknowledge.org/dyn/bds/docs/492/FAO%20assoc%20of%20traders%20in%20supply%20chains%202005.pdf>

For practical marketing advice aimed at producers, de Veld has produced a useful guide:⁹⁰ http://journeytoforever.org/farm_library/AD26.pdf

Guidance on setting up sustainable market information systems may be found at the FAO website:⁹¹

<http://www.fao.org/docrep/005/AC692E/AC692E00.HTM>

Guidance on how to interpret market information has also been produced by Shepherd for the FAO (available in writing from the FAO).⁹²

85. UNESCO, 2006; Bonitatibus and Cook, 1995.

86. ANSAB 2010a.

87. Shepherd, 2007.

88. Robbins *et al.*, 2005.

89. Shepherd, 2005.

90. De Veld, 2004.

91. FAO, 2003.

92. Shepherd, 2000.

Module 10. Participatory value chain analysis

Developed by Alison Griffith⁹³

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Assessing the chain from producer to consumer for Shea butter products, Burkina Faso

93. Alison Griffith works for Practical Action (formerly ITDG), an organisation that works in Africa, South Asia and Latin America (see www.practicalaction.org.uk). For the Markets and Livelihoods Programme case studies, see: http://practicalaction.org/?id=pmsd_case_index.

10.1 Purpose

This tool aims to identify particular facilitated actions in specific subsectors that will improve the prospects for SMFEs. The module explores how pre-existing Value Chain Analysis (VCA) tools can be used to achieve different ends across a range of value chains (from local to international).

10.2 Outline

Step 1. Understand the market system

Having selected a promising subsector (see Module 9, Step 2), the first step involves understanding the market system in which they are involved (see Module 4, Step 1 for a description of the market system). This means building up a picture of all actors involved, from those sourcing raw materials to the final customer. It also means understanding the dynamics of how everyone relates to each other and the critical issues affecting them (see Box 30). One way to do this is to conduct a preliminary participatory market mapping exercise (see Box 31). This involves gathering information about the market system and using it to construct a market map (see Figure 5). Typically this will explore three areas of the market system:

- the value chain – all those involved in getting a product or service from its origin to its final point of sale
- the service and input providers – both business development and financial services
- the business environment – the institutions, policies and infrastructure that affect businesses in that subsector.

The mapping exercise will identify the actors and issues in each of these areas. In developing a market system map, try to show where the links are working well and which links are weak or non-existent but have potential. Also try to show initial information on numbers of actors, prices and volumes.

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Box 30. Mapping the market – generic steps for running a workshop from Practical Action

As a facilitator, once you have become familiar with a particular subsector through field visits and discussions, it can be very helpful to formally produce a market map with the key actors in the value chain. You can achieve this in a one-day workshop.

Goals. After the opening ceremony, ‘ice breakers’ and presentations of preliminary findings (1 hour), as the facilitator you present the goals of the workshop (30 minutes):

- to develop a map of the market actors, key services and input providers, as well as major issues related to business, environment and government policy
- to validate any preliminary information collected so far
- to prioritise key constraints (where possible) and propose solutions and a joint action plan.

Mapping. Once the goals have been discussed, encourage participants to produce a market map (2 hours). They should write on cards and place them on a wall or floor. The aim is to produce three horizontal tiers that show:

- first, the core value chain actors (who does what to get a product to the consumer), noting with arrows the relationships between them

- second, the key service and input providers (who helps each of these core actors and how), noting with arrows their relationships with the actors
- third, the major issues in the business environment (market trends, policies and their enforcement, infrastructure), linking with lines the actors or service providers to which that opportunity constraint refers.

Validating. Once this map is complete, you can lead a discussion to validate the map (30 minutes), ensuring that any last minute inclusions or queries are dealt with. Use an area of wall or floor as a 'parking lot' for any issues that do not fit in the framework, or for issues that require further investigation before they can be included with any accuracy. Capture these in your report on the session.

Prioritising issues. Invite participants to prioritise issues (1 hour). One option is to divide participants into groups, ideally with each group looking at the various parts of the market system, i.e. core actors, service and input providers, and the business environment. Ask each group to brainstorm on key constraints and opportunities in their portion of the market system, with members writing their ideas on cards and then collectively grouping those cards into similar clusters. Once this is done, ask participants to vote for what they feel to be priorities (based on urgency, scale of impact and ability to influence the outcome for those listed opportunities and constraints). Members can vote by marking the two clusters that they feel to be the priorities. Once complete, ask each group to present their findings in the plenary session (30 minutes).

Identifying responses. Having identified opportunities and constraints, the next step is to identify realistic actions that could together form part of a workable joint action plan (1 hour). You can introduce some key ideas to think about, such as feasibility or availability of private sector actors as partners to carry out the intervention. Other ideas might include sharing costs for visits of the equipment supplier to trade fairs in Europe or the development of practical training modules for technical training.

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You should lead the discussion to:

- identify appropriate solutions for each of the identified constraints
- identify appropriate interventions that will contribute to each solution (what should be done by whom and how can the programme facilitate this).

If you are managing the discussion, someone else should be invited to try to formulate the wording of each intervention, taking into account what they hear from the participants and capturing it on a flip chart.

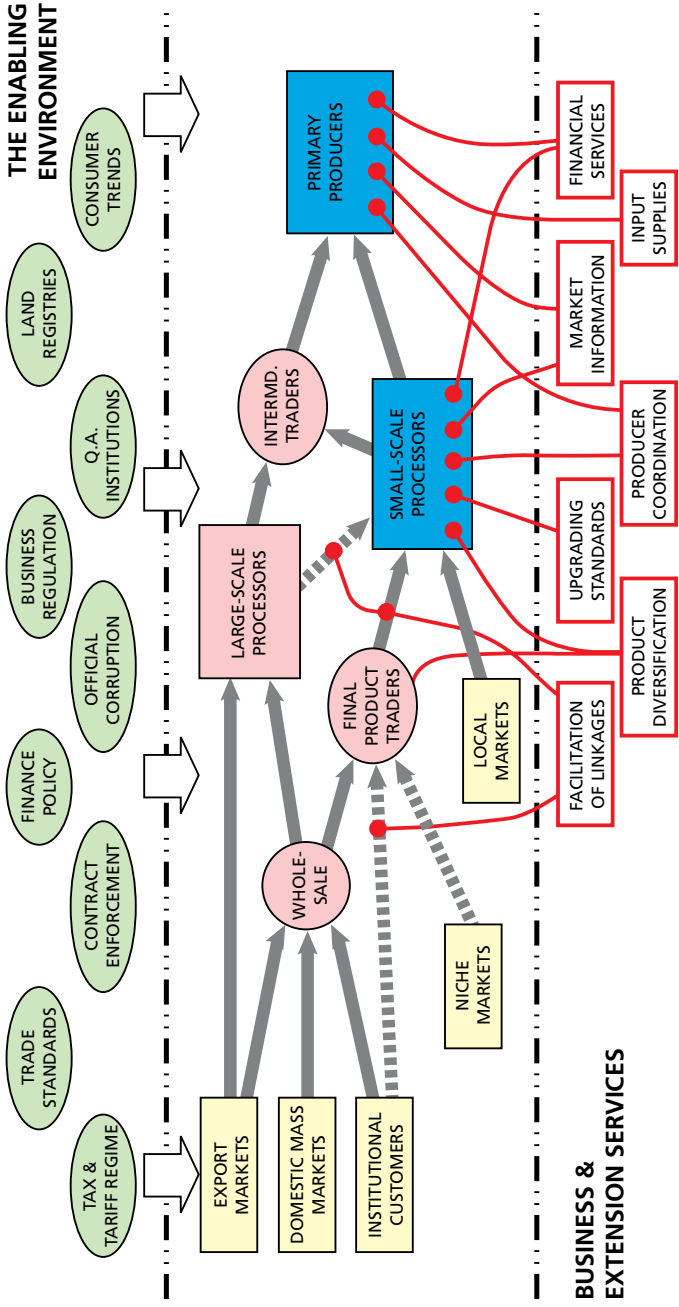
Finalising a joint action plan. Review in plenary the proposed joint action plan (30 minutes), checking that everyone is happy with the formulation of the interventions. A particular focus in this concluding session should be assigning responsibilities for next steps. Any final queries can be addressed.

In the generic map in Figure 5 below, note the direction of the arrows: they encourage the user to think about the flow of money from final market to small forest enterprises, rather than the other way (the supply of goods from SMFEs to the market, which is more typical).

Gathering this information enables you to (see Box 32):

- build your knowledge of how the market system works
- find out who the key business actors are
- begin to develop your credibility as a support institution and facilitator.

Figure 5. The component parts of a market map



Box 31. Participatory market mapping

Participatory market mapping is a tool that brings actors together to explore the blockages and the potential in the three areas of the market system:

- market chain linkages
- services and inputs
- business environment.

Market actors can create their own market map and work together to identify opportunities and constraints. Facilitating this process can be challenging but has the potential to produce positive outcomes (see Box 33).

Box 32. Exploring the aloe market system in Kenya

In 2005, Practical Action, Traidcraft and Kenya Gatsby Trust started a process of analysis to see if Kenyan aloe harvesters could be integrated better into potentially lucrative export markets. The aloe market chain in Kenya begins with thousands of harvesters in semi-arid districts, who extract raw aloe sap from wild plants. They supply a handful of itinerant processors who reduce the sap in vats to a stable concentrated form called aloe bitters. They sell the bitters to traders in market towns, who in turn supply four export agents over 1000 kilometres away in Mombasa. These agents then export Kenyan aloe bitters at well below world market prices to South Africa, from where they are re-exported to Europe, the Middle East and South Asia.

A preliminary mapping exercise conducted by the project team revealed the following:

- Since 1999, international rules (CITES) on aloe export and an un-ratified presidential ban pushed the Kenyan aloe trade underground.
- Harvesters are scattered and disorganised. They harbour deep misconceptions about what happens to their product, its value and destination. Mistrust is exacerbated by prejudices about the Somali ethnicity of processors.
- Corruption throughout the chain adds costs and creates distortions of power. For example, processors may bribe the local chiefs who negotiate prices on behalf of harvesters.
- In many areas, the supply of wild aloe is being depleted. Harvesters need advice about sustainable harvesting techniques.
- Quality control in harvesting is a problem. Processors have devised a simple technique for testing sap and are well placed to advise harvesters on extraction methods. They would also benefit from knowledge about more fuel-efficient technologies for processing.

Clearly, the main issue affecting revenue and margins in this chain was trade regulation (linked to unsustainable supply concerns). In addition, mistrust between actors had costly repercussions; harvesters, discovering the world market price of aloe bitters, inferred incorrectly that processors were making exploitative profit margins and had refused to do business with them in the past.

The aloe market mapping exercise identified two 'hooks' to attract actors to participate:

- the prospect of obtaining CITES certification for Kenyan aloe exports, so enabling direct sales to final buyers at world-market prices (e.g. USD 10/kg instead of USD 2/kg paid by South African intermediaries)
- the benefits to all actors of quality improvements at critical stages of sustainable harvesting and processing.

The market map summarising these issues became a key communication tool for a participatory market mapping workshop. Although the workshop was not a total success (it failed to get any processors involved, for example),

it was the first systematic dialogue between harvesters, traders, exporters and institutional stakeholders about problems and opportunities facing the market chain as a whole.

An important outcome of the process was that it prevented the project design team from rushing to propose interventions that would fix the production and processing problems. Previously this would have been the typical starting point, because development organisations tend to begin with the communities and their needs. Instead, it highlighted a critical issue that was a major blockage to increasing revenue in the chain and ultimately, improved incomes for harvesters.

Source: Albu and Griffith, 2006.

Market map for aloe at <http://www.bdsknowledge.org/dyn/bds/docs/452/Griffith.pdf>

Step 2. Build credibility with key market actors

It is important to establish credibility with key business actors for at least two reasons: (i) to gather high quality information for decision making; and (ii) to effectively facilitate a process of change that engages the actors. As noted in Step 1, mapping the market system can be a useful tool to do this in a systematic and organised way.

In the early stages of finding out about key subsectors, the process of information gathering may have been largely extractive. The aim is to move towards a more participatory approach where the control and future direction of the analysis is with the business actors within the value chain (see Box 33). Initially triggering interest amongst busy business practitioners can be a challenge, so preliminary mapping can help you build up your knowledge of the market system and identify some of the critical issues affecting key actors. You can use this information to 'hook' market actors into the process. But try to avoid using *price* as a hook since this can build unrealistic expectations; instead, identify issues affecting the efficiency and competitiveness of the chain such as *quality*, *quantity* or *timeliness* and *coordination*. A facilitator inviting a busy commercial actor to a workshop can elicit a negative response. It is important to find out what their challenges are and present the event in a way that will interest them.

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Box 33. Participatory market analysis in the dairy sector in Nepal

Nepal has around 3.5 million families keeping cattle for milk, yet only 400,000 sell into formalised milk chains. The rest produce milk for self-consumption and/or informal markets with very low levels of productivity and efficiency. The programme design team's analysis of the subsector discovered a significant under-supply of milk, which indicated a potential opportunity for marginalised enterprises if the market chains could operate efficiently.

In Tanahu, a western district of Nepal, the opportunity for dairy farmers appears to be significant. A large processing plant that recently opened is desperate to buy milk, struggling to meet even 10 per cent of requirements to operate at capacity. But the problems facing small-scale dairy farmers are many and varied, such as issues affecting milk quantity and quality (such as fodder shortages and animal health and husbandry), and infrastructure and transport difficulties. In addition, Nepal is emerging from a long conflict and relationships tend to be fragile or non-existent.

The project design team primarily wanted to use a participatory market mapping exercise to gather information and conduct analysis so they could develop a programme for donor funding. A combination of preliminary mapping using

key information and participatory workshops produced a rich and illuminating picture of the market system and the constraints and opportunities.

Initially the team was mainly concerned with programme design and less concerned with getting market actors to build relationships. Yet providing an opportunity for interaction meant that communication was inevitable. At first, there was tension between farmers and traders over milk prices, but the facilitators were patient (and refrained from too much interference) and found that the dialogue transformed when one of the milk processing firms began to discuss areas of concrete collaboration – specifically, how they could provide a chilled collection facility (if the farmers became more organised) and veterinary services.

The team discovered that this sort of dialogue just needs the right conditions and opportunity. After the end of the workshop, they observed a group of farmers discussing terms and conditions intently with a buyer. They concluded that market actors can find their own solutions if given the chance and that supporting these areas can bring about sustainable, pro-poor changes in the market system.

The team leader, Deepak Khadka, describes the process as follows: 'The bigger challenge was to come up with a project design that would create the space or environment for market actors to understand the issues, engage with each other to find a win-win solution and to move ahead with an action plan. This was easier said than done and required a lot of patience to stop ourselves from jumping in and finding a quick fix.'

Source: Practical Action, adapted from case studies in USAID Microreport#149

http://microlinks.kdid.org/sites/microlinks/files/resource/files/ML6448_mr_149_participatory_market_system_development.pdf

Step 3. Develop capacity of small forest enterprises to engage in the process

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This is often a familiar starting point for development organisations, and one on which they can focus a disproportionate amount of time and resources. Nevertheless, it is critical to ensure that small forest enterprises are organised, confident and able to negotiate with market actors, who may be more powerful (see Box 34).

Small forest enterprises should be able to choose what organisational structures work best for them in their context. As an external agency, you must avoid imposing a structure even if you have seen it work well in other contexts. You can make an assessment of how effective collective action is and what steps are needed to strengthen linkages. The existence of a new and promising market opportunity can promote collaboration among small forest enterprises and is a useful starting point (rather than access to donor money being the incentive to organise).

NB: this step is likely to begin as soon as the market system has been selected (Step 1), and will run concurrently with the other steps.

Step 4. Facilitate dialogue between market actors

This is a critical step in the analysis process because it puts the market actors in the driving seat when identifying the blockages and opportunities in the market system. Market actors include the key value chain actors (including SMFEs – see Step 4); business development and financial service providers

Box 34. Market opportunity groups in Zimbabwe

Market system development approaches intend to benefit many thousands of SMFEs, which can represent a challenge if taking a participatory approach to analysis. Clearly it is not possible to have thousands, hundreds or even tens of SMFEs involved in discussions with key market actors. So it is important to help SMFEs work out a form of representation that will work well for them.

Market Opportunity Groups are one tool that can enable small enterprises to engage in the analytical process. They are small groups (usually around 10) of small enterprises, selected by the other enterprises in their communities to explore new or better market opportunities. To be successful, the Market Opportunity Group should be able to mobilise the other enterprises and communicate with them clearly and frequently about the progress of the group and the action plans. The group may be a temporary tool to address the marginalisation of SMFEs. There should not be an expectation that it will become a formalised marketing group, or the implication that facilitators are working only with or for them.

The case of guar bean in Zimbabwe (Albu and Griffith, 2006) illustrates that this tool can be important for building market literacy among SMFEs by creating extended opportunities for sharing and absorbing knowledge about the market system in which they operate. This distinguishes them from conventional producer-group formations where market orientation is often lacking. In the Zimbabwe guar case, the farmers' representatives were able to use their market opportunity group as a powerful platform for overcoming social divides and negotiating confidently with a large commercial buyer with whom they share a clear mutual interest. Guar farmers were assisted to form a Market Opportunity Group through a series of informal workshops where they could discuss issues and select representatives. Some farmers inspired others with a vision of what could be achieved in the subsector. Representatives were selected on the basis of leadership, farming capabilities, negotiating skills and articulacy. 90 per cent of those selected were women, and many were entirely new to this type of process.

The group prepared for a market mapping workshop with other market actors with a collective strategising session led by the farmers themselves. The project team facilitated by carefully encouraging the group to consider the bigger market system map, in addition to prices.

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and input suppliers; and representatives from the enabling environment, for example government and other institutional representatives.

Having completed some preliminary analysis (such as a market map, see Step 2), you will know who should be involved in this step. You can approach facilitating dialogue in different ways. For example, one option is to bring together sets of actors who directly deal with each other and facilitate bilateral discussions about how they can work together more effectively and efficiently. The advantage of this dialogue is that it is focused and easy to manage. The disadvantage can be that there are other actors and issues affecting how they relate to each other that will not be fully understood. Another option is to facilitate dialogue between representatives of the whole market system.

The 'Whole System in a Room' (WSR) (or 'Multi-Stakeholder Forums', see Box 36) is a tool that aims to do just what it says: bring actors together in one place to work in groups to develop a winning competitiveness strategy. This is described in a short USAID briefing paper on participation in value chain development.⁹⁴ This step is an important part of the analysis process because the analysis shifts from the facilitating team to the market actors. The aim is to create dialogue and

94. USAID, 2009a.

build trust. It is also the foundation for future collaboration. This can take time and sometimes one workshop is not sufficient. It may be necessary to be creative when value chains are spread over large distances. Where it is not possible to have all the actors in one place, it may be more practical to have two or three workshops, ensuring representation from the other workshops. Alternatively, communication technologies may be useful, for example using video to share perspectives of market actors who cannot attend. It is always useful to consider using pictures instead of text to describe the actors and linkages in the market system to forest enterprises. Having a technical expert on hand (e.g. from the product sector) – who should play a passive role in the background but is available to give guidance and solve problems – can strengthen the process (see the example of ANSAB in Box 35). Above all, allow market actors to disagree and share their perspectives with each other.

Box 35. Value chain analysis for wintergreen in Nepal

Nepal has a good potential to derive economic benefit from harvesting, processing and trading essential oil bearing plants, such as wintergreen (*Gaultheria fragrantissima*), which grows at altitudes of 1500 to 2700 metres in central Nepal. For local communities living in areas where these plants are relatively abundant, and where other income generating opportunities are limited, wintergreen offers the possibility of employment and additional income. These communities, however, have been hampered by lack of entrepreneurial capability, marketing knowledge, proper value change networks, and local provision of services and inputs.

ANSAB worked to develop a responsible wintergreen value chain by establishing local processing enterprises. The first step was to conduct participatory value chain analysis and identify potential sites, available resources, market potential and processing options (including the required technology). ANSAB mapped the nature, wealth and power dynamics of the existing wintergreen value chain in Nepal. In this process, ANSAB surveyed actors throughout the value chain, including producers, traders and processing entrepreneurs. ANSAB also conducted a feasibility study to see if it was possible for communities to do the processing and hence capture more value. As this was a relatively new value chain in Nepal, ANSAB engaged a socially and environmentally responsible lead firm called Himalayan BioTrade Pvt. Ltd. to work with local processing companies.

To get a premium price for the product and ecological sustainability, ANSAB made contact with international certifiers and helped get the product certified by the Forest Stewardship Council, as organic and as wildlife friendly. Based on the value chain analysis, ANSAB facilitated the establishment of sustainable harvesting and processing enterprises in the community, increased access to finance and set up market information services, developed a business plan, oil marketing and also facilitated the development of a system to deposit a nominal amount from the royalty on wintergreen collection into community forest user group accounts instead of paying a fee to central government.

There are now 20 community-based wintergreen processing enterprises with an annual oil production volume of 5000 kilograms. There are better relationships between collectors, processors and traders; collectors and processors get a fair price from responsible buyers, and the marketing company has the capacity to make decisions on marketing (where to sell and to whom) within the confines of sustainable supply. Over the last decade, integrating local people in community forest user groups and developing local processing has improved income and profit margins for the harvesters, especially as they have more selling options. The individual collectors, who are shareholders, receive dividends on their shares according to the net profits at the end of the year. Several local people also work in processing.

Step 5. Move from dialogue to action

The purpose of this module is to have a clear picture of how market systems can change in ways that will benefit large numbers of small forest enterprises. Having facilitated a process that enables market actors to develop their vision of market system change, it is now important to use the analysis (now owned by them – see Step 4) to develop specific action plans to address blockages and take advantage of opportunities.

At this stage, as an NGO or facilitator, you can be specific about the types of interventions you can facilitate to bring about market system change. Market actors work together to develop joint action plans on the most critical issues affecting:

- the strengthening of value chain linkages
- the provision of services and inputs
- the improvement of the enabling (business) environment.

Market systems are dynamic and new challenges will emerge over time, so part of the effort to achieve sustainability is to identify agents of change who will work to improve the market system after the project has finished. Examples of agents of change can be key market actors who have the ability to scale up because of their size and coverage (such as buyers or input suppliers). Other types of change drivers could include Chambers of Commerce or trade associations. There are pros and cons to any choice: some change drivers will have the advantage of neutrality, whereas others will have investments in the market system and therefore may have greater incentives to act in certain ways.

