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Policy pointers

A broader understanding of 'success' is needed: forest businesses are best measured by their contribution to local and global public goods and services, including preserving vital forest ecosystems.

Governments should reward the social and environmental benefits of LCF businesses with policies that support them to compete, such as secure commercial tenure rights and improved access to technical assistance, business development and financial services.

If democratic LCF business models are to compete in the marketplace, donors must prioritise investment in forest-farm producers' capacity to organise as local business groups, regional associations and national federations.

To be credible and fair, programmes focused on Forest Law Enforcement, Governance and Trade (FLEGT) or Reducing Emissions for Deforestation and forest Degradation (REDD+) must engage with and support LCF organisations.

Democratic forest business models: a harder but more rewarding path

Our decreasing forest landscapes are under huge pressure to deliver local and global needs, from a village's food and firewood to mitigating climate change. With demand unlikely to fall, the key issue is *how* we extract what we need. Governments are faced with two contrasting business models: the profit-maximising, often run by distant owners; or locally controlled forestry (LCF), run democratically to sustainably meet various local needs without necessarily maximising profit. Governments are increasingly granting local resource rights to meet development targets and protect forest landscapes to deliver benefits into the future. A compendium of 19 case studies¹ illustrates the viability of this approach and reveals the structures enabling LCF businesses to survive and compete. These findings can now guide the scaling-up of democratic business models through enabling investments by programmes such as the Forest Farm Facility (FFF) and its knowledge network partners in the Forest Connect alliance.

Forests are home to 1.3 billion people (families, communities and indigenous peoples), most of whom are both forest-dependent and poor.² These communities are particularly vulnerable to the effects of annual global forest losses, currently running at a global total of 1.5 million square kilometres each year.³ Those losses are driven by complex demands — both local and global — for goods and services from forest landscapes. The challenge is to balance human development and environmental preservation: to avoid deforestation and degradation while maintaining essential goods and services demanded by both local publics (sources of income, food, cooking fuel, clean water, construction materials and so on) and global publics (agricultural commodities, climate change mitigation, biodiversity conservation and others).

Government policy has often favoured profit-maximising mono-culture business models to supply these needs, and often still does. However, profit-driven models invariably fail to deliver the full local-to-global spectrum of goods and services demanded from those forest landscapes. The more remote or concentrated the money and power within such business models is, the greater the imbalance is likely to be, favouring the limited current needs of a few at the expense of sustaining the multiple needs of the many.

An answer rests in local hands

Research has shown that we cannot address this complex challenge by investing in just one forest-farm sector or production system alone.⁴ Maintaining flows of vital goods and services

The LCF model offers a viable solution to complex demands on forests

requires multi-functional land use 'mosaics' — a patchwork of various tree and crop production systems — which include conservation corridors. Evidence suggests that local forest–farm

producer groups, and their diverse locally controlled enterprises, can offer that mosaic, and are better placed to balance the supply of local and public goods than any

monotypic, profit-maximising business model. A key distinction between these two approaches lies in the identity of the decision-makers and their respective drivers: locally controlled forestry is often democratically run by member land owners with a vested interest in sustainability; the profit-maximising businesses are, in the main, run from afar, under pressure to deliver profit in the short term.

But while the validity of investing in LCF business is widely accepted in environment, development and even government circles, and efforts to enable investment have been taken forward (see Box 1), making the shift to a supply model based on LCF does not come easily. The organisation that will deliver scale efficiencies and allow this model to compete with profit-maximising alternatives needs previously unheard of levels of enabling investment.

Finding out what works

Having supported many forest–farm producers to organise LCF businesses, the Farm and Forest Facility (FFF) knows that this model offers a viable solution to the complex demands on forest landscapes. To identify the organisational structures that worked in successful business cases, the FFF partnered with existing knowledge alliance Forest Connect (a network of over 1,100 members from 94 countries who support small

forest enterprises) to commission a compendium of 19 case studies of successful LCF businesses.⁷ Looking at a range of enterprises from 14 countries across Africa, Asia and Latin America and the Caribbean, all the case studies sought to address the following five questions:

1. How did the business environment facilitate success?
2. How was the business model organised to deliver it?
3. How did the ownership structure and sharing of costs and benefits contribute?
4. How did the business overcome different challenges?
5. What were the critical success factors?

Among the case studies are examples of businesses that were not as successful in terms of achieving profits, but crucially have survived and maintained a flow of useful goods and services to the owner members — a far more valuable measure of success to apply to these enterprises. The compendium demonstrates that profitability alone is a poor proxy for success in the eyes of the owners of LCF businesses, who are likely to have diverse needs and wants that are more important to them than cash profit.

Guidance for scaling up

Looked at individually, the case studies provide ample evidence that LCF businesses can be successful. Looked at collectively, analysis of the five questions across all 19 studies reveals 14 common features that can offer guiding principles on scaling up the potential of LCF (see Box 2). These are presented and explored more fully in the compendium as concluding statements.