Box 36. Multi-stakeholder forums

Multi-stakeholder forums (also called interest groups or interest forums) are a tool to promote interactions and collaboration between market stakeholders. The key features of a forum are that it includes a wide variety of market stakeholders and that its goals are focused on improving how the market system works as a whole.

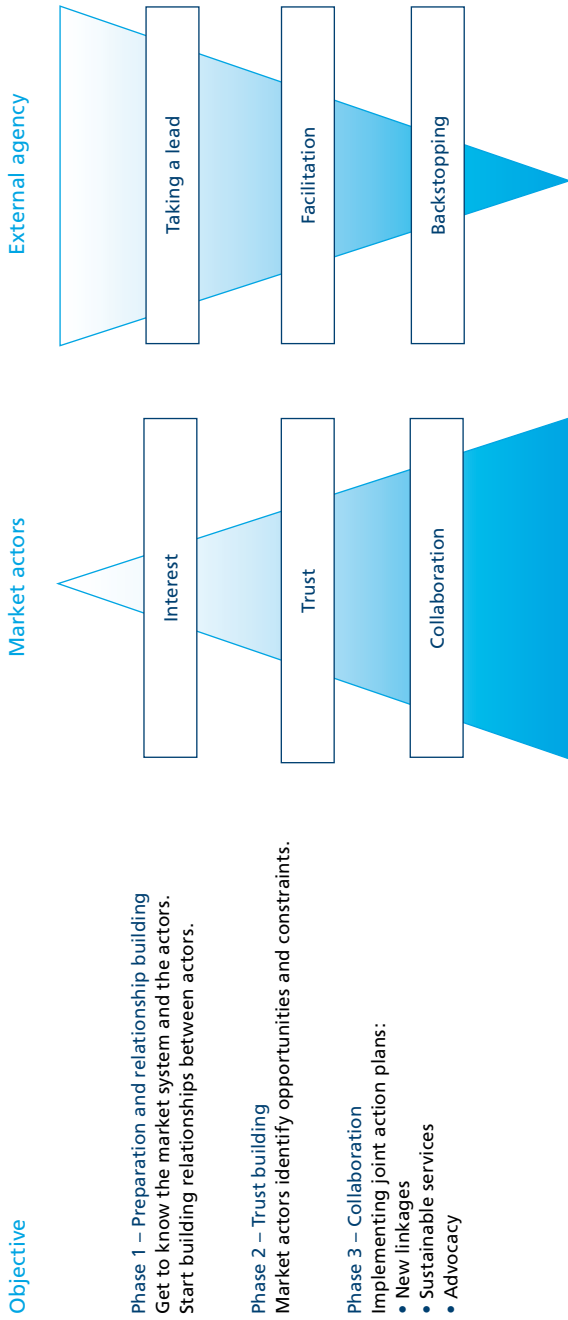
Forum members work together on issues and take forward specific actions. Two of the key success factors of a forum are:⁹⁵

- (i) It should help members to solve problems and exploit opportunities that they cannot solve or exploit on their own.
- (ii) It is a neutral space (not explicitly pro-poor) where the voices and interests of its members compete under equal conditions – hence empowerment of small enterprises is crucial (Step 3).

Moving from dialogue to action also requires careful assessment of whether you as the facilitator should now exit from the process of enabling market actors to work together to understand and change the market system. This is described by Figure 6 below, which shows how a facilitator's role decreases as they work to increase interest and involvement by market actors. The time needed to achieve this will depend on many factors concerning the context of the specific market system, particularly the level of trust between actors.

95. Practical Action, 2009.

Figure 6. Objectives and structure of participatory market system development⁹⁶



96. Adapted by Practical Action from CIP/CGIAR.

10.3 Useful tips

- Understanding market demand and market trends is usually challenging and it is critical that information is gathered from the right sources. Determining the minimum information needed to go ahead with selecting a subsector means understanding the current situation and trends (e.g. prices, exports) and supporting this data by gathering qualitative evidence from buyers. Buyer confidence can be a good indication of future growth prospects.
- Do not get caught in the trap of selecting a subsector based on past work rather than future potential. Use key informants and gather information to fill in gaps. Don't rely on hunches and beware of project staff saying 'I know there is a good opportunity'. Understand the problems of saturated markets and what it would take for SMFEs to increase incomes by increasing productivity, attracting new buyers and/or products.
- In carrying out the facilitator role, have a vision for market system change, keep a light touch (maintain a hands-off approach) and pursue participation as a means to sustainability.
- *Stay out of the market chain and do not take on any function that should be done by a market actor.*
- Create the conditions for trust, be flexible and be patient.
- Innovate to engage market actors, for example by using video or value chain tours to promote understanding and communication.
- Use 'hooks' to attract actors and help them understand the benefits of participation early on.
- Establish credibility through wise use of expertise in the subsector.
- Achieve quick wins (balanced by a shared long-term vision), but manage expectations.
- Engage participants in monitoring and feedback mechanisms.

10.4 Further information

A couple of good web-based tools have been published by Action for Enterprise:⁹⁷ <http://www.actionforenterprise.org/approach.htm#step1>

A number of value analysis tools that basically cover the same ground but offer slightly different emphases⁹⁸ have been prepared by:

Albu and Griffith: http://practicalaction.org/docs/ia2/mapping_the_market.pdf

GTZ:

http://www.valuelinks.org/images/stories/pdf/manual/valuelinks_manual_en.pdf

Kaplinsky and Morris: <http://www.globalvaluechains.org/docs/VchNov01.pdf>

Springer-Heinze: http://api.ning.com/files/PiMcEmGOfyV0pOx*helFhVvOG-wCfLLBJ-NhQKO2Qas_/VCAInfocadena.pdf

Van den Berg *et al.*:

http://markets4poor.org/sites/default/files/file/Publications/M4P1/VC%20toolbook_eng.pdf

Vermeulen *et al.*:

http://www.regoverningmarkets.org/en/articles/global/chain_wide_learning_guide_for_inclusive_agrifood_market_development_a_guide.html

There is also a very useful best practice paper from Microlinks⁹⁹ and a Powerpoint presentation that summarises some of the points outlined here:¹⁰⁰

http://pdf.usaid.gov/pdf_docs/PNADP050.pdf

<http://www.bdsknowledge.org/dyn/bds/docs/452/Griffith.pdf>

97. AFE, 2009; USAID, 2009b.

98. Kaplinsky and Morris, 2000; Springer-Heinze, 2004; Albu and Griffith, 2005; ILO, 2006; GTZ, 2007; Van den Berg *et al.*, 2007.

99. Griffith and Osorio, 2008.

100. Griffith, 2005.

Module 11. Product development

Developed by Pierre du Plessis

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11

Final natural oil product ready for market

11.1 Purpose

Most SMFEs sell existing products to existing markets and a number of the facilitation modules in this toolkit deal precisely with such situations. This tool is different in that it describes how to go about developing a new product (especially the tricky task of ensuring a fit between qualitative and quantitative supply and demand) and how to stimulate demand through marketing. It highlights some of the key issues to consider based on extensive practical experience.

11.2 Outline

Step 1. Help SMFEs to list and rank potential target resources and products

Guides to product development often start with a consideration of market demand. But while this is important, SMFEs are often utterly dependent on a secure and adequate supply of raw materials. So before SMFEs start developing a new timber or non-timber forest product, they need to assess whether it can be harvested sustainably in commercial quantities, processed to a marketable state with available resources, and marketed profitably, without unintended negative impacts on local people's livelihoods. Guides as to how to do participatory inventories of either timber or NTFPs can be useful.¹⁰¹

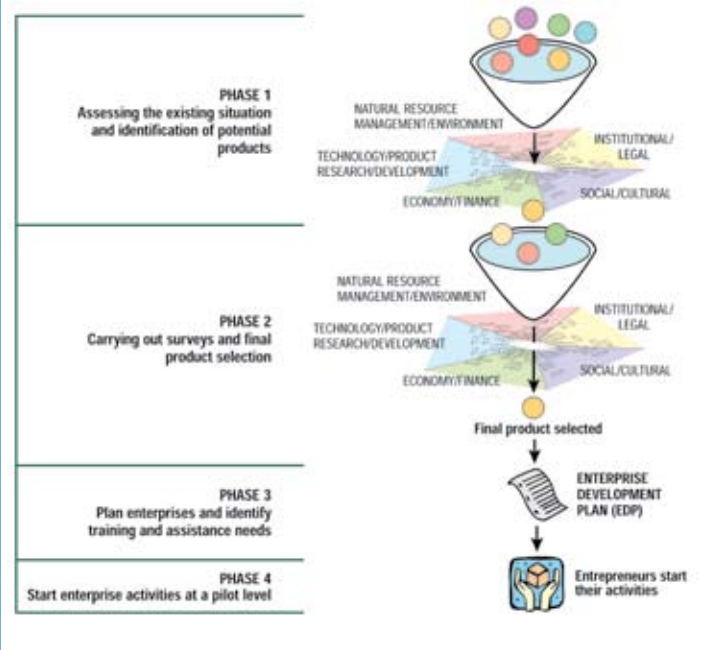
If SMFEs have not already identified their target resource, the first step is to work with them to conduct a quick brainstorm overview of available resources that could potentially be turned into products (see Box 37), bearing in mind that:

- resources with traditional uses, known markets or a body of science behind them will be simpler and easier to develop into successful products
- it is almost always more sustainable to harvest flowers, fruits or leaves than it is to harvest whole plants, bark or roots as harvesting the former does less damage to the plant
- resources that can be cultivated easily may also be more sustainable (as planted resources take pressure of harvesting from the wild), but using them for product development could mean benefits end up in the hands of larger commercial growers; if the SMFE's goal is to produce income for small, poor producers it may be better to target resources derived from slow-growing perennial species that are difficult and/or slow to grow on farms or in plantations
- the resource must be locally available in surplus quantities, and SMFEs should know when (if it is seasonal) and where (if it only occurs in specific locations) such surpluses can be accessed
- although a particular resource may be available in large quantities in nature ('biological availability'), people will not necessarily prioritise harvesting and selling it as part of their livelihood strategies as they may have more pressing priorities (this limits its 'socio-economic availability'). For seasonal resources, a very important consideration is how the harvesting season fits into the broader agricultural calendar: people will usually not neglect their main agricultural activities at crucial times (field preparation, weeding, harvesting) to concentrate on harvesting forest resources
- NTFPs in particular are often harvested in small quantities by many people; to make such resources into a commercial (product development) opportunity, SMFEs will often need to have a cost-effective bulking-up system to ensure enough material is transported to centralised processing points

- it is important to understand who has traditional and/or legal rights to harvest the resources, as well as which authorities are empowered to regulate harvesting, and to involve the relevant people in planning product development
- if no resource management strategy and/or institutions exist locally, you may have to suggest starting one to ensure harvesting will be done sustainably and meet commercial quantity and quality requirements.

Box 37. A bottom up approach to Market Analysis and Development in Burkina Faso, Ghana and Mali

Tree Aid has been implementing Village Tree Enterprise projects in Burkina Faso, Ghana and Mali. Using the Market Analysis and Development Approach developed by the FAO, Tree Aid works with producers, selected according to institutional criteria, to help them undertake an analysis of existing non-timber forest products in their zone. Through this process, producers identify which products have market potential in local, regional or national markets and verify that the existing natural resource base is sufficient to satisfy production for marketing. They develop business plans for collective marketing of the most viable products. For a full description of this approach, see Lecup and Nichol森, 2000, 2006 and FAO, 2011.



Even if SMFEs already have a particular resource in their sights, it may be useful to think about the elements listed above. The 'Market Analysis and Development' methodology developed by FAO contains a matrix-based approach to ranking potential products, which you can adapt to local circumstances and use to structure an overview (see Box 37).

At the end of this step, SMFEs should have a shortlist of potential products for further consideration, and a long list of other products that may be considered later. Encourage SMFEs not to throw away the long list, because an entrepreneur can often add a lot of value to a supply chain or an enterprise by using the same social structures, institutions and infrastructure to deal with additional resources or products. Encouraging a culture of peer review of new product ideas, even those on the long list can be very productive (see Box 38).

Box 38. New wood product development in Guatemala

Within Guatemala, the Forest Connect alliance has tried to instil the notion of building on local ideas and resources as a foundation for enterprise development, empowering members of the community in the process. What this has meant in practice is communities are encouraged to develop prototype products that local entrepreneurs feel there is a local market for. Beyond the capacity development that comes from developing the prototypes themselves, the Forest Connect alliance then use local members to assess the prototypes on a range of issues, particularly on cost and quality. Peers also help to conduct a value chain analysis from production to consumer and give feedback from this analysis (especially with consumers) which then helps to drive product innovation. Examples of some of the product prototypes are shown in the photo below.



Step 2. Work with SMFEs to investigate value chain options for selected resources in more detail

Once the SMFEs you are working with have selected one or more resources for further product development, they need to investigate and reflect on how they can structure the value chain (see Box 39 and Box 40):

Help entrepreneurs be clear about the markets they want to target. Local, national and international markets usually have very different quality requirements, regulatory regimes and market actors. Make sure SMFEs understand the exact regulations the product will have to comply with and the cost of doing so, as well as the detailed quality specifications and expectations of target buyers, and the cost of meeting these. With the possible exception of timber products and crafts, very few SMFEs are in a position (at least initially) to produce and market finished consumer goods, so they will probably

need credible commercial partners who can help them get their product to markets (e.g. crafting the raw materials or unfinished products from small entrepreneurs into market ready products).

Do not become obsessed with local processing and value adding. If there are (as there often are) problems with essential services such as water, electricity, telecommunications, availability of spares, lead times on technical support and access to reliable transport, it may be much better to have a successful factory in the capital city than yet another failed project in a rural area. As the facilitator, you can always encourage technology transfer later, once the market has grown and it makes economic and technical sense to do so.

Encourage market experiments. SMFEs may sometimes need to make trial purchases to find out if people (and which people) will harvest and sell a resource to them at the right price, and in adequate quantities and quality. For trial purchases (and other market experiments) it can be difficult and risky for SMFEs to secure finance. This may be one area where you can judiciously use subsidies, if available. Trial purchases can also be linked to making trial samples available to potential buyers or commercial partners. This will give them more information on whether demand is real and about required technologies, costs and prices. But *take great care* not to raise unrealistic expectations, especially among harvesters, but also with buyers or commercial clients. At the beginning, everyone should understand clearly that this is just an experiment.

Box 39. Bamboo product development in Mozambique

The Forest Connect partner, Centro Terra Viva, had worked for some time to engage with bamboo furniture and craft producers in the provinces of Manica and Sofala. Out of this work, they developed an intervention strategy to promote value addition and better design of bamboo products as a means of income generation and environmental preservation. These producers have mainly sold traditional products, included domestic furniture such as chairs, to the domestic market.

Guided by the initial value chain analysis, the first step was to constitute and legalise operators into a formal association, called Barué. The next step involved bringing in a national expert to give training in bamboo farming, handling, processing and commercialisation. This was followed by negotiation with the government small enterprise authority, IPEME, to establish a regional demonstration centre on bamboo so that producers could see the range of products that had been developed elsewhere.

The combination of these activities has led to a diversification in the types of products produced for the local market. For example, producers have started to produce tables in addition to chairs and also more specific household items such as bamboo vases. Early outcomes of the project include increased producer incomes and a strengthening of the new association.

Help entrepreneurs investigate technology options. SMFEs should understand where to get the technology, how much it costs, what technical services it needs, where and how it can be installed, and whether it will produce products that meet the quality requirements of the next link in the value chain. Introduce the idea of economy of scale: weaving baskets or extracting nuts from their shells can easily be done by hand or using traditional tools in a household, but expelling oil or making a botanical extract must be done in a small factory. For such larger scale businesses, entrepreneurs will need to

Box 40. New product development: sample production of essential oils in Bale, Ethiopia

A Forest Connect partner, Bale Eco-region Sustainable Management Programme (BERSMP), runs a partnership programme on improving rural livelihoods in conjunction with sustainable natural resources management with FARM Africa and SOS Sahel Ethiopia. A study revealed that because the Bale eco-region area has many herbaceous, aromatic plant materials that can be used in the production of essential oils, essential oil product development represented an opportunity to improve the livelihoods of the local community forest management groups in the Bale mountains massif.

In partnership with the Oromia Forest and Wildlife Enterprise, BERSMP conducted a study to identify potential plants for the production of the oil. The potential plants identified were: *Eucalyptus globulus*, *Juniperus procera*, *thymus sp.*, *helichrysum sp.*, and *Foeniculum vulgare* (fennel). These exotic trees are abundant in Ethiopia due to being planted for fuelwood and poles. To begin oil production, BERSMP and Oromia Forest and Wildlife Enterprise purchased three distillers (two 500 litre and one 2000 litre) and installed them in the Goba Natural Product collection, processing and learning centre. Community forest management groups supplied the plants, while the enterprise produced the oil and supplied it to national and/or international markets.

The enterprise is currently producing essential oil (from *E. globulus*) at a pilot scale. The oil has been shown by the Ethiopian Essential Oil Research Centre to meet international quality standards. Early work has identified a number of national and international buyers who are willing to order the oil. The introduction of this new natural product has represented an opportunity for the enterprise and the community to improve their income. Sustainable forest management and biodiversity conservation has also improved.

process enough raw material to pay off the capital invested in the technology (or at least the recurring overheads and management costs, if the capital is provided through external finance).

Encourage the entrepreneur to conduct a thorough, two-way costing – from final retail sales backwards, and from primary production of raw materials forwards. If an SMFE starts from the supply of raw material and works its way through bulking-up logistics to processing, it should soon have a better idea of where in the value chain it makes economic sense to introduce a value-adding step or technology. It usually makes sense to introduce value-adding steps as close to the source of raw material as possible, because doing so tends to reduce weight-to-value ratios, making further transport more cost effective. Remember, however, that good sustainable business requires that everyone in the value chain makes money – if any link becomes unprofitable, then the whole chain breaks down. Remember that retail prices usually include a 100 per cent retail mark-up (i.e. the wholesale price is usually about half the retail price, although obviously this varies quite a lot). If there is no clear competitive and/or comparative advantages to adding value locally, the best option may be to simply market high-quality raw materials.

Think through the practicalities. If the SMFE does not have direct links with organised groups of harvesters, how and where will it source commercial quantities of raw materials? If it does not own a retail outlet, how will it sell its product to consumers? Does it have the capacity to wholesale its product to

retailers, or will it have to sell to wholesalers? Asking questions such as these allows a facilitator to identify crucial gaps that may have to be bridged to make the venture a success.

Encourage SMFEs to write down or sketch a description of their planned value chain, describing required functions and assigning responsibilities to specific people or organisations at each step. This will help them to see the whole picture, understand the levels of expense, investment and effort involved, and make more informed decisions about fair prices and profits for the various actors.

Step 3. Fine-tune product descriptions

When SMFEs understand their competitive and/or comparative advantages, as well as value chains that can be used to bring their product to market, including the available technologies, they will be in a position to start finalising their initial product description (see Box 41). Don't be too concerned how this looks at this stage – it can be improved later, as part of developing and implementing their business plan. In writing the product description, include the following elements (as appropriate):

- a clear description of their potential customers, for example 'urbanised consumers who want traditional foods that meet modern sanitary standards', 'ethical consumers in Western export markets who want Fair Trade and organic personal care products' or 'formulators of herbal medicines who want the highest quality botanical ingredients, produced using certified good manufacturing practices'
- a detailed statement about the product's unique selling proposition, for example 'individually hand-crafted furniture made from CITES-compliant indigenous hardwoods with the natural shapes retained and incorporated into the design' or 'sets of large, medium and small palm-leaf baskets woven in the same pattern' – encourage the entrepreneurs to weave their own story and culture in this description
- any certification schemes that could add value or open up additional markets (such as organic, Fair Trade, Forestry Stewardship Council) and any plans to get its product certified (see Module 15)
- any quality standards particular to the product (stated as minimums), for example 'Cosmetic oils with Acid Values <4mg KOH/g and microbial contamination <100cfu' or 'Parquet blocks, 200x75x10mm, first grade, no knots or burrs'
- any plans about packaging size, material, and minimum order quantities, for example '125g bar soaps, shrink-wrapped in packs of 12, 144 packs per pallet, minimum order 20 pallets' or 'Mobola plum juice concentrate, 65° Brix, aseptically packed in 220 litre plastic-lined steel drums, 4 drums per pallet, minimum order one pallet'.

The main aim at this stage is to flush out and quantify (as far as possible) those hidden costs that may not otherwise occur to the SMFE, like the cost of certification, packaging, quality control, advertising/promotion, warehousing and equipment for handling stock.

Box 41. Improved Lao products in demand: new designs, quality handicrafts and furniture

Since 2008, SNV (Netherlands Development Organisation) has supported the bamboo sector development in Sangthong district, Vientiane Capital and Houaphanh in northeast Lao PDR. Underprivileged bamboo producer groups receive capacity building services to improve their organisational functioning and the quality of their products. Traditionally, most producers develop the well-known sticky rice boxes and therefore already possess handicraft processing skills. However, with limited market linkages and information on consumer demand, more diversified product development has not often occurred. Together with specialist service providers, SNV have facilitated the introduction of new weaving and design skills for selected communities who showed interest in developing a wide range of products and were willing to organise themselves appropriately.

Over 2 years, an estimated 1100 villagers attended 15 training sessions (each approximately 5–6 days) to learn new techniques to add value to bamboo products. Training typically focused on new weaving designs and patterns, new product types (suitcases, bags, baskets, foldable chairs and tables), dyeing with natural colours (i.e. sticlac), the treatment of bamboo against insect attack (Timbor) and also the use of appropriate technologies (drills with different drill bits, polishing machines) to carry out processing more efficiently and in a standardised manner. The type of training was adapted according to the type of bamboo species used in the area (thin bamboo is more suitable for making handicrafts, while thick bamboo is better suited for furniture). Although handicraft skills are typically taught by Laotian women (dyeing) and local bamboo weavers, the diversification into bamboo furniture (a new product for Lao PDR) was facilitated by Vietnamese and western service providers. Training sessions led by local trainers were sometimes repeated for villages that expressed interest in improving their skills and adding value to products.

Income generated from the sale of new products has benefitted around 800 households in 29 producer groups, including a range of minority groups, disabled people and women. The average household producing handicrafts now earns USD 350 and USD 500 a year for a furniture production, an increase of 50 per cent on 2009 wages. Provincial and national trade fairs and exhibitions have increased awareness of these quality products, and they now receive awards on a regular basis. The effect of this has been an increase in trade to Vientiane, Xieng Khouang and Luang Prabang provinces. Attractive brochures featuring 25 local products, along with specially designed labels, have significantly improved branding. The plan is to target regional and international markets in the future.

Source: Martin Greijmans, Souvanhpheng Phommasane and Sith Soukchaleunphone (SNV).

Step 4. Turn value chain and product descriptions into a draft business plan

Once an SMFE knows where it can and will fit into the value chain, they should start to construct a business plan for that product (see Module 12 for more detail). They need to do this regardless of whether they are starting a new SMFE, or just adding a new product to an existing business. If they are envisaging a range of products, they need to write a plan for each of those products.

Remember that a business plan is a living document, used mainly to monitor progress towards a goal. Even the best business plans become outdated as soon as they are complete. SMFEs need to be flexible and respond quickly to changing circumstances – but always bearing their original plan in mind and

understanding why they are deviating from it. If outside assistance for business planning is available in a particular location, for example from consultants or government departments, SMFEs should use it if they can afford it and they trust the service provider. Unfortunately good business ideas are sometimes stolen by the people who are supposed to help, so be careful about who is involved and don't talk about a product idea to people who do not need to know.

Arguably, the most important aspect of writing a business plan is the financial planning and finding the break-even point. Determining when income will cover all the expenses is vital – earn less than this and the SMFE loses money. The break-even point often depends on economies of scale: if production volumes are too low to cover repayments on technology loans and overhead costs, it may never break even. Bear in mind that some units in any financial plan can only be increased by whole numbers (it is not possible to have 20 per cent of a machine, so if an SMFE needs 1.2 times the production capacity, it will have to buy – and repay – one whole additional machine). Also remember that some inputs that are theoretically available in fractions (e.g. half-time management or book-keeping) may only be realistic options if the SMFE can also find a way to use the surplus capacity productively (e.g. if it hires managers for only half of the time and leave them unemployed for the rest, they will likely take the first good full-time job offer that comes along, leaving the SMFE with the need to train new people). If production is seasonal, the SMFE may only need workers for a few months of the year. It's important to look at what the country's labour law say about hiring people on short contracts, and any compensation to pay when the season ends.

The following steps can help in assessing the break-even point (also see Module 12):

- Start with a realistic full cost assessment of the fixed capital requirements to go into business – e.g. the cost of buildings and/or alterations, buying and installing machinery (plus a stock of essential spare parts), purchasing vehicles, paying an advertising agency to design packaging and/or promotional materials – and don't forget the office furniture and kettle. Fixed capital is anything that needs to be paid for before the business starts.
- Next, calculate the working capital required to go into business. Working capital involves all the recurrent costs that the business will incur. Do this in three stages. First, realistically estimate the SMFE's fixed monthly overheads costs, like rent, municipal charges, utilities access charges, telecommunications, insurance, capital equipment repayments, capital equipment depreciation (including vehicle replacement costs), management/staffing (at full cost of employment, including legal obligations like social security, medical aid and/or pension provision). Second, estimate monthly variable costs, i.e. costs that are directly related to how much of the new product the SMFE will actually produce, like raw materials, packaging, wear parts on machines, water and electricity consumption, vehicle running and maintenance, seasonal labour or overtime, processing chemicals, cleaning materials, equipment services – and don't forget taxes and licence fees. Third, estimate projected monthly sales income (numbers of units sold at a particular price and when). Plot the fixed monthly overhead costs and variable costs minus the projected monthly sales over time. The SMFE will usually need enough money to keep on producing until sales growth allows it to reach break-even point. During this 'capital burn' period, the

SMFE may have to meet monthly repayments on equipment (if bought on credit), as well as paying overheads and variable costs. But it is not just the monthly total that the SMFE needs to find but also the cumulative monthly totals until sales begin to reduce this. The point of maximum deficit during this period is also known as 'working capital' (if this is borrowed, the SMFE may have to pay interest too).

- Add the 'fixed capital' requirement to the 'working capital' total calculated above – this gives the total amount of money the SMFE will need to have in hand to start producing its new product. By doing these calculations, the SMFE gains an idea of how much money it will need up front and how much money it will need to earn from sales to get and then stay above break-even point – i.e. the projected income requirement.
- Think hard about how to make the enterprise viable. Work out how many units of the new product the SMFE could produce with the capacity it has in mind, and then work out what price it would need to charge to make the venture viable (NB: including all the costs to get the product from the workshop or factory gate to retail outlet). How does this price compare with that of actual or potential competitors and/or substitute products? DO NOT make the very common mistake of comparing the price of a product at the workshop or factory with retail prices in the market without allowing for all the costs and mark-ups in between.
- Double check the calculations by working out the net profit margin on a per-product-unit basis. The critical question is: how many units must the SMFE sell to make the enterprise as a whole profitable? Is that required volume of sales, and the projected sales price, realistically achievable in the target market? Remember that higher prices usually mean lower sales numbers.
- Both you and the SMFE will probably have to do this exercise a few times and fine tune several of the variables before feeling confident that the business plan is workable and the product will be profitable. Keep going, because each iteration improves understanding of the business model and increases the chances of success.
- Do not be tempted into over optimistic assumptions if the calculations show that a product will not be profitable. Think of creative ways to cut costs and/or boost sales. If that does not work, accept reality and move on to another product idea.

Working through the financial planning processes detailed above will help you as a facilitator and SMFEs decide whether to go ahead with the actual process of developing a new product. In many cases, it will also provide the basic information an SMFE needs to write a formal business plan, for example a credit application to a bank or a proposal to a donor. Seeking professional guidance (as well as using existing guides) on how to structure and present such a business plan is advisable.¹⁰²

102. ANSAB, 2010d.

Step 5. Finalise the product development process

Once the SMFE has (i) a clear idea of which products it wants to produce, and (ii) it is certain that it can do so profitably and sustainably, and (iii) it has secured the necessary funding to take the process all the way, and (iv) it also has an actual market or buyer lined up and ready, the SMFE is ready to go ahead and finalise its new products and start production (see Boxes 42, 43 and 44). At this stage, the SMFE can be encouraged to:

- write a standard operating procedures manual for the product, detailing every aspect of its production and quality control, to introduce consistent quality
- make appropriate arrangements with upstream and downstream value chain partners, preferably in the form of a written memorandum of understanding, taking special care to ensure everyone is very clear about the exact timing of their critical roles
- compile the documentation required for regulatory compliance in the target market and get official approval from the relevant regulators
- register the product and/or trade name with the relevant authorities as appropriate
- ensure that it has all the necessary licences and permissions
- get professional help to design retail packaging and (at the very least) make sure the packaging lists all information needed for regulatory compliance and has a barcode (if it is intended for retail sale and the SMFE plans to distribute it through shops with scanners)
- order everything needed to start production well in advance of the target start date
- have fall-back plans for critical production elements that may go wrong (at least those the SMFE can anticipate – it will still probably have to deal with a few unexpected hitches).

Box 42. Product development of baobab fruit products in Mali

The Forest Connect Mali partner, Association of Professional Farmers' Organisations (AOPP), conducted a diagnostic for the development of baobab products through the Konsiga Cooperative in the Kayes Region, Mali. The aim was to develop cooperative activities in the wild harvesting of baobab fruit through processing and marketing.

The team from AOPP worked with local baobab cooperatives to develop storage facilities so that the fruit could be sold when the price was optimal, and developed a batch sales process to increase the volume of fruit being sold. They developed new processing techniques to improve product quality. Regular monitoring of the baobab market helped with the timing of product sales and pricing. AOPP also helped convene a national meeting to spread awareness of the project and met with large associations (including buyers) and microfinance institutions to help create useful links. They conducted independent market research so as to be able to offer impartial advice to producer cooperatives.

The impacts of these product development activities included: increases in the quantities of baobab products collected and sold (around 1000 tonnes of baobab fruit); improved baobab fruit marketing practices in the group; higher average prices and improved cash income for producers from family farms; and improved linkages between the actors dealing with the product.

Box 43. Product development for xate in Guatemala

One of the enterprises within the Forest Connect alliance in Guatemala is Tikonel. Tikonel is an incubator for small forest enterprises, dedicated to capacity building and product development of different native products. They specialise in strengthening rural value chains, from producing seeds and nursery establishment, to the management and control of plantations, technical assistance, harvesting, processing and marketing.

One of the products with which Tikonel has been working is xate. Xate are the leaves from three species of palm tree (*Chamaedorea elegans*, *Chamaedorea oblongata* and *Chamaedorea ernesti-augustii*). The leaves are used by the floral industry in flower arrangements, especially for Palm Sunday services and funeral decoration. Traditionally, the collectors of xate have been very poorly paid, with traders making most of the profits.

Tikonel has been developing community production and processing enterprises for xate. Interventions have been various and have included: (i) strengthening the leadership of a xate committee and the development of institutional and business plans; (ii) developing xate as a resource, both through wild collection and the establishment of nurseries and plantations; (iii) administrative tools to help manage the production and processing process; (iv) technical training to improve quality control for the enterprise; (v) improvement of packaging, management and transportation; (vi) marketing of products that have fallen out of use.

Box 44. Product upgrading for marketable bio briquettes in Nepal

Bio briquettes are a promising source of alternative energy, proven to effectively increase earnings for the poor, reduce health risks for women and children, maintain the carbon pool in forests, and reduce the propagation of invasive alien species. There have been several small-scale briquette projects in Nepal that failed to promote briquette use because of poor quality products and the lack of supply chain management, market access and producer capacity.

In 2007, ANSAB began supporting potential briquette makers to develop a marketable product as well as stove accessories for convenient use. ANSAB aimed to create new opportunities for several of the small processing enterprises by stimulating market demand. The project included five local enterprises in Dolakha and Sindhupalchok districts and one marketing company, Himalayan Naturals in Kathmandu. ANSAB worked with scientists in Kathmandu to upgrade the product and stoves. It then helped the communities raise capital, select leaders, establish enterprise organisational structures, buy the necessary equipment and train staff. An experimentation phase followed, in which ANSAB suggested several changes to introduce the quality and efficiency that would be required for mass production – for example, the ratio of char and binder was adjusted, communities started to use pits rather than charring drums, new mixer machines were delivered and grinders were improved. ANSAB also came up with a new idea that a stove and a tripod would make its use more convenient for urban consumers. Working with local manufacturers of clay pots and iron products, ANSAB designed, tested and refined stoves and tripods for efficient and convenient burning of the briquettes.

ANSAB worked with Himalayan Naturals to build a network of department stores willing to sell the product in the city and to produce an appealing packaging for consumers. It supported extensive marketing activities, for example the setting up of 40 kiosks throughout Kathmandu to demonstrate the product and its multiple uses.

By 2011, briquettes and accessories (tripod and stoves) were readily available in urban areas and 51 retail outlets in Kathmandu. So far, 500,000 briquettes have been produced by the five community enterprises together with stoves and tripods. The consortium provides direct employment to 94 people (52 men and 42 women, with a total income of USD 24,934 a year). Himalayan Naturals is now the main briquette marketing company in Nepal, and market demand now exceeds the current production capacity.

Step 6. Fine tune, improve and renew products

No matter how good and thorough the planning process has been, SMFEs are still likely to notice inefficiencies or areas for potential improvement once they actually start production. Encourage them to always be on the lookout for opportunities to cut costs (not forgetting the need to maintain quality too) and/or increase productivity, for example by doing time and motion studies in the workplace and introducing measures that save time and money. If an SMFE becomes aware of problem areas but doesn't have immediate answers, see if they can experiment without totally disrupting production. Try out potential solutions on a small scale before introducing them more widely across the business. Remember that most products have a limited lifecycle, at the end of which sales go into decline and production gradually becomes less profitable until it is no longer viable. Anticipate that this will happen to this particular product and follow market developments in the industry sector closely. Start collecting ideas for giving an old product a new lease on life in good time (see Box 45).

Box 45. The importance of developing quality standards: the case of Forest Wild Coffee in Ethiopia

Natural wild coffee grows in the forest understorey in the ecologically unique Bale Mountains (the roof of Africa) in southeast Ethiopia. It is mainly found in two woredas (Delo Mena and Harena Buluk) of the region. The Bale Eco-region Sustainable Management Programme (BERSMP), a partnership programme of FARM Africa and SOS Sahel Ethiopia, developed a programme to build the capacity of community coffee producers in post-harvest handling, develop the brand, obtain wild coffee certification, and improve packaging and marketing for regional, national and international specialty markets.

The initial aim of the programme was to work with the community on improving the quality of the coffee for the international market. Farmers were provided with proper equipment and trained in post-harvest handling (collection, drying, storing and transporting) and appropriate technology, for example mesh wire to construct beds for coffee drying. The programme also established links between the Oromia Forest and Wildlife Enterprise (OFWE, the official government forest agency in the region) and the coffee farmers under the umbrella of joint forest management cooperatives, which were established for sustainable forest management with OFWE. Laboratory tests conducted by Union Coffee Roasters in the United Kingdom indicated that coffee quality had improved dramatically after training. Official tasting notes described the improved coffee as 'a mild sweet fruity acidity with medium light body and cinnamon-chocolate tinged aromas and flavours'. The coffee was also tested by the Ethiopian Commodity Exchange and was awarded the highest grade.

The next step was to gain access to international specialty markets. A consultant, Surendra Kotecha, proposed selling to Italian company Sandalj Trading S.p.A. The arrangement, as it currently stands, is that coffee farmers supply well-ripened, good quality coffee to OFWE, which buys the coffee at a premium (25 per cent higher than current local current prices) to drive quality. OFWE then sells the coffee to the Italian wholesaler at a premium price.

The impact of this project has been improvements in income for community forest managers and in revenue for OFWE.

11.3 Useful tips

- Forestry enterprises are utterly dependent on secure and adequate supplies of raw materials, so pay attention to raw material supply chains before considering adding further value to products. Sometimes there is a need for several different suppliers to create enough volume for one processing facility.
- As far as possible, work with existing credible institutions and organised groups at the community level rather than starting new groups. Rural people often don't have time for endless meetings.
- These things always take longer than you imagine – it is not unusual for new NTFPs to take five to fifteen years to get from the raw material stage to international markets. As the facilitating institution, make sure you have a plan that will allow you to work beyond normal donor-funded project timeframes. Make sure commercial partners can survive the two or three years it may take before they see substantial sales of a new product.
- Try to organise national or regional federations (e.g. trade associations) to provide a focus for donor funding. Such bodies can provide the momentum required to bridge successive phases of donor funding.
- Do not begrudge downstream commercial partners their profits – if they don't make money, the target SMFE won't either and no one benefits. It is better to own 25 per cent of a functional value chain than 100 per cent of a dysfunctional one.
- Product development is not very useful if it is done in a business vacuum. Always consider the capacity of SMFE staff so there will eventually be a clear commercial operator to take business opportunities forward.
- Be very careful about the reputational risk involved in making promises (to producers or buyers) that you can't keep. It is better to say 'I can try' and do your best.
- Crawl before trying to run. Local and national informal markets are often easier to access, with much lower marketing costs. Don't shun them in favour of export markets unless an SMFE has to (e.g. because the product is too expensive for local markets, or the local market is too small).
- Take time to understand exactly what it is that the next functional stage in the value chain really wants to buy. For example, if an SMFE produces crude cosmetic oils, the oils will have to be refined, standardised, analysed, documented, warehoused and reliably shipped in standard quantities to downstream formulators/manufacturers when they are needed. If the SMFE in question can't do this, then it will have to accept that a commercial partner will earn a mark up of 100 to 400 per cent doing it for them.
- Don't encourage SMFEs to take a do-it-yourself approach to every single stage of the process. It is usually better and often cheaper for the SMFE to contract a third party such as a manufacturer or a distribution agent rather than losing focus and failing at its core business.

- Markets for new products are fickle and can change very quickly. Strive for product diversification to minimise the risk that an SMFE suddenly lands up with a whole warehouse full of one product that nobody wants.
- Don't assume that just because a process went smoothly once or twice, it will always continue to do so. Encourage SMFEs to stay vigilant and check quality often so that they can pick up problems before they become major issues.
- Be aware that climatic variations can have serious consequences for production. Anticipate reduced raw material availability due to drought, for example, and inform commercial partners and/or clients in good time, so that they can also make other plans.
- Encourage SMFEs to take time to try out new processes on a small scale before they are forced by commercial considerations to do them at large scale without rehearsal. Anticipate that things can and will go wrong. Expect that unanticipated things will also go wrong and provide contingency funding or resources to deal with such eventualities.
- Be flexible and ensure that SMFEs have the ability and resources to respond rapidly to market signals (do not allow a donor's need for monitoring and evaluation to tie you into an inflexible set of targets).
- There are many ways to approach product development, depending on the product and the target market. As a facilitator, be creative and innovative and apply your mind, rather than relying on recipes.

11.4 Further information

A whole independent framework for product development and business planning has been prepared by the FAO under the acronym MA&D and can be downloaded here:¹⁰³ <http://www.fao.org/docrep/014/i2394e/i2394e00.pdf>

A good field level guide to business planning has been produced by ANSAB:¹⁰⁴ <http://www.ansab.org/wp-content/uploads/2010/10/3.-Business-Plan-Toolkit.pdf>

103. Lecup and Nichol森, 2000.

104. ANSAB, 2010d.

Module 12. Business planning and the facilitation of business development services

Developed by Duncan Macqueen

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12

Introducing new technology – an oil press in Burkina Faso

12.1 Purpose

This tool describes how facilitators can help small forest enterprises turn ad hoc activities into well planned businesses. It builds on the framework of product development introduced in the previous module and outlines the basic components of business planning with pointers towards more advanced service provider resources as those small forest enterprises evolve.

12.2 Outline

Step 1. Assess your and your client's comprehension of business planning

As noted previously, SMFEs can range from (i) large numbers of very small, low-input, low-output enterprises that proliferate to meet household needs, to (ii) smaller numbers of more productive enterprises. The business skills of those managing such enterprises will vary hugely depending on context, and making a difference to such enterprises through skilled facilitation will require a varied approach. For the former, it may be necessary for you to facilitate very practical, field-orientated learning about basic business concepts (see Box 46). For more productive enterprises, planning and investment (both to add value and to cut costs) is necessary and routine; their needs may be to hone existing expertise by facilitating consultation with specialised marketing, finance or business management professionals.

Making an informed decision about what type of business planning to facilitate requires familiarity with basic areas of business planning and frank discussions with key clients. Beyond background reading, we recommend that you organise an initial half day meeting with your target enterprises to assess their capacity for business management and identify particular areas where they might require business training. For the first part of the meeting, you can explore with your client how well you both comprehend the following points (which draw heavily on an excellent FAO guide):¹⁰⁵

- **Business definitions** – You can adapt basic definitions to make a number of useful points in developing a business. For example, defining business as: ‘a purposeful, industrious, organised undertaking in which goods and services are exchanged with one another or money on the basis of their perceived value’ can help drive home important points, such as the need for *planning* (rather than ad hoc activities), *industry* (not people trapped by force of habit), *organisation* (not isolated individuals or people with overlapping roles), and the importance of customers’ perception in determining value.
- **Business finance** – As noted in the previous module, calculating a business’ break-even point is absolutely crucial. Full financial planning requires knowledge of three things: where the money is in their organisation (to avoid theft), how much profit or loss they are making (to avoid bankruptcy), and how much ready cash they need to keep things going (to avoid bouncing cheques, angry creditors and predatory loan sharks). To get to this point, businesses need to keep good financial records that must include: (i) a balance sheet; (ii) a profit and loss account; (iii) a cash flow analysis. Even if the business is not yet operational, it is vital that a

105. Bonitatibus and Cook, 1995.

prospective entrepreneur is able to provide an educated estimate of the costs involved in a set of balance sheet, profit and loss and cash flow projections. These are especially important if the business needs to borrow money from any mainstream financial institution. Good simple guidelines can be found in the FAO group enterprise handbook.¹⁰⁶

- **Business structures** – Enterprises come in different shapes and sizes which may or may not be suited to their core business. It is important to have a grasp of the legal forms that are available locally, for example,
 - philanthropic trusts or foundations,
 - public enterprises,
 - sole traders or family businesses,
 - partnerships,
 - associations,
 - cooperatives,
 - companies limited by guarantee,
 - companies limited by share.

These different formal constructs will come with different rights and responsibilities (e.g. reporting and tax) and different management and oversight / investor type structures. The power to take decision and spread social and environmental benefits may greatly affect business behaviour.¹⁰⁷ It is worth doing some homework on this and exploring which (if any) are being adopted by client enterprises and for what reasons. Similarly it is useful to know the extent and reasons for informality.

- **Business roles** – For businesses as defined above to flourish they must succeed in: general management (business manager); sourcing or supply of inputs (supply coordinator); aggregation, processing, storage and delivery (production coordinator); marketing, sales and market intelligence (marketing coordinator) and record keeping (accountant). These are basic business roles. For sole traders this implies a heavy burden – that can be lightened by forming a collective business structure and allowing people to take on specialist roles. But in collective or community business structures there are often democratic or traditional authorities who assume general management duties. Such individuals may be subject to popular removal and are will not necessarily have the best skill set for general managers. Assigning the right people to the right roles is a fundamental starting point for business.
- **Business chains** – Any business needs to understand the various sets of activities that are required to get its chosen product or service to the customer. These linked sets of activities are commonly called a value chain which can be defined as ‘sets of activities in the development of a product at which value can be added in pursuit of competitive advantage’. While it is not necessary for a single business to manage a whole value chain (it can work with others who take on particular sets of activities) any business needs to know how different activities will be handled and what value will be added as a result. Conceptually it is helpful for businesses to think not just in linear value chain terms but also in a cyclical feedback loop. For example, any business will need to link customer requirements, or

106. Bonitatibus and Cook, 1995.

107. Boyd, 2005; Macqueen, 2006.

market intelligence with production, production with processing, packaging and delivery (called 'aggregation' here), and aggregation with marketing, which links back to market intelligence. Developing assigned staff roles with competence in each of these areas is a good place to build a business up.

Box 46. Basic business training for new state forest enterprises in Oromia, Ethiopia

In May 2008, Forest Connect partners in Ethiopia ran a Forest Enterprise Business Training course in the town of Goba, Oromia for almost 40 participants, including representatives of four new State Forest Enterprises (SFEs). These SFEs have financial autonomy (hence need to make a profit), wedded to a strong commitment to community development.