Some of these principles could be applied to all business models; notably strong organisational structure, reinvestment and market research. Here, we have chosen to unpack four of those, which appeared to have particular importance for LCF business models:

1. Strong local origins and member-based ownership provides resilience. A particular strength of locally controlled enterprises was shown to be the sense of ownership that members felt. As a consequence, what the group enterprise produced (be it timber, non-timber forest products or service provision) appeared to matter less than the commitment to building on the assets of members.

For example, in Cambodia the traditional cultural practice of honey collection for food and medicinal purposes, often mediated through

Box 1. Paving way for investment⁵

The merits of the LCF business model prompted representatives of family, community and indigenous forestry to hold 11 dialogues with investors between 2009 and 2012 to explore how to scale up investment in locally controlled forestry.⁶

They identified that the first necessary step was to strengthen forest–farm producer organisations. These groups could have the strength in numbers to pursue three other pre-conditions for the success of LCF:

- Secure commercial rights
- Better technical service provision, and
- Enhanced business capacity.

This led to the creation of the FFF programme in 2012, to channel funding directly towards strengthening forest–farm producer organisations for business and policy engagement.

rather variable quality street-vendor sales, prompted honey producers to imagine a more professional business that could generate higher returns. Initial sensitisation work with 17 honey producer groups in six provinces, supported by a civil society programme, led to a strong mutual emphasis on guidelines and training for production and quality control. By 2010, founding members had structured a business in which a department for production and quality control was complemented by departments for training and communication, marketing, administration and finance. A uniform high-quality product in attractive packaging is now sold in more lucrative markets — the strong local origin of the idea and investment in the skill sets of the membership base have led to a successful business venture.

2. Reinvesting some profit towards upgrading the offer to customers helps long-term business prospects. In locally controlled businesses, the temptation to distribute profits to members is strong; but the importance of keeping back some profit to reinvest in improving the business model cannot be overstated. Evolving a business usually needs investment; financial mechanisms for this must be in place. Several of the case studies demonstrate how challenges were overcome by keeping a sharp eye on the market niche of the business and reinvesting profits to improve what the enterprise has to offer within it.

For example, in the Guatemalan Petén region, the Tree Grower's Network of San Francisco Petén accepted cash payments from a government programme that encouraged local businesspeople to establish forest plantations. However, the subsidised rush to grow trees was not accompanied by adequate thought about how to manage the new plantations, identify markets for products arising from thinnings and final logs, or to mediate sales. To address this, the founding members of the Tree Grower's Network built up the necessary skills through a range of strategic partnerships with civil society groups; they could then provide those lacking commercial services, initially to the full membership of the Tree Grower's Network and later to other plantation owners in the region by forming the business 'Chachaklum S.A.'. Rather than distribute profits to members, Chachaklum S.A. has reinvested resources into a small dimension sawmilling business to broaden its capacity to offer markets for plantation thinnings. This reinvestment has helped the business to consolidate its place in the market.

3. Clarity over the organisational structure and roles and responsibilities within it increases business efficiency.

Box 2. What makes the LCF business model strong?

Enabling environment

- a) An enabling policy environment that gives local people secure commercial forest tenure can trigger or scale-up viable and sustainable business models

Business model

- b) Strong local origins and member-based ownership gives resilience
- c) Support for capacity development is enhanced if it includes training in financial administration alongside technical support appropriate to scale
- d) Investing in market research underpins evolution towards better and also more diversified business
- e) Finding ways to differentiate products or services in the market is critical for continued success
- f) Reinvesting some profit towards upgrading the offer to customers helps long-term business prospects
- g) Establishing second-tier organisation that aggregates product and provides services to first-tier producer organisation provides a longer-term growth trajectory

Ownership structure

- h) Clarity over the organisational structure and roles and responsibilities within it increases business efficiency
- i) Financial oversight mechanisms assure accountability and help avoid financial abuses that frequently lead to business failure
- j) Maintaining staff mobility and leadership turnover can help to spread capacity within the business and improves long-term sustainability

Overcoming challenges

- k) A broad vision within which the pursuit of profit plays a supporting role helps maintain cohesion in a group business
- l) Finding creative ways to secure finance for investment and cash flow is often essential to success

Success factors

- m) Seeking out and taking advantage of partnerships and networking opportunities is crucial to opening up new business opportunities, and
- n) Maintaining a strong commitment to staff development and production or service quality wins and keeps customers.

Maintaining unity of group businesses, however strong the initial cohesion, can be threatened by internal rifts, particularly relating to financial management. The solution to this can be found in clear organisational structures and roles, transparency of financial accounting and some form of independent oversight.