The aim of the course was to equip participants with the skills necessary to write a business plan. There was a deliberate focus on business planning in partnership with communities (for example, SFEs sourcing honey from community honey enterprises to process and package it). The reason for this was that many new SFEs had insufficient plantation timber resources to generate a profit and so needed an alternative means of generating income. The most logical approach was to add value to the many well-established forest product enterprises (for example lumber, fuelwood, bamboo, furniture making and honey production). The SFEs needed business planning skills such that they could successfully add value for all concerned and gradually move towards sustainable and legal use of resources.

The first day introduced the idea of 'enterprises' and their typical functions and roles. Participants went on a field exercise to the local market to observe the functions and roles of enterprises in action. Each participant took on a real business role (for example business manager, production coordinator, marketing coordinator, and accountant) and documented how real life community enterprises in the Goba market carried out core business functions, such as production, aggregation, marketing and market intelligence. The groups produced useful profiles of fuelwood, bamboo poles, wood furniture, honey and bamboo furniture enterprises.

The second day opened with a session on business ethics (values and principles) and business structures (how a business' structure, and the way it relates to other groups such as communities, allows it to put its values and principles into practice). In their groups, participants discussed how an SFE could help encourage the community forest enterprises identified in the previous day's market visit take on new business structures. The aim of this exercise was to explore how adhering to business ethics can help identify business objectives, which can then be realised through appropriate business structures.

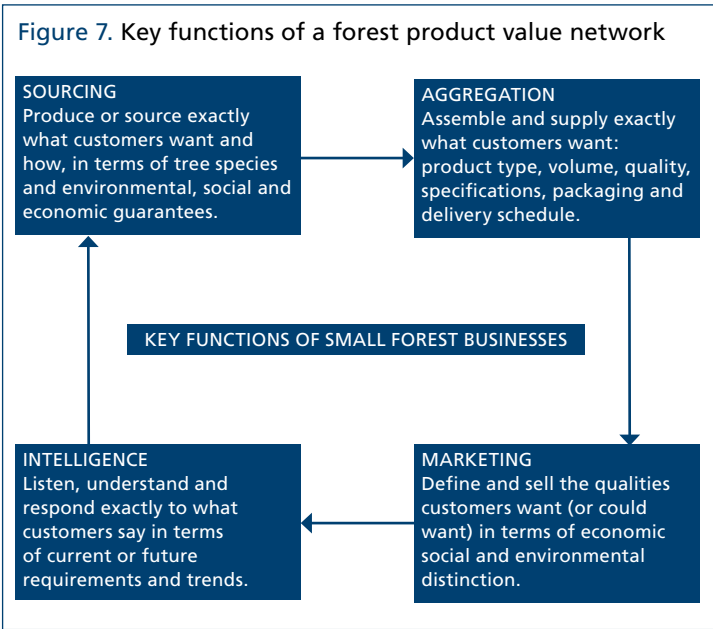
The trainers then introduced the concepts of market strategy, competition and pricing as the heart of business planning. Participants explored basic marketing concepts, including the 4Ps: producing a Product at a Price and Promoted in a Place so that customers will buy it. Basic notions of market strategy and competition theory were also covered. Each group was asked to develop a promotion package to be presented by their marketing coordinator (a poster as well as a verbal presentation). After voting on the posters, prizes were awarded for the best team effort.

The third day began with some simple examples of the basic records that any business needs to keep: balance sheets, profit and loss accounts, and cash flow analyses. The group revisited some basic elements of operational planning (basic forest operations), then moved on to the main steps of business development and how the business plan fits into those steps. The

main pillars of business planning were presented as: (i) business ethics, objectives and structure; (ii) market analysis and planning; (iii) operational planning; and (iv) financial projections and record keeping. The trainers distributed a business plan template and asked participants to develop a business plan of their own. All groups made good progress, although there was not enough time to produce a final plan.

The evaluation session at the end of the training course suggested that most participants found the training and fieldwork useful. Almost all felt the course was too short and some wanted further training in business administration, economics and marketing. Others wanted more specific training on geographic information system (GIS) mapping, participatory forest management and community development (an area which will be very important as SFEs attempt to develop business partnerships with communities).

Figure 7. Key functions of a forest product value network



- **Business competition** – Most businesses have to compete for customers and should be able to be specific about how they are going to win customers for their product or service. Who customers choose is ultimately defined by a business' competitive advantage, namely the superiority gained by a firm when it can provide the same value as its competitors but at lower cost, or can charge higher prices by providing greater value through differentiation. Competitive advantage can be gained in different ways, remembered by the handy abbreviation of the 4Ps:
 - Product – offer a product that customers want
 - Price – sell at a price customers will accept
 - Promotion – bring that product effectively to your customers' attention
 - Place – make the product accessible to customers who will buy it.

- **Business strategy or marketing strategy** – Once they are clear about what their competitive advantage is, a business should know how it will keep that advantage, i.e. what marketing strategy it will use to keep ahead of the competition. Someone in the business should be doing some market research and finding out what customers want. Their market strategy might involve simply promoting the product to more customers in an existing market, modifying the product to make it sell better in that existing market, finding new markets to sell an existing product, or selling something new in a new market.

		Product	
		Present	New
Market	Present	Market penetration – Promote your existing product to more customers in your existing market.	Product development – Develop new products or product packaging.
	New	Market development – Sell your existing product in new places.	Diversification – In addition to what you already produce, try to produce something new.

- **Business plan** (see also Module 11, Step 4) – Knitting all of the elements described above into one logical whole is the essence of business planning. Writing a business plan is a good way of checking that a business has thought through its operations. As shown below, there are a number of key elements to a business plan, each of which has a purpose:
 - Overview (business owner, name, address, description of the product and enterprise objectives)
 - Organisational structure (form of business and who does what)
 - Market strategy (competition analysis based on product, price, promotion, place – and market strategy)
 - Business operations (production, processing and transport activities)
 - Financial plan (investment and balance sheet, profit and loss account, cash flow)
 - Conclusions (is the business viable?).

As noted above, actually writing a business plan together can quickly transform the confidence and capacity of local entrepreneurs. There are some useful guides on producing a business plan that you can easily adapt and follow.¹⁰⁸ Only once you have completed a plan with your client SMFEs is it worth identifying particular business development services (bearing in mind that these are unlikely to be free).

Step 2. Prioritise what type of capacity building is most necessary

Once you have discussed the main areas of business planning together (hopefully by trying to write a draft business plan) you can conduct exercises to identify and prioritise areas where the enterprises want training and capacity building. For example, as the facilitator you could set up a simple voting exercise. Ask participants to write on separate cards what they think

108. Bonitatibus and Cook, 1995; ANSAB, 2010d.

the main elements of business planning are. Ask them to order these cards into clusters of like-minded ideas, and give each cluster a title. List these titles down the left hand side of a large sheet of paper. Each participant then votes (recorded either as ticks if the paper is on the wall, or as stones or seeds if the paper is laid on the floor) to allocate those areas where they feel they need training. Alternatively, you could run the exercise in the form of a game, such as a business training auction.¹⁰⁹ Identify key areas of business planning as before, but this time write the cluster titles on cards. Divide the participants into 3–5 teams and give each team 100 credits to bid for training relating to those titles. Auction off the title cards; each team tries to secure one or more types of training that its members want. The highest bidder wins the title card but then has to deduct the cost from the 100 initial credits, ready to bid for the next item. Ensure the cost of each title is recorded to reflect the perceived importance of training in that area.

Step 3. Arrange training sessions with suitable business development service providers

There will almost certainly be local trainers who can provide business training. These trainers can be useful not only in business planning, but also during the business implementation phase (Module 7 describes how to benchmark service providers to assess who offers value for money). There are two important considerations that as a facilitator you will have to bear in mind: market demand and market supply. Market demand is all about working with target enterprises to help them identify their *need* for business training – convincing them of the added value that it would give to their business and so generating *willingness to pay*. Market supply is all about convincing actual or embryonic training service providers that it is worth developing training materials for an SMFE audience. It boils down to whether the target enterprises can be organised to a scale sufficient to entice service providers into *willingness to provide*.

Where it is not possible to arrange a market deal that works for both enterprises and service providers, it is important to analyse where the problem lies. Are there too few enterprises to make training cost effective? Or are the enterprises not convinced that training would provide value for money? Or do they have cash flow issues that might require longer-term saving to pay for training? In such cases, you may need to subsidise the cost of training. If the problem lies with the lack of available business service providers, you may need to subsidise or pay for external experts to train embryonic business service providers.

Step 4. Creating demand for business training where it does not exist

Fledgling enterprises may not be aware of why they need business training. As a facilitator, you can work with an enterprise or (preferably) a group of enterprises to show how better business skills can greatly increase profits. For example, in Burkina Faso the Tree Aid Forest Connect team noted how prices for particular products varied depending on the season. By storing and delaying the sales of certain products, they could show how much extra money the local producers could make. Introducing the benefits of elementary business planning can lead to greater interest in further business training.

¹⁰⁹ O' Hara, 2007.

Step 5. Create a supply of business development services where these do not exist

If local trainers do not exist, it may be necessary to identify and negotiate with potential local training organisations and then facilitate an external expert to train-the-trainers. For example, in several Guyanese Amerindian craft producing communities, there were no nationally available design consultants. Bringing in external consultants allowed the facilitating organisation and local groups to participate in design training, which was then passed on to other members who were not able to attend the training workshops.

12.3 Useful tips

- Take time to get to know the client businesses you are working with. The more closely you understand what their level of competence is, the greater your chance will be of linking them with useful training.
- In more elementary business training situations, it can be useful to explore business understanding through field work; for example, taking client business leaders to the market to talk through value chains, business structures and competition or organising a competition to market a product.
- Introduce the concept of constant innovation. Shy away from the idea that anyone can be fully trained: there are always new ways of doing business.

12.4 Further information

An excellent initial introduction to group enterprises and the types of business skills they need to master has been produced by FAO:¹¹⁰

<http://www.ruralfinance.org/library/client-advice/cooperation/cooperation-details/en/?srec=10698&tdet=training&tdet2=&tdet3=2&referer>

The rural finance learning centre has produced a series of lesson guides on enterprise development, intended for NGOs and other organisations (including government departments) with a mandate to promote income-generation or micro-enterprises among poor people:¹¹¹

http://www.ruralfinance.org/training/guides-for-trainers/enterprise-development/en/?no_cache=1

For rural communities, poster guides have been produced to introduce the (largely financial) elements of business planning:¹¹²

http://www.ruralfinance.org/training/training-tools/training-tools-details/ru/?no_cache=1&srec=11758&tdet=training&tdet2=&tdet3=2&referer=MTAxNDg%3D

A significant toolkit has been developed under the title 'Market Access and Development' that takes facilitators and enterprises through the various stages of business planning:¹¹³ <http://www.fao.org/docrep/014/i2394e/i2394e00.pdf>

A practical example of a preliminary business training workshop can be found on IIED's website:¹¹⁴

http://api.ning.com/files/ukLt6ybCLpIHxyHepIPbmfIjO4cmFA081-RuWAC3h9UI103jeeYT4F3W7j5H5zl78iwgPuxiOz46lwGyD5oNxe*ouGq9SHUN/ReportGobaBusinessTraining3.pdf

110. Bonitatibus and Cook, 1995.

111. Rural Finance Learning Centre, 2009a; based on Harper, 1996.

112. Heney, 2004.

113. Lecup and Nichol森, 2000; 2006.

114. Macqueen, 2008.

Module 13. Financial planning and the facilitation of financial services

Developed by Jennifer Heney

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13

Assessing options for watershed protection in the Caribbean

13.1 Purpose

This tool addresses financial sustainability and describes how facilitators can help small forest enterprises improve their financial management and secure necessary financial services. It introduces the basic components of financial planning with pointers towards more advanced service provider resources as those small forest enterprises evolve.

13.2 Outline

Step 1. Familiarise yourself with the nature of business and the financial reality of being a micro-entrepreneur

It is crucial that personnel involved in advising and promoting the development of small forest enterprises are familiar with and appreciate the challenges facing rural households with regard to managing money.¹¹⁵ Rural livelihood strategies are often complex, involving diverse income-generating and subsistence activities. Cash flows are uneven and it's often difficult for people to manage their money. Saving is essential and borrowing, which is merely advance use of future savings, is often necessary to overcome temporary deficits. Investing time, energy and resources into a new enterprise, or new methods in an existing enterprise, is an additional risk and places extra demands on the cash flow. Careful planning does reduce the risk but is not something small rural entrepreneurs are accustomed to doing. You need to understand all these issues so you can help small rural entrepreneurs gain the confidence and ability to analyse their financial situations and plan and prepare budgets for themselves.¹¹⁶

- Facilitators must be able to understand and explain to others how to construct simple cash flows, work out the profitability of enterprises and interpret balance sheets.
- Any training should include opportunities to interview households and people running small scale businesses about their financial situations and practice in producing simple accounts and cash flow plans from the data collected.

Step 2. Document and review the range and variety of financial services that are available in your target area

Financial service providers help people to manage their money. People need places to keep cash savings safe and they may need to borrow money to overcome a cash flow deficit. Most people turn first to relatives, friends and neighbours to solve money problems. Failing this, loans or delayed payments can often be negotiated from landlords, traders, shopkeepers, money lenders, input suppliers or processors. All such loans carry an interest charge and formal or informal contractual repayment conditions. In some places, rotating savings and credit associations have evolved to help people accumulate sums of money. Pawnbrokers may be available to offer loans secured by items of value, particularly jewellery. Formal organisations, such as registered cooperatives or credit unions and commercial banks, generally offer both deposits and credit services. They are likely to have a number of products, each with different conditions and charges. Post offices may offer savings accounts and there may be NGOs and microfinance institutions offering credit. Organisations offering

115. Bonatibus and Cook, 1995; Harper, 1996; Rural Finance Learning Centre, 2009a.

116. See Rutherford, 2001; Herrerias and Hernandez, 1998; Rural Finance Learning Centre, 2009b.

microfinance often encourage people to form self-help groups to collect and manage members' savings. In reviewing the range of financial services in your area, it is important to:

- record the geographical location of the major service providers and the types of products available. People often say there are no sources of credit but this assertion needs careful analysis; deferred payments (i.e. short-term credit) between value chain actors are often overlooked;
- interview households to reveal the extent of informal sources of credit and the existence of savings clubs and rotating savings and credit associations (ROSCAs);
- carefully review the terms and conditions of loans from formal and semi-formal organisations and businesses to find out maximum and minimum amounts, repayment terms, interest rates and special conditions (for example regarding purpose, initial deposits, administration fees).

Step 3. Introduce systems to help people engaged in small scale forest enterprises learn the essentials of financial management and planning

Group discussions are the best way to encourage people to think about financial planning and how they are going to improve or develop a business enterprise. If you are forming groups to improve participation in value chains, this may be a good opportunity to introduce the topic of financial planning and accounts (see Box 47). If not, then groups can be formed following the farmer field school or study circle method (see 'Further information' at the end of this module).

These groups must be voluntary and motivated to learn about money management – otherwise there is absolutely no point. If the people are not engaged in developing a commercially-oriented enterprise, these types of exercises (working out cash flows, estimating profitability or deciding how much capital can be borrowed without excessive risk) are also probably not worth the effort. Group enterprises are notoriously difficult to manage successfully because of horizontal spread of decision-making power and, in these instances, learning the basics of financial management is essential. As a facilitator, you will need to be well trained and able to communicate financial concepts to people in a simple manner. In summary:

- Identify opportunities for group discussion and learning which enable key financial management concepts to be explained to the participants.
- Ensure the concepts are relevant and of practical use to the participants.

13

Box 47. Improving financial planning skills

SEWA Bank has found that financial counselling is a necessity if its clients are to accrue long-term benefits. Better financial planning skills lead to wiser and more sustainable decision making. The bank trains financial counsellors at the grassroots level and financial literacy specialists in different aspects of financial planning, so that they can assist women workers to develop sound financial discipline. SEWA Bank has found that financial discipline arrived at through financial counselling helps their clients take care of exigencies in future, gives them a feeling of security, inculcates a feeling of economic independence and encourages them to plan for the future. Read more at:

<http://www.sewabank.com/financial-counseling-campaign.htm>

Step 4. Try to establish information centres that offer details of financial services

You may find that small scale rural entrepreneurs are reticent to approach formal financial institutions and therefore miss out on the services they offer, such as current accounts, overdrafts, term loans, money transfers or deposit accounts. The source of the problem may be literacy or cultural barriers (which affect women in particular).

As a facilitator, you can assist your clients by carefully considering the best type of financial institution to promote dialogue with; member-owned financial service providers, such as financial cooperatives or credit unions, generally have a greater commitment to the education of their members in the use of their services. Socially committed microfinance providers also may have good practices in relation to client advice. Other useful steps you can take include the following:

- Use the inventory of available financial products and services to create simple leaflets, posters and reference material in the local language for use in discussion groups and distribution through local information centres.
- Help enterprise associations or study groups to set up literacy training if required.
- Encourage financial institutions to improve their 'user-friendliness' and participate in information meetings with prospective clients.
- Help to arrange visits and discussions with bank or other financial institution staff by groups and individuals.

Step 5. Encourage financial institutions to adopt a client-driven approach

Focus on those institutions that are interested in expanding their outreach to rural areas, and forest-based enterprises in particular, and ensure their products and procedures are appropriate for your clients. Many financial institutions have rigidly structured loan terms and repayment conditions that may not fit the requirements of rural business enterprises, while microfinance methodologies may not suit the circumstances of larger micro-enterprises. There may be an over emphasis on credit and insufficient attention given to the importance of savings and insurance products. Financial institutions may need encouragement to adopt a more client-driven approach to their business. In terms of lending procedures, institutions may need to consider the following:

- Adjusting loan terms and conditions to take into account longer production cycles, cyclical cash flows and capital investment needs.
- Linking repayment schedules to the total household cash flow rather than a specified enterprise output, which improves recovery prospects.
- Ensuring loan officers have sufficient technical knowledge about production systems to evaluate loan applications and identify problems in a timely manner.
- There is often considerable value in linking financial service provision with business advice, which may be provided by partner organisations or a section of the financial institution. For example, financial institutions may be able to give advice on sound business planning.

Step 6. Assist financial institutions to lower their costs and reduce the risks of lending to small-scale clients in remote areas

Institutional outreach to remote areas can be costly in terms of staff and office facilities, and lending small amounts to inexperienced entrepreneurs is considered risky. There are strategies to help overcome these limitations, for example making use of computer systems to streamline procedures, sharing facilities with other organisations to reduce overhead costs, using organisations already working in remote areas as agents and introducing credit scoring. From the client point of view, the use of new technologies such as mobile phones offers a way of lowering transaction costs.

Guarantee mechanisms are a potential way of encouraging banks to lend to potentially risky economic sectors, such as small businesses. Guarantee funds can be set up privately or by a government and are used to pay the lending bank an agreed percentage of losses incurred on guaranteed loans. This 'insurance' reduces the bank's risk, thereby allowing the bank to lend to borrowers who, on their own, would not have enough collateral or reputation to qualify for a bank loan. As the facilitator, you should be aware, however, of certain situations that guarantee funds may lead to if borrowers confuse loans with 'project money', which may reduce loan repayment (and the incentive to follow this up by financial lenders). There may be scope to address the question of collateral, e.g. by promoting legal land titling that can be used as collateral or by facilitating the use of alternative assets such as timber stocks in holding yards or machinery. In summary:

- Encourage financial institutions to undertake strategic planning exercises to analyse their costs and develop approaches to extend services to forest-based enterprises.
- Evaluate the pros and cons of a loan guarantee scheme in the area in which you are working and promote its introduction if it seems appropriate.
- Facilitate innovation and flexibility in the use of collateral and seek legal changes if needed.

Step 7. Facilitate the development of value chains for forest enterprises and assist small-scale producers to secure contracts that increase their access to financial services

Traders, processors, input suppliers and exporters may be very significant providers of financial services to small-scale rural businesses, particularly credit, which is often available as part of input supply and product purchase transactions. In addition, businesses with contracts for their output, individually or through associations, have better repayment potential and are thus more attractive clients for banks and other financial institutions. Encourage contact between actors in the value chain and help to facilitate meetings to discuss the sorts of financial services that buyers could provide and that might also improve the quality and reliability of supply to those buyers – resulting in potentially new agreements and contractual arrangements.

Step 8. Where there are no accessible financial services, encourage the development of self-help savings and loan groups

Setting up ad hoc loan funds is not usually a sustainable way of providing financial services in areas that lack other service providers. There has been much greater success with self-help savings groups that make loans to their members. These groups can evolve over time into registered financial cooperatives or develop links to banks or other financial institutions to expand the resources at their disposal (see Boxes 48 and 49).

There are a number of different strategies for organising and helping such groups to become established. One of the best is the Village Savings and Loan Association model, which has been introduced in over 20 countries, and has been shown to be highly practical and adaptable to people's needs. If a savings group hopes to expand and provide financial services to a large number of people on a permanent basis, then the credit union or financial cooperative model is the best structure in the long-term.

In summary:

- Decide which strategy is appropriate for your circumstances and introduce the idea to people carefully without undue encouragement or compulsion.
- Ensure facilitators familiar with the methodology provide appropriate guidance.
- Create a system of genuine self-management by the group members.

Box 48. Supporting women's credit and savings groups in Ethiopia

Women are often ignored in enterprise development and conservation programmes in the rural areas of Ethiopia. The Forest Connect partner, Bale Eco-region Sustainable Management Programme (BERSMP), a partnership programme of FARM Africa and SOS Sahel Ethiopia, has been working towards gender mainstreaming across its activities, supporting women in different business enterprise areas, such as coffee and honey trading, fuel efficient stove production, honey production in home gardens and tree seedling development.

A key element of these programmes has been the development of 12 credit and saving cooperatives run by and for women, established under the umbrella of Joint Forest Management Cooperatives. The programme provided grant money to support the cooperatives and further the development of their enterprises. Most of the cooperative enterprises were engaged in coffee and honey trading. They buy coffee and honey from individual community members and then sell to the Oromia Forest and Wildlife Enterprise (OFWE, the government authority) or local market. OFWE sells the honey nationally to a private enterprise (ECOPIA) and/or at exhibitions and bazaars. Money is needed for equipment to improve quality of both the honey and coffee.

In 2009, the programme provided a 40,000 Ethiopian Birr (USD 2316) grant to support two organised women's groups in Kumbi (85 women) and Shawe Kebeles (84 women), in Harana Buluk Woreda. The cooperatives have been providing the grant money to its members on a credit with interest basis and using the grant as revolving money. A third round of credit service has been provided to those members who did not get the chance previously.

The current capital of the cooperatives has reached ETB 62,000 (USD 3590) in the bank and a total of 136 women members have accessed the credit service in the two Kebeles. The 88 women who have previously accessed the credit service have a total working capital of more than ETB 100,000 (USD 5790) on hand after returning the loan to the cooperative.

Box 49. Developing a revolving credit scheme to develop eco-tourism in Guyana

A Forest Connect partner, the North Rupununi District Development Board (NRDDB), aimed to create jobs and incomes by showcasing the beauty and biodiversity of the region, and the traditional culture of the Makushi Indigenous People. One of the communities, Surama, had tested the waters by developing ecotourism facilities and had experienced some success. As a result, NRDDB set up a revolving tourism micro-fund for community business start-ups. They linked this revolving micro-fund to training for existing tourism businesses in the area and product development – attracting donor funds in the process. To further assist recipients of the micro-fund, NRDDB worked on marketing this tourism venture internationally, in partnership with the government of Guyana and the private sector.

Surama is now recognised as a success story, with 90 per cent or more of villagers earning at least some income from tourism. The rotating micro-fund system helped to catalyse other low volume, high value market products. NRDDB helped establish a network of private and community tourism lodges, sites, tours and products with shared services and benefits. In addition to providing direct jobs, the village assets base increased, their culture and heritage was revalued, preserved and transferred to the younger generation (for example in the form of traditional dances, food and so on). In addition, the biodiversity of the area is now protected; the combined 'nature' plus 'heritage' brand is what the community felt appealed to tourists. As a result, there is new hope that conservation values can underpin a green economy that contributes to the national low carbon development strategy being promoted by the Guyanese government.

13.3 Useful tips

- Far too little attention is given by many facilitators of support to small forest enterprises to helping small-scale entrepreneurs to become competent in financial planning. Government and NGO field staff are not generally experienced in explaining budgets and other financial concepts in a manner suitable for people with little formal education. It is this failure that makes so many initiatives to promote rural enterprises unsuccessful in the longer term. The feeling that planning must be done for people needs to be overcome and efforts concentrated on helping people to become competent themselves (see Boxes 50 and 51). A number of microfinance programmes have shown the way and incorporated efforts to teach clients financial literacy. One notable example is SEWA Bank in India (see Box 54).
- Participatory methods and visualising techniques are familiar to development workers; encourage them to apply these techniques to financial problems and issues. This helps to overcome literacy problems (although competent financial management does require a certain level of literacy in the end). Simple calculators are very cheap these days and make the preparation of budgets and other calculations so much easier; if available, provide them to study groups and members of producer associations.
- As a facilitator you should understand the nature of financial service provision as a business that expects to make a profit. Some member-owned organisations and socially motivated NGOs are not primarily pursuing profit, but they still have to cover their costs and any losses they may make, and thus require a profit margin. A knowledge of the accounts and business strategies of financial institutions will help facilitators to provide informed advice to clients and service providers alike. Online lessons can be found at: <http://www.ruralfinance.org/training/guides-for-trainers/en/>

Box 50. Financial advice in the Solomon Islands

Microfinance Rural Resource Centres (MRRC) in the Solomon Islands are designed to enable rural communities to provide timely and local access to financial service information and assistance. An MRRC can be compared to a village shop in that it stocks and distributes information on a range of financial products and services that are relevant to the community.

The local communities or local community partners have typically donated or built a small building or a room to house the MRRC. Credit Union Foundation Australia has provided start-up funds to pay for office furniture, storage and a notice board display area, as well as the initial communication costs, volunteer training and printing. A local management committee operates the MRRC on a voluntary basis. Volunteers are recruited by the committee and trained as advisers.

The centres provide advice on savings clubs, grants, financial planning and insurance, as well as acting as brokers for available loans. They gain income from selling savings club packs and passbooks, commission on insurance sales, representation or information display fees, communication fees (for sending faxes or providing email access) and service fees, for example for assisting people to complete forms and prepare submissions for micro-enterprise loan applications.

Box 51. Rural information centres in East Africa

The DrumNet project in East Africa has created a network of support centres for rural communities that provide on-the-ground assistance through the delivery of a range of financial, marketing, and information products and services. One of the objectives is to provide rural entrepreneurs with a bridge to the formal financial system so they can grow and diversify their businesses, generate more income and employment, and create forward-backward linkages.

DrumNet's support centres are simple, stand-alone facilities catering to clients who require financial, market and technical information to make more profitable transactions. Each support centre is equipped with a computer with a dial-up connection to the internet and a mobile phone (GSM) to link up with the central hub in Nairobi, which acts as the main server/database and provides an access centre for the storage and retrieval of information. Each support centre is managed by an agent, usually a member of the local community, who collects and disseminates information, assists in forming farmer groups, and arranges buy and sell deals.

As members interact with the network, DrumNet will compile data related to the credit worthiness of individual clients – data that will be in great demand by financial institutions that have yet to tap into the market for microcredit and other financial products in this part of Africa. In the future, the DrumNet team envisages that its support centres will be embedded into existing banks, savings and credit societies, and agricultural associations. Read more at: <http://www.prideafrica.com/ourwork.php#tab1>

- There are good examples of efforts to provide people with information about financial services and break down the barriers that prevent people using the services (see Box 52).

Box 52. Improving bank–client relationships

The National Bank for Agriculture and Rural Development in India encourages banks to promote farmers' clubs in rural areas under the farmers' club programme. The primary objective is for the banks to coordinate the credit flow to club members and forge better bank-borrower relationships. The clubs are also encouraged, however, to invite agricultural and other technical specialists to talk to them, liaise with corporate input suppliers to purchase bulk inputs on behalf of club members and organise or facilitate joint activities like value addition, processing and collective farm produce marketing for the benefit of members. Read more at:

<http://www.nabard.org/development&promotional/farmersclubprogrammomore.asp>

- Don't assume that higher risks and costs of small loans to rural producers cannot be overcome (see Box 53).
- Many financial service providers have found it worthwhile to help clients link to markets and provide them with business development services (see Box 54).
- Community-owned and managed savings groups have often been known to stop functioning after some time as a result of default and/or fraud. The Village Savings and Loan Association methodology is designed to overcome these problems. A locked box is used to keep savings and group records safe and the keys are held by three members other than the treasurer. On a date chosen by the members, usually after about a year, all the financial assets are divided among the members in proportion to each one's savings. This payout is called the 'action audit' and it cannot take place until all members have repaid their loans.

Box 53. Introducing agricultural micro-lending in Georgia

The United Georgian Bank (UGB) has discovered that agricultural micro-loans can be very profitable, even for a commercial bank. Although still small, the share of agricultural loans is growing fast. In October 2006, agricultural loans made up 8.9 per cent of all micro-loans and 4.1 per cent of the entire portfolio value. Productivity has increased tremendously and loan officers are keen to lend to farmers. There were three key factors that led to this success:

The first was staff motivation and empowerment. UGB introduced an agricultural lending bonus scheme and head office managers went into the villages with the loan officers to coach them on the job. Seeing their bosses getting their hands dirty made a big impression on the loan officers.

The second was careful product design. The loan structuring is flexible in terms of disbursement and repayment and is based on a cash flow analysis, which considers all household incomes and expenses. Because harvesting and produce sales differ case by case and depend on the current market prices, the bank offers generous repayment schedules with a long duration. At the same time, the bank has abolished prepayment fees for agricultural loans to encourage farmers to pay back their loans as early as possible, for example if they sell their produce earlier than originally expected.

The third factor was adopting a cluster approach for handling rural clients. The idea of the cluster approach is simple: the bank selects larger villages with good agriculture potential and talks to the responsible village head (a political administrator elected by the people) about the loan scheme. The village head organises a farmer's meeting in the village hall (held at times when farmers are free from other obligations) where loan officers and unit managers inform the farmers about UGB's agricultural loan products and interview applicants on the spot. In many cases, the farm inspection can also be done the same day. The advantages of this approach continue right through the credit cycle: better information about clients, streamlined disbursement and repayment, and easier monitoring.

Box 54. Providing integrated services to clients

In India, BASIX – an innovative financial service provider – aims to provide a comprehensive set of livelihood promotion services to poor rural households under one umbrella. The organisation provides direct loans to rural producers through a network of village-based customer service agents and district-based unit offices, and indirect loans through intermediaries such as seed production organisers, who lend to rural producers in their network.

BASIX works with their subsidiary, IGS, in collaboration with various government, cooperative, non-government agencies and private sector firms to provide technical assistance and support services to improve livelihoods in rural areas. IGS is consciously building networks with the agencies to improve input supply, production and output marketing. In this way, IGS acts as a catalyst to bring agencies together and ensure rural entrepreneurs benefit from the integrated services. Read more at: <http://www.basixindia.com/>

Similarly, SEWA Bank established SEWA Gram Mahila Haat in 1999 to provide integrated marketing services to rural producers. This marketing organisation explores, develops and establishes both local and national markets for rural products.

13.4 Further information

A major collection of resources, tools and training materials for facilitators concerned with the availability of financial services in rural areas can be found in the internet based Rural Finance Learning Centre:

<http://www.ruralfinance.org>

Here you can find downloadable lessons on: Enterprise development:¹¹⁷

http://www.ruralfinance.org/training/guides-for-trainers/enterprise-development/en/?no_cache=1

Rural finance:

http://www.ruralfinance.org/training/guides-for-trainers/rural-finance-course/en/?no_cache=1

Recommendations for understanding rural enterprises and their finances include:¹¹⁸

FAO's Group Enterprise Book:

<http://www.ruralfinance.org/library/client-advice/cooperation/cooperation-details/en/?srec=10698&tudet=training&tudet2=&tudet3=2&referer>

A guide to the poor and their money: http://www.ruralfinance.org/fileadmin/templates/rflc/documents/1153482922749_The_Poor_and_their_Money.pdf

A report entitled 'Accounting is a kid's game':

http://www.ruralfinance.org/fileadmin/templates/rflc/documents/1159514802847_accounting_kidsgame_en.pdf

Some key texts on understanding the financial landscape and financial services for the poor are listed by author below:¹¹⁹

Bouman: <http://library.wur.nl/way/catalogue/documents/Financial%20Landscapes%20Reconstructed%20TOC.htm>

de Klerk: <http://www.microfinancegateway.org/p/site/m/template.rc/1.9.34002/>

Heney: http://www.ruralfinance.org/library/client-advice/money-management/ru/?no_cache=1

Rutherford:

http://www.ruralfinance.org/details/ru/?no_cache=1&srec=10442&tudet=training&tudet2=&tudet3=2

A number of guides exist for setting up different institutional structures to address financial needs, such as:

Study circles:¹²⁰

<http://www.sccportal.org/Default.aspx?ID=827&M=News&PID=1534&NewsID=872>

Field schools:¹²¹

http://www.infobridge.org/ffsnet/output_view.asp?outputID=3363

Discussion groups:¹²²

http://www.ruralfinance.org/library/client-advice/money-management/ru/?no_cache=1

Cooperative enterprises:¹²³ http://www.ruralfinance.org/library/client-advice/cooperation/cooperation-details/en/?no_cache=1&srec=10914&tudet=trainin g&tudet2=&tudet3=2&referer=MTA1MDg%3D

117. Rural finance learning centre, 2009a; 2009b.

118. Bonitatibus and Cook, 1995; Rutherford, 2001; Herrerias and Hernandez, 1998.

119. Bouman, 1994; Rutherford, 1996; Heney, 2007a; de Klerk, 2008.

120. Rural Finance Learning Centre, 2009c; Swedish Cooperative Centre, 2009.

121. Okoth et al., 2002.

122. Heney, 2005/2009.

123. Koopmans, 2004; ILO, 1986.

More specific guidance is available for:

A client-driven approach:¹²⁴

http://www.ruralfinance.org/library/service-provision/research-and-planning/research-and-planning-details/en/?no_cache=1&src=10980&tdet=training&tdet2=&tdet3=2&referer=MTA1NDM%3D

Rural finance products:¹²⁵

http://www.ruralfinance.org/library/service-provision/financial-products/financial-products-details/en/?no_cache=1&src=10443&tdet=training&tdet2=FINANCIAL_PRODUCTS&tdet3=2&referer=MTA1MzM%3D

Self-study guides to financial services:¹²⁶

http://www.ruralfinance.org/training/self-study-guides/marketing-financial-services/en/?no_cache=1

Competent loan application and appraisal procedures:¹²⁷

http://www.ruralfinance.org/fileadmin/templates/rflc/documents/1155308169754_FAO_GTZ_Agr_Production_Lending_Toolkit__1.pdf

Linked financial and business services:¹²⁸ http://www.ruralfinance.org/fileadmin/templates/rflc/documents/Synergies_through_Linkages_pdf.pdf

Cost and risks of financial service provision:¹²⁹

http://www.ruralfinance.org/library/service-provision/financial-sector-linkages/financial-sector-linkages-details/ru/?no_cache=1&src=11442&tdet=training&tdet2=&tdet3=2&referer=MTA1MzQ%3D

or http://www.ruralfinance.org/library/policy-making/rural-outreach/rural-outreach-details/ru/?no_cache=1&src=11581&tdet=training&tdet2=&tdet3=2&referer=MTA1Mjk%3D

Catalysing mobile phone banking:¹³⁰ http://www.ruralfinance.org/library/service-provision/technology-and-outreach/technology-and-outreach-details/en/?no_cache=1&src=12124&tdet=training&tdet2=&tdet3=2&referer=MTA1NDg%3D

or http://www.ruralfinance.org/library/service-provision/technology-and-outreach/technology-and-outreach-details/en/?no_cache=1&src=11333&tdet=training&tdet2=&tdet3=2&referer=MTA1NDg%3D

Guarantees and collateral:¹³¹

http://www.ruralfinance.org/fileadmin/templates/rflc/documents/1126268365900_Guarantee_funds_for_small_enterprises.pdf or

http://www.ruralfinance.org/fileadmin/templates/rflc/documents/1183203231096_Credit_Scoring_Systems_Handbook.pdf or

http://www.ruralfinance.org/fileadmin/templates/rflc/documents/1159347295412_ILO_collateral_law.pdf

Financial service facilitation within value chains:¹³² http://www.ruralfinance.org/library/policy-making/value-chains/value-chains-details/en/?no_cache=1&src=11777&tdet=training&tdet2=&tdet3=2&referer=MTA1MzA%3D or <http://www.share4dev.info/ffsnet/documents/3616.pdf>

Using financial service options available through actors within those chains:¹³³

http://www.ruralfinance.org/library/service-provision/value-chain-finance/value-chain-finance-details/en/?no_cache=1&src=10392&tdet=training&tdet2=&tdet3=2&referer=MTA1NDc%3D

124. Nelson, 2005; Heney, 2007c.

125. Evans and Ford, 2003.

126. Bankakademie (undated).

127. Bankakademie, 2005.

128. Sievers and Vandberg, 2004.

129. Gallardo *et al.*, 2006; Ivatury, 2006.

130. DFID, 2006; Owens and Bantug-Herrera, 2006.

131. Deelen and Molenaar, 2004; Claire *et al.*, 2006; Balkenhol and Schütte, 2004; Assets Capitalization Bureau, video.

132. Gonzalez-Vega *et al.*, 2007; Shepherd, 2007.

133. Goodland and Pearce, 2004.

Finally, where there are no accessible financial services, useful guidance exists on how to create them:¹³⁴

http://www.ruralfinance.org/fileadmin/templates/rflc/documents/1159465146635_Credit_Association_Training_Manual_8_99_eng.pdf

or http://www.ruralfinance.org/library/service-provision/informal-group-mechanisms/informal-group-mechanisms-details/ru/?no_cache=1&src=10383&tudet=training&tudet2=&tudet3=2&referer=MTA1MzY%3D

or http://www.ruralfinance.org/details/en/?no_cache=1&src=13670&tudet=raining&tudet2=&tudet3=3

or http://www.ruralfinance.org/library/policy-making/financial-cooperatives/financial-cooperatives-details/ru/?no_cache=1&src=11673&tudet=training&tudet2=&tudet3=2&referer=MTA1MjA%3D

or <http://www.ifpri.org/publication/community-based-financial-organizations?print>

or http://www.ruralfinance.org/details/ru/?no_cache=1&src=10969&tudet=training&tudet2=&tudet3=2

134. Vor der Bruegge and Stack, 1999; NABARD, 2003a and 2003b; Gaboury and Quirion, 2006; Ritchie, 2007; Allen and Staehle, 2009.

Module 14. Strengthening community enterprise organisations

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Meeting to discuss tree enterprises in Malawi

14.1 Purpose

This tool aims to help facilitators to work with enterprise to get the right people doing the right jobs within an enterprise structure to enhance profitability and sustainability. It helps to identify appropriate institutional structures and governance for community forest enterprise organisations, and provides guidance on how to strengthen performance against a triple bottom line of economic viability, social equity and ecological sustainability.

14.2 Outline

Step 1. Conduct a participatory situation analysis

To be able to strengthen an SMFE, a facilitator must get to know the enterprise he or she is working with (see Box 55). For simple, unorganised enterprises, the best way is undoubtedly an informal conversation with the owner. Where there are more complex group enterprise structures, it can be useful to: (i) interview key members of the enterprise against a checklist of key functions; (ii) carry out semi-structured interviews with independent people familiar with that enterprise; and (iii) undertake a participatory SWOT analysis (strengths, weaknesses, opportunities and threats) of the governance and structure of the enterprise with all those involved. We unpack some of these elements below.

Box 55. The Rainforest Alliance SMFE diagnostic tool

Through Rainforest Alliance's work supporting SMFEs, it became apparent that there was the need for an evaluation tool to help make decisions regarding SMFE development and growth, focus for technical assistance and direct future efforts. This evaluation can be done by the SMFE themselves (first party) or through a facilitator (third party) with the objective of:

- identifying the current status of the SMFE in terms of level of management, functional areas and strategic orientation
- establishing a baseline against which results of internal efforts and technical assistance can be measured
- focusing technical assistance and other services on priority areas.

The diagnostic tool looks at six functional areas of the SMFE that are key to ensure long-term sustainability:

- financial administration
- financial accountability
- marketing
- management of value-added processing
- organisational strength
- strategic planning.

Through application of a questionnaire and site evaluation, performance is scored (0–10) against a number of criteria under each functional area. A weighting system enables sufficient importance to be given to those functional areas that are found to have the greatest impact on SMFE sustainability. Results from the questionnaire can be mapped in the form of a graph that clearly shows areas of weakness and is a visual tool for SMFE performance improvement.

Interview of key members against a checklist of key functions. This is an important first step to get a general understanding of how the enterprise works. For example, the following factors represent a good checklist for starting the situation analysis:

- What are the operating rules of the organisation? Peruse the constitution to complement information gathered in interviews.
- What are the roles and responsibilities of the members? This too can be cross-referenced against the constitution of a community enterprise to give a clearer picture. Reviewing meeting minutes, records and reports also gives a better understanding of how their constitution is applied. An analysis of the relationship between individual members within the organisation can help establish what is (or is not) working.
- What are the main elements in any record keeping system? Reviewing records, meetings and discussions with the manager/secretary or responsible person gives a clear picture of the record keeping practices.
- How do members participate? Review the meeting minutes and observe meetings and focus group discussions to identify the level and trend of participation in the planning and implementation of the organisation's activities – paying particular attention to the role of women if this is an area of concern.
- What decision-making procedures are in force? Direct observations and reviews of meeting minutes can help corroborate statements about decision making.
- What benefit-sharing mechanisms does the organisation use? This can be further examined by discussing the issue with key actors in the organisation and target groups (e.g. poor people, women). Value chain analysis can also help you to better understand the share of total value distributed among the different value chain actors.
- What are the enterprises' main business development skills and approaches? You can check information from interviews against performance reports, operating manuals and any business plan that has been developed by or for the enterprise.
- What is the perceived sustainability of the enterprise? How much attention has been given to factors such as the availability of raw materials, markets, technologies, finance and staff continuity? It can be helpful to discuss with key actors how they rank or score these different elements.

Conduct semi-structured interviews with independent people familiar with that enterprise. Using the information categories above, facilitators can also gather relevant information from national and regional stakeholders, giving an external perspective on the enterprise's governance and structure and any perceived strengths or weaknesses. External stakeholders might include government agencies, leaders of enterprise federations/associations, informants in local community-based organisations or NGOs and other private institutions.

14

Conduct a participatory SWOT analysis with enterprise members. The SWOT analysis can form the basis for identifying what might change in terms of structure or governance to improve collective action (see Box 56). It can also strengthen the skills of particular people within the enterprise, improve efficiency, reduce transaction costs and improve bargaining power.¹³⁵

135. CAPRI, 2006.

Box 56. Procedure for conducting a SWOT analysis

Write the enterprise title clearly on a piece of paper or the floor. In advance of the meeting, prepare four columns in an appropriate language with the following titles: strengths, weaknesses, opportunities and threats. Put positive symbols above the strength and opportunity columns and negative symbols above the weakness and threat columns. For the strengths and weaknesses columns, explain that the main aim is to look backwards at performance to date. For the opportunity and threat columns, emphasise that this is looking forward. Mark these columns with backward and forward arrows to make the point.

Give people a few cards (1–2 for a meeting of 20+) and something to write with. Ask people to write one idea per card, starting with key past strengths first followed by key past weaknesses. Once they have finished, ask participants to help group the cards that are similar and perhaps give a new title to the group. Ask for a volunteer to recap the main grouped cards of strengths and weaknesses.

Now ask participants to think about what they have just heard in the strengths and weaknesses column. Invite them to write down what future opportunities or possible future threats they feel might arise if strengths are built on and weaknesses tackled (or if they are not). Once again, the participants should be invited to group these into similar items, perhaps writing a new title for each group that captures what is being said. Ask somebody to recap.

Once the strengths, weaknesses, opportunities and threats have been captured, debate and discuss the findings with the participants. If desired, it can also be helpful to rank the opportunities – for example, into most achievable and least achievable opportunities, or into highest to lowest priority. You can do this by giving each participant a vote with a pen, sticker or stones if you are doing the exercise on the floor.

Source: O'Hara, 2007.

Step 2. Facilitate the establishment of an improved organisational structure and governance system

An appropriate organisational structure and good governance mechanisms are crucial for sustainability in the long run (see Box 57). Organisational structure defines who controls what decisions in an enterprise and so is related to enterprise governance. Attention should therefore be given to both. The preceding exercise should have given you a clear indication of where things are working well and where people perceive the problems to be. We suggest the following activities as a process to move towards a better enterprise structure and good governance system.