One good example is from an emerging multi-product enterprise in Ethiopia: the Aburo Forest Management and Utilisation Cooperative, founded in 2011. One product group within this cooperative is the Agubela Frankincense

Business Group. Between the General Assembly of all members of the cooperative, and the Executive Committee of the particular Frankincense business group, lie two important functions: an independent audit committee and an elders committee. Together, these committees ensure that both the financial returns from the business and its social impacts are fully transparent and in line with the wishes of the broader community — without trespassing into the operational management decisions of the Executive Committee. They also ensure that resources are efficiently allocated to agreed purposes, again contributing to the cohesion of the whole enterprise.

4. A broad vision, within which the pursuit of profit plays a supporting role, helps maintain cohesion in a group business.

Unlike profit-driven companies, LCF businesses often have broader sustainable livelihood benefits in view. Indeed it is this which both makes the model distinctive and helps to underpin commitment to the success of the business; it is a feature which merits greater investment.

Indonesia's Koperasi Wana Lestari Menoreh (KWLM) offers an example. This co-operative serves as a marketing company for its members, who grow teak. By offering members a fair price, it has managed to maintain and expand its membership, and so also deliver increasing volumes of timber to clients. As a co-operative, KWLM is able to provide a Forest Stewardship Council (FSC) certified forest management and sales services to its members, a status that they could not achieve alone. The market access advantage that certification provides — combined with the livelihood and sustainability benefits for members — allows this enterprise to remain viable, despite very thin profit margins for the co-operative itself. But for KWLM, survival does not depend on profit but rather on maintaining relationships with its members.

Thinking bigger

The compendium reveals organisational structures through which LCF business models have survived and even flourished. It shows their delivery against diverse social and

environmental needs, confounding direct comparisons with profit-making models. It also further reinforces the many products and services that these enterprises can deliver, locally and globally. In addition to demonstrating some general qualities necessary for any successful business, we can see that the LCF models have particular strengths based on local origin and ownership. The democratic nature of most of these businesses cannot readily be replicated by profit-maximising alternatives. The case studies show how democratic businesses can and do look beyond profit to focus on the steady supply of food, fuel, construction materials, medicines, cosmetics and craft from landscapes that are biodiverse, carbon-rich and deliver clean water. They demonstrate that economically viable enterprises can be committed to the wellbeing of their members and wider communities and, at the same time, exercise good governance of the natural resources. This is what sustainable development looks like.

But in order to make full use of these advantages, economies of scale must be achieved in LCF business models. This will only be possible through significantly increased investment in enabling greater organisation by forest-farm producers — the core objective of new programmes such as the FFF.

Mainstream forest programmes linked to Forest Law Enforcement Governance and Trade (FLEGT) and Reducing Emissions from Deforestation and forest Degradation (REDD+) need to support FFF and others in that endeavour, by engaging producer groups in early consultations and in implementation. Ongoing organisational capacity support and more direct funding is the single biggest need if LCF businesses are to scale up and deliver on their promise to tackle social and environmental challenges.

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Knowledge Products

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Notes

¹ Macqueen, D., Bolin, A. and Greijmans, M. (ed.) (2015) Democratising forest business: a compendium of successful locally controlled forest business organisations. IIED, London. See: <http://pubs.iied.org/13581IIED> / ² Angelsen, A. and Wunder, S. 2003. Exploring the Forest–Poverty Link. CIFOR Occasional Paper 40. Bogor, Center for International Forestry Research. Available at: www.cifor.org/publications/pdf_files/occpapers/op-40.pdf [accessed 31.3.15] / ³ Hansen, MC., Potapov, PV., Moore, R., Hancher, M., Turubanova, SA., Tyukavina, A., Thau, D., Stehman, SV., Goetz, SJ., Loveland, TR., Kommareddy, A., Egorov, A., Chini, L., Justice, CO. and Townshend, JRG. 2013. High-resolution global maps of 21st-century forest cover change. *Science* 342: 850–853. / ⁴ Macqueen, DJ. (ed.), Andaya, E., Begaa, S., Bringa, M., Greijmans, M., Hill, T., Humphries, S., Kabore, B., Ledecq, T., Lissendja, T., Maindo, A., Maling, A., McGrath, D., Milledge, S., Pinto, F., Quang Tan, N., Tangem, E., Schons, S. and Subedi, B. 2014a. Prioritising support for locally controlled forest enterprises. London: International Institute for Environment and Development. 232 pp. / ⁵ Elson, D. (2012). Guide to investing in locally controlled forestry, Growing Forest Partnerships in association with FAO, IIED, IUCN, The Forests Dialogue and the World Bank. IIED, London, UK. / ⁶ Macqueen, DJ., Buss, C. and Sarroca, T. (2012) TFD Review: Investing in Locally Controlled Forestry. The Forest Dialogue, New Haven, USA. / ⁷ See footnote 1.