Box 57. Training in democratic management practices, transparency and accountability among Guatemala's new community forest associations

Community forest enterprises in Guatemala are some of the most organised in the world. Recently, 63 small forest enterprises based in 300 local communities (representing 77,000 families) established a national alliance representing 11 regional umbrella associations: ACOFOP, ASIL COM, ASOCUCH, ASORECH, COG-MANGLAR, Enredemonos por el Corazon Verde, FEDECOVERA-Guatemala, FEDERAFOGUA, FUNDALACHUA, RENACOR and Ut'z Che'. The total area of forest managed by these 11 associations exceeds 750,000 hectares.

To strengthen the enterprise governance of these associations and their constituent member enterprises, Ut'z Che' organised an advisory and training session on democratic practices, transparency and accountability. The aim was to promote equity within these associations and ensure that they did not suffer from internal conflicts that would undermine their business performance based on sustainable forest management.

The course was run with the recognition that communities are almost never free from internal conflict – but that there is nevertheless potential to transform situations into economic potential given good internal governance. For example, plantations were being cleared in the former refugee communities of Nuevo Mexico, but through attention to democratic practices, transparency and accountability, a cooperative was formed to take economic advantage of the plantation resource within the settlement area.

Facilitate better management. The size of the management team (people in critical decision-making positions) should be in keeping with the size of the enterprise, the available financial resources, the composition of the community and the investment in terms of staff time required to achieve the desired outcomes. The management structure (roles and responsibilities played by individual members) needs to be designed so that the basic functions of the enterprise can happen smoothly (for example supply and production coordination, marketing and accounts).

Appropriate incentives should reinforce positive behaviour of those involved in management activities (see Box 58). An analysis of the main activities that an enterprise carries out, and the roles and responsibilities needed to manage them, can give you an idea of where the weak points are and whether there is potential for improving the structure (e.g. adding new roles, differentiating roles, or deleting duplication of roles). Community meetings can help to suggest changes. Where the enterprise seems to be controlled by an elite (for example, all men), you can encourage members to develop more inclusive structures.

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Facilitate good leadership. A facilitator should not dictate who runs an enterprise. The identification of good leadership, however, is the basis for a sustainable organisation. You may be better placed to see who would make a good manager or marketing coordinator than those within the community. Good leadership helps to establish an intimate relationship between the management team and the broader community in which the enterprise is based.

Box 58. Structure of Bhimeshwor handmade paper enterprise in Nepal

Established in 2005, Bhimeshwor is a community-based handmade paper enterprise in Dolakha district that receives technical assistance from the Asia Network for Sustainable Agriculture and Bioresources (ANSAB). Shareholders include 10 community forest user groups (with a 30 per cent share), 2 previous entrepreneurs (with a 35 per cent share), 20 poor households (with a 10 per cent share) and private investors (with a 15 per cent share). A national company, Himalayan BioTrade Pvt. Ltd., buys all lokta paper, provides technical advice and owns a 10 per cent share.

A general assembly of the 34 shareholding representatives finalises the major policy and business plan annually. A board of directors, comprising nine individuals who meet on a periodic basis, oversees major production and management decisions. A three-member management committee, consisting of the managing director, the marketing manager and the production manager, is responsible for day-to-day operations of the enterprise. The enterprise has adopted a performance-based incentive scheme for its employees, including management. For example, the managing director and marketing manager receive 10 and 20 per cent of the profit respectively for their services.

The enterprise has an annual production capacity of 4800 kilograms (24,000 large sheets) of handmade paper worth NPR 1,680,000 (USD 21,538), and provides direct employment to 15 individuals. The raw material, lokta (*Daphne bholua*), is sourced from ten community forest user groups, of which eight are Forest Stewardship Council certified. The joint ownership and clear roles, responsibilities and incentives that exist within the management structure of this enterprise have proved an attractive model for a wide range of natural resource enterprises and forest-dependent people, ensuring benefits for the poor and sustainable management of forest.

You can help refine the criteria by which an appropriate leader is chosen. You can also encourage the community consider selecting a leader from all segments of the community, including the poor, women and the other disadvantaged members.

We suggest following these steps when selecting the leadership:

- During the process of situation analysis and meetings, help clarify what particular characteristics might be useful in what particular business roles (see Box 59).
- Identify natural candidates for those roles based on their capacity, interest and involvement. This is for your own purpose; don't share this information with community members. You can, however, facilitate a process that draws attention to potential candidates (especially if they are from marginalised sectors of the community).
- Take the community through a process whereby they agree on a firm set of criteria and a process by which to select people for different roles and responsibilities.
- Encourage a consensus decision or, if consensus is not possible, facilitate the election of candidates, especially for the position of business manager (or enterprise leader).

Box 59. Criteria for management roles – presented in a forest business training workshop in Goba, Ethiopia

A business manager has to: (i) make sure the different parts of the business work well together; (ii) be involved in any major decisions; (iii) keep the group motivated, and so needs to be a good leader in that they are respected, have well-rounded knowledge, and can make decisions quickly.

A supply coordinator has to: (i) negotiate deals with suppliers of raw material; (ii) make sure all necessary inputs (raw materials, equipment, parts, transport) arrive on time; and (iii) check quantities and qualities of everything, and so must be numerate, investigative and a good negotiator.

A production coordinator has to: (i) get the right people doing the right jobs; (ii) arrange training to fill skill gaps; (iii) oversee production (quality, quantity, time, cost), and so needs to be technically competent and willing to work long hours.

A marketing coordinator has to: (i) find out what customers want; (ii) ensure the product is what customers want (advising on any design changes); (iii) check out competition; (iv) make sure customers know about products; (v) oversee sales and permits, and so needs to be lively and outgoing, full of ideas and someone who enjoys the company of people.

An accountant has to: (i) keep simple financial records that all members of business can understand; (ii) produce a balance sheet, profit and loss account, and cash flow analysis; and (iii) keep the members informed, and so has to be numerate, honest, well-organised, disciplined and accurate.

Help to put in place good organisational governance and management systems. Develop an intervention strategy to strengthen the enterprise's management system.

This strategy could involve:

- *Developing a good enterprise constitution.* It is much easier to govern an enterprise if there is a clear, agreed statement of the enterprise's vision, constitution, operating systems and roles and responsibilities of its constituent members (and especially the management staff). The constitution should be developed in such a way that (i) all members of the enterprise feel ownership of it and (ii) it is clearly in line with national and local government policies for enterprise structures. Give particular attention to clearly identifying roles and responsibilities of organisational management positions and the associated rewards, accountability structures, penalties, membership rules and benefit sharing. A drafting committee can be formed that consults enterprise members and interest groups and that the final draft has the consent of the various interest groups' meetings and general assembly.
- *Developing an operating procedures manual.* An appropriate operating procedures manual guides the day-to-day management of the enterprise and helps avoid any conflicts or contradictions in roles and responsibilities. All the members of the organisation need to agree via the general assembly. The operating manual identifies those responsible within the enterprise for procuring raw materials, contracting and training human resources, maintaining equipment, and developing markets. The constitution drafting committee can draft the operating manual or a

new committee can be formed. The committee consults all its members and community interest groups. The draft of the operating manual is presented in the general assembly for approval.

- *Creating a positive working environment that respects socio-cultural norms and practices.* A good working environment can greatly enhance productivity in the workplace and should be built around local norms, values and practices and should motivate all members to follow them. For example, salaries should be competitive with existing local rates for hiring skilled or unskilled employees. Priority could be given to particularly poor economic groups in hiring human resources. Options should be explored, such as creating an awareness programme to explain the benefits of the enterprise to people in the same communities who are not directly involved in enterprise, thereby strengthening cohesion in the community. The case study presented in Box 60 gives an example of a good governance structure.
- *Consider ways of rewarding people other than through salaries.* As salaried labour can be skewed towards male members of an enterprise, it is often useful to think through how monies might be reinvested to reach potentially disadvantaged groups, for example in community projects or in women's savings groups.

Box 60. Creating a positive business environment: the Dhadedungha sub-group in Nepal

The Dhadedungha sub-group of the community forest user group at Lakuridanda consists of 23 members managing around 100 hectares of Shankhadevi community forest. Formed in 2005, the group is presently involved in three main activities: the cultivation of more than 25,000 seedlings of Argeli (a raw material used for handmade paper), wintergreen collection and potato farming.

After the sale of their harvest, the sub-group distributes incomes fairly among themselves. In addition, they have also started a saving and credit scheme to create long-term financial support. To date, NPR 35,000 (USD 412) has been collected in the saving fund, which is mobilised for different income generating activities with a focus on poor members of the community forest user group. A transparent accounting system encourages a stronger feeling of ownership and better motivation among the group members.

The sub-group undertakes community development activities and is planning on establishing a community grocery to make affordable goods available to the community. The sub-group's business model pays strong attention both to the conservation of biodiversity and beauty of the landscape and to poverty reduction through sustainable resource management.

Step 3. Build capacity

During the analysis process, you will inevitably identify various gaps in capacity. You can address those gaps directly through training, hands-on support, and through the simple practice of learning by doing. For each specific enterprise case, tailor a capacity building programme to the existing capability and needs. As the facilitator, you do not need to actually deliver all of the capacity building, but you should endeavour to identify those who can and develop local trainers to spread knowledge within different geographical regions (a

useful guide to developing local trainers has been produced in Nepal).¹³⁶ For example, ANSAB's past experience in Nepal shows that the following aspects of enterprise governance and structure often need attention:

- *Management training.* Management training and coaching (together with the necessary technical support) can help to smooth operations by creating a clear understanding of roles and responsibilities within the organisation. Such training should also cover business planning and review, and techniques for creating team spirit and a sense of ownership and cohesion among the members and staff.
- *Skill development.* Different forest enterprises will have a number of particular technical skills that need to be mastered – from nursery design and planting, tree and tree product harvesting, through to sawmilling or other processing activities. A facilitator should become familiar with agencies that can design and implement training to enhance the enterprise's efficiency and competitiveness.
- *Communication.* An effective communication mechanism should be established between the enterprise members and other concerned stakeholder groups. As a facilitator, you can assist enterprises to maintain updated information related to their enterprises environment, policies, markets and so on. You can also give advice as to how to make such information more accessible to external groups.
- *Record keeping.* A transparent record keeping system minimises conflict among enterprise members and stakeholders. All documents and records (for example of general assembly meetings and any decisions taken) should be well maintained so that any members from the enterprise or external stakeholders can easily access them. Customised or hands-on training is often needed to improve record keeping.
- *Account keeping.* Transparent accounting is very important for an enterprise's survival. Therefore, a capable person from the local community should be employed to manage the accounts. You may find that simple account keeping training is necessary (see some of the guides referred to in Module 13).¹³⁷
- *Practical experience sharing.* You can organise study tours for the members of an enterprise to learn successful practices from another enterprise. Such opportunities spread practical skills, experiences and confidence among enterprises.
- *Monitoring and evaluation training.* Installing a regular programme of monitoring and evaluation will help enterprise members become familiar with the different functions of their organisation, how effective it is and what they need to prioritise to improve future business prospects.

Step 4. Explore collective action

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Often, small forest enterprises manage their businesses individually and in isolation. Because of this, the costs of production and marketing per unit of product are high. One way of enhancing efficiency in production and marketing is clustering of enterprises (see Box 61).¹³⁸ Clustering enterprises into, for example a producer association, can increase their bargaining power both in terms of buying inputs and selling products. It also facilitates access to financial and business service providers, for whom a certain scale of industry is necessary to make the provision of a service profitable.

136. ANSAB, 2010e.

137. Bonitatibus and Cook, 1995.

138. Macqueen et al., 2006.

Box 61. Strengthening enterprise governance for coconut fibre associations in Mozambique

The Mozambique Forest Connect partner, Centro Terra Viva (CTV), noted the disorganised and informal nature of producers of coconut fibre products in Manica province and set up an initiative to strengthen enterprise governance and management structures. The objective was to improve the resilience of producer groups involved in the use of coconut and alleviate poverty.

The main initial activity was to organise meetings with five different clusters of coconut producers to explore the possibility of establishing formal associations. These early meetings persuaded producers of the market advantages of working together in formal associations and five new coconut producer associations were created and legally registered. To help new association leaders with management skills, CTV organised study visits to other established forest product associations. They also organised expert training events, both on the sustainable management of natural resources, and on the integral use of coconut. They facilitated the participation of the coconut associations in regional trade fairs and exhibitions, both to show off their own products, but also to gain exposure to the products of competitors.

The impact of formalising and strengthening the governance structure of these coconut producer associations has been in increasing income from the sale of some products based on increasing use of the coconut tree (beyond just the leaf and coconut fruit). Study visits and exposure to trade fairs were particularly effective in helping members gain business management and market experience.

Depending on the country, clustering can take the form of associations, cooperatives or informal networks. Clustering can help to attract the interest of other local and regional business support programmes, such as government training programmes, seed money from government or development agencies and loan provisions from development banks. As the facilitator, you can help to make links with these other support programmes, visiting and briefing them about the enterprises, maintaining regular communication and inviting them to special events. Regular interactions and evaluations on how collective action is developing can be crucial, especially in the early stages of its development (see Box 62). As a facilitator, there are a number of important pointers you should bear in mind when facilitating greater collective action:

- Associations work best when they have already started on their own. Investigate first what existing groups might be strengthened rather than promoting a totally new entity. Research shows a strong link between success and a history of social activity.
- Try to maintain a healthy separation between enterprise associations and any local power struggles especially as they relate to politics. If the association is driven by one particularly enthusiastic leader, try to encourage the development of procedural rules so that the momentum can be maintained if that person leaves.
- Emphasise the importance of clear and transparent rules, particularly governing all financial activities and how to resolve conflicts within the group.
- Encourage a focus on a few manageable quick wins, at least to start with, so that the trust in the utility of the association grows.
- While the economic success of an enterprise association is clearly pivotal, do not discourage the statement of broader social or environmental goals that may serve to provide momentum and focus through difficult economic periods.

- Once the core business is running well, encourage evolution into new product development ideas to keep the enterprise association at the competitive edge (see Module 11).

Box 62. Applying a cooperative 'health check methodology' developed by Forest Connect Ethiopia in China

Xiao Zhuang Bamboo Cooperative was established in 2007, building on its predecessor, Xiao Zhuang Food Factory. The cooperative had five initial funding members, with a total registered capital of 70,000 yuan (USD 11,122). By 2009, 132 members had joined the organisation and, with five financial investors, the registered capital increased to 1 million yuan (USD 158,894).

The cooperative's main product is dry bamboo shoots, which account for about 80 per cent of production; their other product line is small, dry bayberries. The Forest Connect partners (Institute of Forest Policy Information and Beijing Forestry University) used a cooperative 'health check methodology', developed by the Ethiopian Forest Connect Team, to review gaps in capacity and identify priorities for developing capacity.

The methodology involved four participatory steps: (i) familiarisation by telling the cooperative story (a chronological account by cooperative members of the origins and aims of the cooperative); (ii) a 3R assessment of the impact of the cooperative on forest rights, responsibilities and revenues; (iii) a SWOT analysis of current performance; and (iv) a review of capacity gaps in five areas, production, processing, marketing, market intelligence and overall management.

In the familiarisation and 3Rs exercises, many cooperative members thought employment opportunities was an obvious advantage of the cooperative, but that increasing income and village reputation were also an important benefit. In the SWOT analysis, members highlighted weaknesses such as the lack of capital for enlarging the scale of operations, shortages of equipment and management know-how, and difficulties in attracting talent.

Cooperative members identified gaps in capacity regarding knowing how to improve product quality, what processing equipment to opt for, and how to improve market information. The groups struggled with the idea of market research due to their context of currently operating under centralised control. The exercise led the cooperative to prioritise market research to develop new products with an emphasis on technical exchanges.

Step 5. Provide a one stop shop for information on financial and business development services

As noted in Module 8, developing a communication strategy that provides SMFEs with the information they need is essential and perhaps the best way to strengthen the governance capacity and structures of SMFEs. Until SMFEs are capable of running smoothly and independently, a degree of hand holding may be inevitable (see Box 63).

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As noted above, financial and business development services such as business planning, auditing, skill development, account keeping training and marketing are crucial for the sustainable operation of an enterprise. As a facilitator, you can be of great service to small forest enterprises by developing a directory of service providers and facilitating linkages between the enterprises and different service providers (see Module 7).

Once any enterprise has started, closely monitor their activities. If you identify any gaps in capacity, give immediate hands-on support or point the enterprise

in the direction of a suitable service provider (see Modules 12 and 13). Observing regular meetings, attending assemblies, and reviewing records can help you to pinpoint such needs. This hands-on involvement can help you develop a good working relationship with the enterprise and also enable you to judge the appropriate time to exit.

Box 63. Rainforest Alliance experiences of strengthening producer organisations from Mexico

Rainforest Alliance has been working to strengthen capacity for sustainable forest management and enterprise development in Mexican ejidos and indigenous communities since 2005. For example, the indigenous community of San Bernardino de Milpillás Chico, in Southern Durango, has 159,925 hectares, 77 per cent of which is productive pine forest under sustainable management certified to FSC standards.

Milpillás entered an exclusive commercial relationship with a private Mexican company in 1962, which installed sawmills in the community and provided some training and working capital. This relationship ended in 2006 and the community launched itself as an independent, vertically integrated forest processing company selling on the open market. Rainforest Alliance started to work with the community in 2006 in the following areas:

- Training activities
 - harvesting practices such as directional felling, bucking, extraction, cutting to length
 - sawmilling practices
 - classification of sawn wood into quality grades
 - production activities such as daily production control, inventory management and tracking production costs
 - administration and finance systems.
- Facilitation
 - identifying and capturing government resources for community forestry enterprises
 - restructuring community enterprise management, i.e. recommending smaller decision-making groups, more frequent meeting schedules, and installing a professional forest manager
 - integrating electronic administrative control systems
 - identifying market opportunities and new products.

The community forest enterprise is now processing 100 per cent of the round wood harvested through value-added production. Forest products sold now include green wood, kiln-dried lumber in multiple quality grades, sawn boards, blocks, pre-dimensional components for broom handles and bobbins, packing material and sawdust. Analysis from 2005–2008 shows a dramatic improvement from losses of USD 561,646 in 2005 to net gains of USD 1,785,025 by the close of 2008. This is due to the willingness of the community to invest USD 1.1 million of their own funds over the initial three year period (2006–2008) and the willingness to change production and management processes with Rainforest Alliance's technical assistance.

Despite a registered 9 per cent reduction in volume (m³) of wood harvested between 2005 and 2008, there was a 16 per cent increase in board foot production over the same time period due to greater efficiencies. Production costs reduced by an average of 43 per cent through: (i) a 60 per cent increase in production yield of board foot/person/day (as above), a 5 per cent increase in production of wood grade 2 and higher (from 10 to 15 per cent), a 9 per cent reduction of wood produced in grade 5 (from 41 to 32 per cent) and a 6 per cent reduction in short pieces (from 11 to 5 per cent). The average sales price increased by 19 per cent, from USD 0.59 to USD 0.70 per board foot, through increasing production of grade 2 and higher and decreasing production of grade 5. Reduced sale of round wood by 10 per cent and, as mentioned above, increasing total production by 16 per cent and reducing costs by 43 per cent.

14.3 Useful tips

- Practical experience of Participatory Rural Appraisal and community-based enterprise development are important skills for a facilitator in using this tool. Don't rush these interventions – it is vital to ensure participatory ownership and remain process oriented rather than cutting corners to focus on the end goal.
- Work hard to acquire knowledge of and relationships with the various financial and business development service providers at local, national and even international levels. One of the most useful functions of a facilitator is to develop the linkages between such service providers and groups of small and medium forest enterprises.
- Develop well-planned exit strategies for the more direct hands-on support activities but without necessarily closing down longer-term functions such as being a one stop shop for information on financial and business development service providers. Make sure that these exit strategies are made in consultation with the enterprises you are supporting so that they know what to expect.

14.4 Further information

A good introduction to transformation of local communities into functional enterprises is given in the following text:¹³⁹ http://www.ansab.org/wp-content/uploads/2010/08/ANSAB_FORD_FinalReport-1008.pdf

A good basic guide to developing collective rural enterprises or producer organisations has been produced by Oxfam:¹⁴⁰ http://www.regoverningmarkets.org/en/resources/producers/producer_organisations_a_practical_guide_to_developing_collective_rural_enterprises

Further examples and insights on strengthening producer organisations and value chains can be found in these reports:¹⁴¹ <http://www.capri.cgiar.org/pdf/capriwp60.pdf>
<http://www.wageningenacademic.com/pomc>

A number of practical examples of capacity building in producer organisations in Nepal are listed below:¹⁴² http://www.ansab.org/wp-content/uploads/2010/08/ANSAB_FORD_FinalReport-1008.pdf
<http://www.ansab.org/publication/enterprise-oriented-community-forestry-in-nepal-strategies-and-lessons>
http://pdf.usaid.gov/pdf_docs/PNADK581.pdf

For more detail on the Chinese case study of carrying out a cooperative health check see: <http://www.fao.org/forestry/enterprises/forestconnect/en>

139. ANSAB, 2008.

140. Penrose-Buckley, 2007.

141. Shiferaw *et al.*, 2006; Bijman and Oorthuizen, 2008.

142. Subedi *et al.*, 2000; Subedi *et al.*, 2004; Subedi, 2006; Subedi *et al.*, 2007.

Module 15. Building in ecological sustainability

Developed by Daphne Hewitt

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Looking at timber tracking in Ghana

15.1 Purpose

This tool describes the various approaches you can use to understand and ensure that ecological sustainability is maintained in small forest enterprise activities. It also points to the opportunities and challenges of moving towards voluntary third-party certification of sustainable forest management.

15.2 Outline

Step 1. Identify key impact points for sustainability in the value chain targeted

A standard definition of ecological sustainability is the restoration and preservation of the ecological processes on which life depends. A starting point for incorporating measures to protect ecological sustainability while developing economically viable SMFEs is to identify how your target group is impacting the environment and where actions can be taken to incorporate sustainable practices. For different types of forest enterprises, these impacts and possible actions will differ:

- If working directly with landowners and producers of raw material, key impact points for sustainability will be in the management and extraction of forest resources.
- If working with SMFEs involved in processing and value-added production, key impact points for sustainability will be around the production process itself, including the selection of raw material, use of chemicals or finishes, energy use and efficiency in production, and disposal of waste products.

Step 2. Generate consensus about sustainability among SMFE members

To incorporate measures that address ecological sustainability in a forest resource-based enterprise, it is essential that all members of the enterprise or group of small enterprises share common objectives regarding sustainability. These goals must be developed together as a group, with stakeholder input, and should be clearly defined and stated in a shared mission statement for future reference (which can have useful promotional value too).

The scope for integrating sustainable practices is largely determined by looking at the size and objective of the SMFE, i.e. the extent to which they aim to move into value-added processing. To generate consensus, it can be useful to facilitate a broad discussion within SMFEs on the following issues:

- Identify common *goals* for the SMFE or SMFE group. These will probably include both commercial goals to do with the future size of operation or scope of production anticipated, but might also include socio-economic goals (i.e. if group intends to function like a private company and maximise profit OR maintain a smaller scale, maximise employment in communities and reduce risk).
- Identify key *reasons for incorporating sustainability*. Reasons such as 'the need to maintain production', 'the need to access markets that demand sustainability' and so on are important in communicating both with community members, and to potential customers in the marketplace.
- Develop an *internal code of conduct for SMFE members* (including a supplier's code for SMFEs to apply when purchasing from external suppliers). Codes of conduct will include adoption of measures for sustain-

ability; for suppliers it will include identifying sources of forest product and management practices employed. This code of conduct will not emerge immediately out of the initial meeting, but should be developed through steps 3–5 below.

Building consensus on the reasons for pursuing sustainability (and how to incorporate it practically through a code of conduct) can both help to strengthen internal loyalty to the enterprise and help position the enterprise favourably in the marketplace. Experience has shown that building consensus on sustainability into SMFE development secures real improvements in community wellbeing – encouraging a focus not just on financial income but also on the integrity of resources and the social health that underpins long-term SMFE success. For this reason, it is important to stress that sustainability encompasses environmental, economic and social dimensions.

Step 3. Undertake a baseline sustainability study

To identify ways for SMFEs to strengthen the ‘restoration and preservation’ activities that will ensure ecological sustainability, it is important to get a baseline understanding of the current status of their operations. At the very early stages of fostering SMFE development, this is most likely to be a self-assessment in the form of a simple checklist, which will give a general understanding of current practices and identify areas for improvement in the form of an action plan.

If there are serious concerns within the enterprise regarding biodiversity conservation, it may be worth using participatory biodiversity monitoring tools to undertake a more thorough baseline understanding.¹⁴³ Later in the development process, it may be appropriate to bring an outside expert in to conduct a third-party assessment or ‘gap analysis’. As a starting point, however, you as the facilitator can encourage SMFEs to develop a self-assessment checklist that might include the following key areas:

- Assess current forest resource management practices: (i) is harvesting balanced against forest growth? (ii) do management practices incorporate environmental protection measures (such as protection of water courses, wildlife and soil resources)? (iii) is there an open and accessible long-term plan that guarantees the above?
- Review current supply chains and sources of forest product: does the SMFE know where their forest products are coming from and how the forests from which they originate are managed? As above, forest products should be sourced from areas under long-term sustainable management plans to reduce risk of ecological damage.
- Diagnose the operational efficiency in any processing systems: (i) how efficient is the current production system with regards to resource use? (ii) are conversion ratios and other measures of production efficiency assessed and measures taken to reduce waste?
- Investigate the current use and management of chemical substances: does the SMFE have hazardous material handling protocols, including safe disposal of waste?
- Identify activities in common among groups of SMFEs that can be done together to cut costs and increase the economic sustainability of operations under a joint operating plan.

143. ANSAB, 2010f.

Step 4. Identify existing guidelines and standards for assessing sustainability (such as certification)

Once consensus has been reached regarding the reasons for pursuing sustainability, and simple diagnostics have been completed, facilitators might identify and introduce existing guidelines and standards for sustainability in the forest or processing sector in which the target SMFEs are engaged (see Box 64).

The scope and content of third-party certification scheme criteria and indicators of sustainability form a broad-based resource from which to enrich SMFE thinking on sustainability. They can help to guide the development of internal codes of conduct and ultimately help an SMFE gain recognition in the marketplace for achievements through certification. It is important to note that many of these guidelines and standards are primarily a marketing tool to prove sustainability to customers who are concerned about it. If customers of the enterprises with whom you work are not pushing for provable sustainability – it may be best to use these standards to learn about the ingredients of sustainability without necessarily paying for the certification process.

Examples of such schemes include the following:

- **For SMFEs managing and extracting forest resources:** the Forest Stewardship Council (FSC) standard and the various schemes endorsed by the Programme for the Endorsement of Forest Certification are the best known and most widely recognised international standards for forest management certification (see <http://www.fsc.org/> and <http://www.pefc.org/>). New standards are also under development that will allow fair trade certification of timber arising from community forest operations that may become relevant for SMFEs.
- **For SMFEs involved in value-added production and processing:** depending on the product and the manufacturing process, there may be a number of certification systems to consider.
 - Wood products – in addition to forest management certification described above, there are also schemes that trace the origin of processed wood. For example, FSC Chain of Custody (CoC) certification distinguishes sustainable wood products in the marketplace.
 - Non-Timber Forest Products (NTFPs) – FSC certification applies and the FSC CoC seal will demonstrate sustainability in the marketplace.
 - Edible NTFPs – in addition to the sustainability standards listed above, there are other options (which can be combined with forest management and CoC certification) that have specialised market functions, for example giving assurance that the products are organic (<http://www.ifoam.org/> – IFOAM is a good resource for identifying appropriate organic standards in your region) or fairly traded (<http://www.fairtrade.net/>).
 - Processes involving chemicals and wood finishes – guidelines exist for the selection of environmentally sound finishes and standards for safe handling and use of chemicals including safe disposal to avoid environmental pollution, such as Green Seal (<http://www.greenseal.org/>).
 - Business management systems – the International Organization for Standardization (ISO) has developed standards to help companies of all sizes address environmental sustainability in their systems. While these standards do not dictate resource management thresholds or field-level impacts, they are tools to facilitate development of management processes and systems (http://www.iso.org/iso/iso_catalogue/the_iso_portfolio/iso_portfolio_environmental_protection.htm).

Box 64. Pursuing FSC group certification in Nepal

Forest Stewardship Council (FSC) certification adds value to a product, giving it a verifiable social, economic and environmental quality that can strengthen market opportunities. Nepal's community forest user groups produce forest products that have demand in international markets but the size and nature of these groups in Nepal makes individual certification impossible from a cost efficiency point of view. Because of this, the Asia Network for Sustainable Agriculture and Bioresources (ANSAB) began exploring group certification with the Forest Stewardship Council.

ANSAB facilitated a multi-stakeholder process, leading to the formation of a unique public private alliance of industry, government, NGOs, communities and forest certifiers on the certification and sustainable marketing of Non-timber Forest Products (NTFPs). It facilitated the development of interim Forest Stewardship Council timber and NTFP certification standards. A huge awareness raising and capacity building effort was needed to build knowledge of certification among relevant stakeholders. The alliance adopted a group certification model, where the Federation of Community Forestry Users, Nepal (FECOFUN) works as a resource manager for the user groups and holds certification on their behalf. ANSAB also facilitated FECOFUN to develop the certification policy and guidelines, and the user groups to develop their forest management plans, and map areas for the protection of sensitive wildlife habitat, cultural sites and streams.

After bringing the systems and performance practices of the user groups and FECOFUN to the level that meets FSC standards, ANSAB brought in SmartWood/Rainforest Alliance for a credible third-party assessment. SmartWood awarded FSC forest management group certification to FECOFUN and user groups selected by the alliance for pilot certification. The certification at the beginning included NTFPs and later included timber. ANSAB has also arranged national and international buyers and sellers meetings to inform the forest entrepreneurs of the quality and standards of the products for marketing.

Today, the certification covers 22 community forest user groups that manage over 14,000 hectares of forests, and includes timber and more than 24 NTFPs used in making handmade papers, essential oils, Ayurvedic medicines and supplements, and a variety of other herbal medicinal and beauty products for sale in international markets. Besides enjoying all the rights and benefits of individual user groups, the 22 user groups have developed their guidelines, mapped areas for the protection of environmentally sensitive areas, and are also monitoring the changes in forest conditions. An additional benefit in the certification process was that user groups in Dolakha were able to settle the prevalent tenure and territorial issues with the Yak grazers in the region. Malika handmade paper enterprise of Bajhang received the world's first FSC certification for its handmade paper, which in turn is linked to the international market with facilitation from ANSAB. The international cosmetics company Aveda has been using the handmade paper from Malika and other certified enterprises to wrap their holiday gift boxes since 2007.

For more information:

http://www.fsc.org/fileadmin/web-data/public/document_center/publications/Case_Studies/English_-_Case_Study_-_Nepal.pdf

Step 5. Prepare SMFEs to adopt their own sustainability standards or move towards full third-party certification

The markets in which SMFEs operate will determine whether it is enough to use internal codes of conduct on sustainability or move towards independent third-party verification of forest management or chain of custody practices. At the present time, the FSC provides the highest and broadest level of recognition by global environmental groups that a forest enterprise is demonstrating sound environmental and social practices. The resulting seal of certification provides assurance to buyers that the product has been sustainably developed, and can help to secure certain discerning markets.

Even if an SMFE chooses not to pursue third-party certification (on grounds of complexity, cost, lack of interest from its buyers and so on) it can be useful to look closely at the basic principles that underpin FSC forest management standards: ecosystem and wildlife conservation (including special measures for high conservation value forest areas), fair treatment and good conditions for workers, community relations, conservation of water and energy resources, soil conservation and erosion control, management plans, reduction of pesticide use, and environmental assessment and monitoring. The detailed criteria that accompany each of these principles can form a more thorough checklist for considering how to address sustainability issues.

For SMFEs that do wish to pursue full independent certification, it is vital that you as a facilitator provide clear and practical guidance so that expectations are realistic. Certification standards address many different aspects of a business operation, and there may be a number of adaptations that the SMFE needs to incorporate to meet the standards. These could be minor changes that can be implemented relatively quickly, such as layout for a sawmill to physically separate non-certified material from certified input, or significant changes that require time and financial resources to implement, such as developing a long-term forest resources management plan. For facilitators unfamiliar with the world of certification, it may be useful to pay an early trip to a regional certification body – the agencies who actually carry out the inspections or ‘audits’ against a certification schemes standards. These certification bodies can help furnish a facilitator with useful advice. Key guidance for facilitators assisting SMFEs in seeking third-party certification will comprise the following:

- Understand the steps and potential timeframe involved in forest certification, such as: identifying the system most applicable to your sector; making an initial application, agreeing to an initial analysis; agreeing to a full certification audit, implementing corrective actions to meet the required performance level; using the label once certified.
- Identify certification bodies in your area and develop relationships as early as possible to ask questions and gather information.
- Understand the costs involved with third-party certification and identify how these will be covered.
- Research options for incremental achieving of certification over a period of time – many certifiers offer recognition for gradual improvement through a step-wise process, such as Rainforest Alliance’s SmartStep Program.
- Many certification bodies that carry out third party audits also offer options of independent verification of the following steps, which may be more readily achievable in the short-term as the SMFE continues to work towards full FSC Forest Management certification:

- *Legal Verification of Origin* – VLO (assuring that the forest product has been legally sourced)
- *Legal Verification of Compliance* – VLC (assuring that all stages in the process, from harvest at origin to transportation for value-added production, have been conducted in compliance with applicable legal requirements)
- *Controlled Wood Certification* – CW (an FSC certification that assures minimum compliance with social and environmental requirements in addition to legality)

These audits do not result in an on-product seal for recognition in the marketplace but they can be valuable and well-known steps towards achieving sustainability. Pursuing them will strengthen the capacity of SMFEs and provide recognition through off-product demonstration of performance.

- Explore options for certification bodies to provide a pre-assessment or gap analysis when an SMFE or group of SMFEs is considering forest management and/or chain of custody certification. A gap analysis is less rigorous and less costly than a full certification audit and will result in a report that identifies major strengths and weaknesses of the operation with regards to the certification standards. This analysis will enable you to target technical assistance to strengthen particular aspects of the forest management enterprise in preparation for a full assessment in the near future.
- Research currently available options for reducing the cost of certification that may apply to smaller scales of enterprise. In the FSC scheme, group certification is widely applied as an alternative to individually-held certificates and can significantly reduce the costs associated with third-party assessments and annual audits. There are no limits on group size or the size of individual land holdings to participate in a group, but organisation and monitoring by the entity holding the certificate is essential. (FSC Group Certification Briefing Note:

http://www.fsc.org/fileadmin/web-data/public/document_center/publications/smallholders_briefing_notes/Group_Certification_briefing_note_high_res.pdf).

The FSC has developed a stream-lined assessment process for Small and Low-Intensity Managed Forests (SLIMFs, <http://www.fsc.org/slimf.html>), which is intended to help non-industrial forest owners, frequently privately owned or community managed lands, to reduce the costs associated with assessments.

Tools are being developed to help forest managers meet requirements for environmental monitoring and risk reduction, with a particular focus on community managed forests. Developing and implementing a detailed monitoring system can be a significant cost burden for a community, so prior preparation and adapting a system according to actual need can increase efficiency. This tool assists with assessing environmental risk in a forest management operation to determine the level of detail required to meet FSC monitoring requirements: <http://www.oneworldstandards.com/ERA.html>

Step 6. Maximise market benefits of sustainability

Whether or not it is in the interest of an enterprise to pursue full independent forest certification or not, certification is a unique and powerful tool as it demonstrates sustainability of the forest product and also opens opportunities in the marketplace, which can reward producers for their efforts and investments. It is important to understand both the opportunities and the challenges that exist for the particular product or group of products that the SMFEs are making, and how sustainability will impact their position within these markets (see Box 65).

- Identify potential market outlets for sustainable products from the SMFEs – particularly the scope of the target market (local, regional, national, and/or international).
- Identify sources of sustainably produced and certified primary material for SMFEs engaged in production that relies on purchasing material from outside sources. They need to know which certified species are available, what the regularly available volumes are and the quality of raw material to assess the viability of developing a certified production line.
- Establish production and sales goals early on and work towards goals from outset.
- Research potential for certified products in the target markets, including current demand for certified products, success of similar or comparable initiatives in parallel sectors and market trends.
- Provide training to the SMFEs on the market implications of sustainability standards and potential leverage that this can give them, engaging outside experts in this field as appropriate. All too often the importance of marketing is overlooked in SMFE development and it is enormously beneficial to have group awareness of this need and ideally to foster expertise from within the community itself.
- Use branding and certification labels to their maximum potential; understand and follow the seal-use regulations associated with the sustainability standard and share examples of high-visibility brand use as a model for implementation.
- Collaborate with groups already doing this; exchange technical information and lessons learnt, and share market positioning advantages as a group.

Step 7. Implement sustainable production in all stages of value-added processing

Sustainable production refers to how a business manufactures its products and implies making the best use of natural resources, minimising waste and pollution, and investing in people to build a business for long-term success. Sustainable production considers how a product is designed, produced and marketed (see Box 66). It seeks to verify a material's legal origin, replace toxic glues and finishes with non-toxic alternatives, and identifies where there are inefficiencies and unnecessary waste. Key components in ecologically sustainable production include:

Box 65. Maximising the market benefit of sustainability – the example of ICOFOSA, a communal furniture production plant in Oaxaca, Mexico

Growing out of collaboration between three indigenous communities in Oaxaca in 2006, ICOFOSA was legally established in 2008 as the first commercial production plant specifically for community forestry enterprises in Mexico.

The collaboration started around a large-volume contract for school furniture and grew into a permanent joint venture for production of mid-range quality home furniture from the three Zapotec communities of Santiago Textitlán, Ixtlán de Juárez and Pueblos Mancomunadas.

ICOFOSA's mission is to provide social benefits to the 11,170 cooperative members while contributing to natural resource conservation and seeking market opportunities. In the first year of operation, over 834 positions of direct employment were created. Community capacity is around 77,000 cubic metres of round wood production per year.

Two communities are already FSC certified and the third is seeking certification as the foundation for sustainability. ICOFOSA seeks to have all production FSC certified and to grow the certified market in Mexico. The organisation is still determining optimal size and administrative structure for effective production while keeping the goal of improved social wellbeing for the communities.

- Sustainability begins with the design of the product from the outset when determining the source and type of raw material to be used. Sustainability will be affected by the species chosen, availability and management of species.
- Product design is important to maximise the efficiency of material use and minimise waste. Implement recycling of forest product waste from the primary production system into alternative uses such as composting when possible.
- When selecting glues, finishes, solvents or cleaners, research the exact composition of these products and seek non-toxic alternatives, particularly to eliminate use of VOCs (volatile organic compounds).
- Implement environmentally sound management and disposal techniques for handling glues and finishes, including safe storage and removal of waste from the premise and avoiding potential contamination of soil and water resources.
- Assess all production processes in terms of energy source and efficiency. Replace traditional electricity sources with alternative generation options such as solar or wind powered systems when possible, replace old motors with newer, more efficient models, reduce running times and maximise use of machines during operation.
- Provide regular training to SMFE members regarding processing efficiencies and waste reduction, and hold workshops for sharing ideas on alternative systems and energy conservation with outside expertise as appropriate.

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Step 8. Identify challenges that threaten sustainability and incorporate mitigation measures into SMFE Action Plans

Threats to environmental sustainability will undoubtedly exist within the SMFE or group of SMFEs that you are working with. While common threats can be identified at a general level, specific threats and subsequent measures to

mitigate them will vary according to the local, regional and national context. It is important from the outset to know the likely barriers that SMFEs face in achieving and maintaining environmental sustainability for their wood product based business, so that strategies to incorporate mitigating measures into SMFE practices can be adopted. Challenges commonly include:

- unstable or unclear land use and/or usufruct rights
- illegal logging and the impact on SMFEs, such as financial and environmental losses, demotivating influence on SMFE members, attraction of quick returns, undermining community efforts to be sustainable
- lack of incentives for sustainability, such as a lack of recognition by authorities or regulatory relief for sustainable practices versus 'business as usual' approaches, lack of consensus among SMFE members or SMFE group, no clear market benefits
- lack of capital, including difficult access to traditional lending institutes for communities engaged in forest resource-based activities, and reduced financial support that hinders implementation of sustainable management regimes such as engaging in FSC certification
- existing legislation and regulations that make it difficult for SMFEs to meet requirements and advocate for their needs; SMFEs often have no voice without effective facilitation by supporting groups.

Box 66. Preparing for adoption of sustainability standards and third party certification – the FECOFUN FSC-certified forest users groups in NEPAL

With the objective of increasing income and employment for NTFP producers in Nepal while promoting sustainable resource management, 21 forest user groups achieved FSC certification and improved efficiency around NTFP production. This incorporates over 14,000 hectares of forest, benefiting over 35,000 community members.

Eight SMFEs achieved CoC certification and their collaboration resulted in the first production and marketing of FSC certified handmade paper in the world. Partnerships have been created between ANSAB, Aveda, Rainforest Alliance and others to provide long-term support to the SMFEs involved in paper production.

Challenges still remain regarding the cost of FSC certification and logistics due to the extreme geographical isolation of the producers. New market opportunities for FSC-certified NTFPs from this region are growing, including for essential oils. Over 16,500 community members have received training in FSC forest management standards and this contributes greatly to resource conservation in the region.

15.3 Useful tips

- Research sustainability issues in your target sector/supply chain/SMFE groups thoroughly to prepare for questions from SMFEs, including research on applicable third-party certification for forest management.
- Involve third party support groups from the outset; engage partners and technical service providers at the national and international level when possible.

- Technical service providers offer essential support for developing management plans and achieving forest certification in the most efficient timeframe.
- Partnerships and relationships with other groups that have tackled similar challenges provide valuable opportunities for technical exchange visits and sharing lessons learned.
- Identify additional opportunities for groups to work together and achieve sustainability in operations; partner with local, municipal or national incentive programs where these exist.
- Seek partnerships with ongoing donor-assisted projects when opportunities arise.

15.4 Further information

A good general overview to sustainable production and consumption has been produced by the OECD:¹⁴⁴

http://www.oecd.org/document/29/0,3343,en_2649_37425_40464029_1_1_1_1,00.html

Perhaps the best introduction to sustainable forest management can be found in the second edition of the sustainable forestry handbook,¹⁴⁵ available to buy here: <http://www.routledge.com/books/details/9781844071180/>

An independent assessment of forest certification schemes was carried out by FERN¹⁴⁶ (<http://www.fern.org/sites/fern.org/files/Behind%20the%20logo.pdf>) and an assessment of wood product legality verification systems can be found on the Greenpeace website:¹⁴⁷

<http://www.greenpeace.org/international/en/publications/reports/lvs-assessment/>

A good practical introduction to certification of community managed forests:¹⁴⁸ http://www.ansab.org/wp-content/uploads/2010/10/6.-Certification_final.pdf and chain of custody certification:¹⁴⁹

<http://www.ansab.org/wp-content/uploads/2010/10/7.-CHAIN-OF-CUSTODY.pdf>

There are a number of good examples of sustainable SMFE production using mainstream certification systems¹⁵⁰ with a couple of sites that have multiple case studies: Rights and Resources Initiative:

<http://www.rightsandresources.org/pages.php?id=149>

Forest stewardship council: <http://www.fsc.org/casestudies.html>

A good overview of the status and potential of community forest enterprises for sustainability has been published by ITTO:¹⁵¹

http://www.rightsandresources.org/documents/files/doc_109.pdf

144. OECD, 2008.

145. Higman *et al.*, 2005.

146. FERN, 2001.

147. Greenpeace, 2008.

148. ANSAB, 2010g.

149. ANSAB, 2010h.

150. Del Gatto, 2007; Stoian *et al.*, 2007; Wilshusen, 2007; USAID, 2005, 2008, 2009c; WRI, 2008; Synnott and Wenban-Smith, 2009; FSC, 2009a, b, c, d.

151. ITTO, 2007.

Module 16. Policy research for change

Developed by Duncan Macqueen

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Investigating the spectrum of small forest enterprises in Mozambique

16.1 Purpose

This tool describes how to analyse policy bottlenecks that affect small forest enterprises and facilitate a process of change. It pays particular attention to useful strategies to engage policymakers from the outset in work to support small forest enterprises.

16.2 Outline

Step 1. Map the policy context, clarify the desired change and identify those with influence

Most policy issues have a degree of complexity that will need to be clarified so that those involved in the research know exactly what the desired outcome is – i.e. what they hope to change. There are likely to be key individuals who are in a position to affect the desired outcome, either by helping to bring it about, or standing in the way of change. Knowing who these individuals are from the outset is important so that you can bring allies on board and make plans to stop opponents from causing obstacles. Formal approaches have been developed to strategise about how to influence these key individuals (for example, force field analysis – see Young, 2008) but at their simplest, such methods simply involve clear articulation about how to engage with those who can influence changes for good or bad.

Step 2. Build constituencies to create political groundswell and draw in key decision-making allies from the outset

The more people who are interested in an issue and pressing for change, the harder the issue will be to ignore. People who have invested in a research process are much more likely to be interested in its outcomes. Hard work at the initiation of research to establish a shared agenda and ideally attract co-funding or other investments in kind can greatly improve the target audience's receptiveness at the end of the research process. Planning meetings to develop ownership of the research agenda (and hopefully contributions towards its completion) can be almost as important as the research results themselves in bringing about change. A number of simple tactics can help to make this work:

- Arrange planning meetings that: (i) draw attention to the governance issue in question; (ii) give opportunities to different parties to present their agenda and existing activities relating to that issue; and (iii) reach some consensus about what further evidence is needed to shift the debate forward.
- Establish a steering committee to oversee the work in which: (i) steering committee members represent their institution; (ii) each institutional member commits to involvement in the research either financially or in an advisory or review capacity; and (iii) the government key policy audience is included as part of the steering committee.
- Get clearance through the main government contact on the steering committee that those higher up in government welcome the research.
- Draft an agreement about the contractual arrangements under which the research is to be conducted and to whom the draft versions are to be sent (including the steering committee).

Step 3. Tailor the policy research to maximise influence

At least five factors increase the degree to which decision makers listen, namely that research findings must be credible, simply striking, have an emotive story, offer a solution, and occur within a window of opportunity. Making sure that research findings score well on each of these criteria often comes down to research design.

There are ways of enhancing the likely influence that research will have – but many of these have associated costs, so it is worth being realistic about what you hope to achieve with the money you have available.

- *Make it credible.* The strength of the evidence often comes down to the sampling size and analytical interpretation that follows (see Box 67). In most complex processes, there are deterministic factors and random factors at work, and if we collect enough data we can begin to see which are which. The problem is that almost all research is partial in nature; there is simply not enough time or resources to collect all the data you would like. The impact of research often depends on the degree to which credible extrapolation can be made to particular issues or to particular scales where decisions need to be made; for example, you may only have money to collect data at a provincial level, but decisions are often taken for the nation as a whole. The more complex and context dependent the issue at hand is, the more pressing the need to collect data from a broader number of areas. At the outset it is vital to make sure that the categories within which you are collecting data (e.g. household type, enterprise type) work for the purpose of the research. If there are official categories used by government departments, it may be best to stick with these. Selecting enough sites to be representative, with a big enough sample at each site to give an accurate picture, is one way to avoid the research being dismissed as 'context dependent' or 'unrepresentative'. Once you have enough data, compare how different policy options stack up against the data you have collected. Just because you have credible figures in hand, however, does not mean outcomes are certain, as the points below note.
- *Make it simply striking.* Research design can often get complicated, with massive questionnaires or other data gathering processes across multiple sites. Analysis can be equally complex. But the people to whom you normally present research findings are unlikely to be the decision makers themselves (unless you work in very elevated company). So there is usually a 'trickle-up' effect where minions, or the press, carry policy messages to the powerful. This transfer process tends to make a mess of carefully nuanced positions that depend on multiple variables. The simpler and more memorable the findings are, the more likely they are to stick and make it to the right ears. This is often more about how findings are presented, rather than about the design of data collection. For example, the charcoal enterprise research in Malawi (Box 68) collected a huge amount of data on the volumes of charcoal, from where, and by whom. But the final report simply made much of the fact that charcoal was the country's third largest industry after tobacco and tea (much more memorable than detailed figures of the tonnes of charcoal produced by various categories of enterprises). Similarly, it made

much of the failure to legalise this trade, costing the Malawi government Kwacha 1 billion (approximately USD 6 million) per year in VAT receipts alone (pushing this striking figure instead of detailed breakdowns of where value accrued along the value chain, in the hope that concern from the powerful Ministry of Finance may call the Forestry Department to account).

- *Make it emotive.* When people feel something, it tends to stick in their minds. Beyond the power and politics, decision makers are also human. They are moved by human stories. All the hard data and careful analysis in the world can be dismissed – but stories of human travail get under the skin. Personal contact and imagery are critical elements here, in roughly that order of priority. For example, rather than presenting research findings through means of a report or policy brief, it can be much more effective to organise a meeting of decision makers and the proposed beneficiaries of some desired policy change. By using a debate-type format, decision makers can be brought into direct contact with those suffering the effects of poorly thought out policies. For example, it is hard to defend a policy when there are people whose very lives are put at risk because of it. If such events cannot be organised, a second best alternative is to ensure that policy briefs carry effective imagery of the people affected by particular decisions.
- *Make it solution-orientated.* Research that is designed to highlight policy failings can generate long lists of policy complaints. These often turn decision makers off. They can also lead to a paralysis whereby everything is seen as so hopeless that it is not worth doing anything. It is much better to design research to explore particular policy solutions. For example, Ghana is beset by many problems in the forest sector, some of them relating to the activities of numerous illegal chainsaw operators. Past research highlighting the severity of this problem has resulted in little action. New Forest Connect research is actually engaging these chainsaw operators and attempting to develop a set of solutions that would formalise, organise and grant them certain rights in return for certain responsibilities. Offering policy solutions is more likely to generate positive action.
- *Make it opportune.* The right research results can make a world of difference if they arrive just when decisions have to be made. Staying connected so that you can design the research process to fit in these windows of policy change opportunity is critical. If the opportunity arises, respond to requests for help with policy reform processes, or for requests for information. For example, in Ethiopia a new forest proclamation in Oromia reformed the Forest Authority as a set of financially independent state forest enterprises with a strong social and environmental mandate. While the new state forest enterprises' familiarity with eucalyptus timber plantation was strong, their understanding of community-based forest products trade (e.g. in fuelwood, medicinal plants, rainforest coffee and honey) was not. Designing a research study to highlight the extent of these other activities, and how value might be added to them by a constructive partnership between the new state forest enterprises and the surrounding communities, was opportune.

Box 67. Research to change policy on Arapaima fishing in Guyanese forest areas

Through a collective effort in environmental planning and management, the Forest Connect partner in Guyana, the North Rupununi District Development Board (NRDDB), implemented a four year moratorium on the harvesting of Arapaima (one of the world's largest fresh water fish that lives in Amazonian and Guiana Shield rivers and is a protected species under CITES II). They then conducted four successive annual surveys to count Arapaima using traditional method backed by scientific analyses to show how dry season counts tripled through the implementation of the moratorium.

From these surveys, they demonstrated how an indigenous river management plan could be developed with state authorities and the Iwokrama International Centre. Through this work, a comprehensive strategic community fisheries plan has successfully been lobbied and demonstrated to national policymakers. In addition, the case has been made for amending the Fisheries Act to allow for sustainable harvesting of Arapaima to improve livelihoods of communities. The advantage of using both traditional and more scientific fish counting methods was to establish the credibility of community knowledge about fish densities and enhance the confidence that an indigenous river management strategy could succeed. Indeed, it became apparent through these surveys that local fishermen knew the fish to the extent that they could name individual fish!

Step 4. Invest in a team leader with profile and train the team well for quality consistency

Decision makers inevitably listen to some people more than others – usually those with a strong reputation for good work. Getting such a team leader, or spreading the work across several institutions with such a reputation, can help to give the research findings gravitas. The composition and capability of the team are also critical, however. Where data has to be collected across multiple sites, inconsistencies in data collection can undermine the credibility of the final result. It is important to rehearse the types of questions that will be useful to ask at each site. Piloting a research process in one area can help to improve the degree of investigative rigour that each team member has. This can be particularly useful for more sociological types of research where it is most common to find self-selection biases (e.g. interviewees pushing themselves forward), strategic biases (e.g. subjects deliberately trying to tell the researcher what they think they want to hear) and interviewers biases (e.g. talking only to those you feel comfortable with – perhaps people of the same gender).

Step 5. Anchor the write up to enlightened parts of the legislation

Often desirable policy research outcomes are not solely or even mainly about changes on paper (e.g. revisions of the policy documents themselves), but rather about the just implementation of what already exists on paper. Policies are usually couched in broadly positive social and environmental statements, open to a range of interpretations about how they should best be implemented in practice. Doing a thorough job of policy analysis at the outset can provide a foundation upon which to build recommendations for change, especially where these recommendations for change are backed in some way by explicit or implicit policy statements. Making the links to bits of the legislation that require better implementation and explaining how that might be achieved in practice is one tactic towards useful impact.

Box 68. Credible research of charcoal production and use in Malawi

To build an indisputable picture of the charcoal trade, a multi-disciplinary team covered the whole charcoal trade, working back from end use (an urban household energy survey) through the value chain (value chain analysis) to the primary producers (a charcoal production survey).

Urban household energy survey

Led by the statistician, the team conducted research with the help research assistants. Each of four urban sites had its own data collection team, plus a data entry clerk and a supervisor. Respondents were drawn from five location types, chosen to cover all socio-economic strata as defined by the National Statistics Office. A total of 3945 households were included in the survey as shown in the following table.

Residential type	Blantyre City		Lilongwe City		Mzuzu City		Municipality of Zomba	
	No.	%	No.	%	No.	%	No.	%
Low density	177	12	168	12	69	12	88	18
Medium density	277	19	168	12	101	17	81	17
High density	356	24	286	20	63	10	112	23
Unplanned area	402	28	526	38	244	41	127	25
Shanty area	244	17	253	18	122	20	81	17
Total no. of households	1,456	100%	1,401	100%	599	100%	489	100%

The team used a detailed questionnaire to collect data from individual households. They analysed the data in various ways to enable comparisons to be made between sites and location types. They also used projected population figures to weight the data and thus estimate the energy consumption and expenditure of each site and residential type.

Charcoal value chain survey

Led by the socio-economist and trade specialist, the team conducted this research with one selected research assistant per site. They used information gathered in the urban energy survey to identify the main charcoal markets in the four urban centres. The team visited these markets and interviewed charcoal traders there to trace where the charcoal on sale was produced and how value was added along the entire chain. They also visited retail and wholesale markets and production sites, and looked at how charcoal is transported. At each place, their questions focused on prices, value-adding activities at that level, and costs incurred. They then analysed the data to indicate profitability levels along the chain.

Charcoal production survey

Led by the natural resource management specialist with selected research assistants, this research was directed by findings from the preceding two surveys, which enabled the team to identify with confidence the main charcoal producing areas for the four urban sites. The areas examined in this component of the study were producing more than 50 per cent of the charcoal estimated from the urban consumption survey. To determine the scale of charcoal production, the team measured the sizes of all observed active kilns. Active kilns were those where wood was stacked ready to cover with earth, or where carbonisation was in process. They also recorded the number of old kiln sites. The team assessed species diversity within each charcoal producing area (or former production area) by identifying all species in a determined compass direction (wandering quarter method) and recording their diameters and distances from each other. The location was also recorded using GIS.

Publicity

With the aim of legalising charcoal and making its production more sustainable, the team concentrated its publicity on two findings, that charcoal was the third largest industry in Malawi after tobacco and tea, and that failure to legalise it and collect taxes was costing the government Kwacha 1 billion (approximately USD 6 million) in VAT revenue alone. A launch event, a public debate between charcoal producers and environmentalists, a report, policy brief and film drove these messages home.

Source: FGLG, 2009.

Step 6. Make an informed choice along the spectrum of confrontation to cooperation

Deciding whether to be provocative or cooperative will depend mostly on the degree to which the policy context is stacked with opponents of change or allies for change. There may well be instances where provocative findings need to be pushed into the public domain before decision makers have had the chance to prepare a response. Some governments are too entrenched in perverse or corrupt policy implementation to listen to reason in the absence of pressure.

For many governments, however, there are more cooperative options available and the risk is that open confrontation may simply result in defensive patterns of behaviour or entrenched policy positions. As exciting as it is to 'have a go!', data is usually open to a number of different interpretations, especially where political sensitivity is strong, and it may be more useful to adopt a cooperative approach. While the direction of research trends can be beyond reasonable doubt, the language used to describe those trends and their underlying causes requires careful thought. Meetings with key audiences of the research can help generate consensus about how to present data so as to minimise unnecessary antagonism of particular institutions or individuals. In addition, these behind the scenes discussions can actually help to cement research findings and possible policy solutions in the minds of decision makers prior to any public launch of the research results.

Step 7. Have a publicity strategy

Expecting high level decision makers to read and act on policy recommendations usually involves disappointment. A number of options can help to press home findings:

- Informal meetings with key decision makers, for example breakfast, lunch or dinner invites, have proven very useful in articulating findings and helping them understand what policy options might improve the situation.
- Media launches of reports can be organised with a linked event to entice powerful decision makers to attend. These serve a two-fold function of exposing those decision makers to the findings and recommendations while also creating pressure via the media to act.
- Dramatic reconstruction of results in theatre pieces, songs or cartoons can be a very effective way of spreading the message and maintaining media interest in the particular issue that the team is pursuing.

- Films or radio programmes of the main findings of the research are increasingly affordable and can also keep media attention going. Designing the video so that it can be used in a range of settings is useful (e.g. keeping it less than 30 minutes long and inserting a broad generic introduction that can draw in a variety of audiences to the more specific issue in question).
- Specific national days (e.g. day of the environment) can allow the organisation of civil society rallies which focus on the particular issue in question and help to hand out policy briefs based on the research findings.
- Regular and broadly circulated news briefing papers on environment/forest issues can also be effective. They should be written in a journalistic style and copied to local media clubs such that they can pick up and run with the stories.

16.3 Useful tips

- Remember that the impact of research depends not on a written document, but on the degree to which key individuals understand key points. It's important to invest in relationships to draw decision makers into the research process and explain findings to them.
- Invest in fronting the research with a well-known or well-connected individual (or publishing it by a well respected institution) so that findings cannot be lightly dismissed.
- Frame your findings as solutions to problems – not as more lists of problems – and back these solutions up where possible with existing policy intentions.
- Work to shape decision-changing findings into pithy and eye-catching statements and images.
- Push home the big messages and leave the nuance to be worked out once the key decisions have been made.
- Assure that broad civil society groups are behind the research and make that known to policy makers.
- Prepare to use the media and follow up initial publication with a series of events that keep the issue fresh and in the public eye.

16.4 Further information

IIED has produced material analysing the links between research and policy change – both more generally¹⁵² and for the forest sector in particular:¹⁵³ <http://www.iied.org/pubs/pdfs/9276IIED.pdf>

One of the central emphases – that of building constituencies – is covered in more detail in work on the importance of relationships for getting research results into policy change:¹⁵⁴ <http://www.gsdr.org/docs/open/AI5.pdf>

The Overseas Development Institute has managed a DFID programme of work linking research and policy, summarised in a useful synthesis of case studies:¹⁵⁵ <http://www.odi.org.uk/resources/download/148.pdf> and http://www.capacity.org/en/journal/feature/impact_of_research_on_policy_and_practice

The International Development Research Centre has recently produced a ‘Knowledge Translation’ toolkit, which covers similar ground:¹⁵⁶ <http://www.idrc.ca/EN/Resources/Publications/Pages/IDRCBookDetails.aspx?PublicationID=851>

The Natural Resources International Ltd programme on research into use has also produced a few summary documents that deal mostly with how to get already published research into use:¹⁵⁷ http://www.researchintouse.com/rnrsllegacy/pub_practcomponents.html

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Glossary of key terms

Balance sheet – A financial statement at a specific moment in time that documents the necessary accounting balance between: (i) where anything of monetary value has come from ('money from'), and (ii) what has been done with it ('money for'). Technical definitions of a balance sheet often talk in terms of assets (anything the business owns that has monetary value), liabilities (claims of those who have loaned anything of monetary value to the business), and owners' or stockholders' equity (anything of monetary value that has been put in by the owners).

Benchmarking – A comparison of one particular product or service against a reference point developed by a surveyor of comparable products or services.

Business Development Services (BDS) – A wide range of non-financial services that improve the performance of the enterprise, its access to markets, and its ability to compete.

Business plan – A document that defines where you want your business to be and how you want it to get there, often prepared to attract investment.

Cash flow analysis – A financial statement that documents when money goes out (flows out) of the business and when money comes in (flows in) to the business. This statement indicates whether there will be enough cash to cover expenses when needed.

Certification – A formal procedure by which an authorised agent assesses and verifies (and attests in writing by issuing a certificate) the quality or status of people, organisations, products or services, procedures or processes, events or situations, in accordance with established standards. Forest certification usually denotes the assessment of 'sustainable forest management' against a particular standard.

Communication channel – The medium used to convey information from a sender to a receiver (for example a letter, phone call, radio programme and so on).

Communication strategy – A formal plan that covers what is to be communicated, how, to whom and for what purpose.

Evaluation – A process of analysing progress towards desired outputs, outcomes and impacts that usually involves checking up on monitoring reports carried out using indicators of achievement that have been decided in advance.

Facilitation – A supporting role to make an action or result more easily achieved for someone else.

Facilitator institutions – An institution that plays a supporting role to make an action more easily achieved for someone else, for example by engaging with both small forest enterprises and potential service providers and catalysing the provision of services identified by those enterprises as necessary.

Financial services – Facilities such as saving accounts, current accounts, credit checks, leasing, and money transfer, provided generally by banks, credit unions and other finance companies.

Hub institution – Any organisation at a national level that is trying to be a 'one stop shop' for information and advice on small and medium forest enterprises.

Market map – A picture of who is involved in buying and selling (from producer to customer), the dynamics of how it works and the critical issues that affect it.

Market opportunity groups – Small groups (usually around ten) of small enterprises that are selected by the other enterprises in their communities to explore new or better market opportunities.

Market system – The constellation of actors and conditions that determine who sells what to whom and at what price. It includes the 'core market', which involves the sellers and buyers of a particular product or service. It also includes the enforcement (or not) of policies and regulations, the political, social and cultural context, issues of geography and infrastructure, availability of service providers and so on.

Market system development – An approach that involves strengthening the private sector to expand in terms of growth and added participants, to be resilient and responsive to market shifts, and to channel benefits to the poor.

Marketing – A management process through which goods and services move from concept to the customer OR a philosophy based on thinking about the business in terms of customer needs and their satisfaction OR a practice of coordinating four elements called 4Ps: (1) identification, selection, and development of a product, (2) determination of its price, (3) selection of a distribution channel to reach the customer's place, and (4) development and implementation of a promotional strategy. Marketing differs from selling because selling concerns the skill of getting people to exchange their cash for your product, whereas marketing is concerned with the values that the exchange is all about.

Profit and loss account (also called an 'income statement') – A financial statement that documents the revenues (income) from business operations, expenses (costs) of operating the business, and the resulting net profit or loss of a company over a specific period of time.

Standard Operating Procedures (SOP) – A manual that is written for producing a particular product or service that details every aspect of its production and quality control.

Tool – A means to an end, or a way of solving a problem to achieve a goal.

Unique Selling Proposition (USP) – Anything that is special about your product or service in comparison with your competition.

Upgrading – Making changes to improve something (for example, improving the product or service offered by a business).

Value chain – Sets of activities in the development of a product at which value can be added in pursuit of competitive advantage, including both primary activities such as sourcing, production, delivery, marketing, sales and customer services, together with support activities such as infrastructure management, human resource management, research and development, and procurement.

Value chain analysis – Examination of the value chain of an enterprise to ascertain how much and at which stage value is added to its products and/or services, and how it can be increased to enhance competitive advantage.

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Javanese teak grower

Most international attention in forestry has been given to improving the conditions for large-scale or micro-scale forestry, and much less to the 'messy middle' – which produces a high proportion of forest products and involves huge numbers of people. Ways need to be found by which small and medium forest enterprises (SMFEs) can better contribute to sustainability and reducing poverty. IIED, with partners in Africa, Asia, Latin America and the Caribbean have been investigating these issues. Country diagnostics show that the SMFE sector is of major significance for livelihoods – the net effect of myriad small players represents a substantial part of local economies. Yet, these are largely invisible economies, and policy and programme developments almost completely ignore the SMFE sector. Raising the sector's visibility such that its impacts can be better assessed, and then going on to explore how the positive links to sustainability, livelihoods and poverty-reduction can be enhanced, is a major challenge to which this initiative seeks to rise. Recent reports in the Small and medium forestry enterprises series available from IIED on request, and downloadable from www.iied.org, include:

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A facilitator's toolkit – Pocket guidance not rocket science!

Small forest enterprises make up 80-90% of enterprise numbers and more than 50% of forest sector employment in most developing countries. Supporting them to manage forests sustainably and profitably is critical to global efforts to improve Forest Law Enforcement Governance and Trade (FLEGT) and reduce emissions from deforestation and degradation (REDD). Supporting them is also critical to poverty reduction, since it is these small forest enterprises that accrue profits locally, help to secure local commercial resource rights, empower local entrepreneurship and employment prospects, foster the creation of social capital, engender local environmental accountability in ways that adapt to and mitigate climate change and maintain cultural preferences and diversity.

This toolkit has been designed in response to needs expressed by in-country members of Forest Connect, an ad hoc alliance of individuals and institutions in more than 50 countries. The alliance aims to avoid deforestation and reduce poverty by better linking sustainable small forest enterprises to each other, to markets, to service providers and to policy processes. The toolkit has in mind two key audiences: international agencies that provide financial support for small forest enterprise initiatives, and national facilitators of support to small forest enterprises. The guidance modules follow a logical progression from broad international considerations of how to design, establish and assess small forest enterprise support programmes, through more specific guidance on how to plan in-country work, to detailed advice about particular useful intervention options (such as value chain analysis, product development, the facilitation of financial and business service provision, strengthening enterprise organisations, building in ecological sustainability and undertaking policy research for change).

The toolkit comprises 16 modules of step-by-step guidance, followed by practical tips based on the personal experiences of lead authors contracted to write each module. It has been enriched over a two year testing period by more than 60 boxed case study examples of attempts to use this guidance in countries round the world. It also includes sections in each module pointing the reader to other useful manuals and tools already in existence, with a reference list and a glossary of terms to assist the reader.



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