

Organisation – how it ignites successful, locally controlled forestry business

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Abstract

Maintaining vital flows of vital local and global public goods from forest landscapes requires multi-functional land use mosaics. To address past state failures and ensure justice in how competing demands for forest goods are met, governments are increasingly devolving rights downward. Evidence points to local forest farm producer groups being better in practice at balancing demands for local goods (access to income, food, clean water, wood energy, construction materials, fertile soils, medicinal and cosmetic products) and global goods (climate change mitigation, biodiversity conservation, hydrological and mineral cycles). But with the social benefits and environmental diversity inherent to such multi-functional land use mosaics comes various challenges. The organisation of forest farm producers into multiple viable business structures can deliver the scale-efficiencies and market access that results in a much needed social, environmental, and economic development triple-win. But what ownership and management structures work in different contexts and why? How might these success stories be scaled-up? What risks must be considered in doing so? This paper draws on 19 case studies within a forthcoming 'compendium of successful locally controlled forestry business models' to provide some answers. It showcases business models emerging in Africa, Asia and Latin America. It provides a trajectory of organisational steps that could be pursued to take success from local to regional, and from regional to national scales and beyond. Finally, it assesses how recent innovative funding mechanisms such as the Forest Farm Facility (FFF) and capacity development strategies used by its knowledge network partners in an alliance, Forest Connect, can chart a way forward and make change happen.

Keywords: Forest, Landscape, Investing in Locally Controlled Forestry (ILCF), Business organisation

Introduction, scope and main objectives

Forest landscapes are home to approximately 1.3 billion families, communities and indigenous peoples, most of whom are forest and farm producers (Chao 2012). Many who are most forest dependent are also poor and vice versa (Angelsen and Wunder 2003). They are particularly at risk from aggregate annual global forest losses of 1.5 million square kilometers (Hansen *et al.* 2013). Those losses are driven by the complex demands for goods and services from forest landscapes that come from both local and global publics (Geist and Lambin 2002).

An increasingly pressing global challenge, therefore, is to avoid deforestation while maintaining the essential supply of goods and services that are demanded from forest landscapes by both local publics (e.g. sources of income, food, clean water, wood energy, construction materials, fertile soils, medicinal and cosmetic products, recreational opportunities and socio-cultural contexts etc.) and global publics

(e.g. agricultural commodities, climate change mitigation, biodiversity conservation, hydrological and mineral cycles).

Comparative studies from multiple countries have shown how no one forest farm sector or production system can meet the demand for all these local and global public goods at once (Macqueen *et al.* 2014a). With finite land available, and expanding global populations and consumption patterns, the solution must lie in some form of locally controlled, multi-functional land use mosaic that includes conservation corridors (Macqueen 2013a). Studies have demonstrated that deforestation rates inside forest controlled by local people are dramatically lower than in other forests (Chhatre and Agrawal, 2009; Stevens *et al.* 2014).

This central realization has three profound implications, both for land use practice, and for the ownership and decision-making structures of forest farm business models that are given license to operate. First, monotypic land use practices (be they for oil palm or rainforest conservation) inevitably compromise the balance across the full spectrum of local and global public goods demanded from those forest landscapes. Second, the larger their scale, the greater will be that imbalance. Third, the more remote or greater the concentration of power in land use decision-making, the more likely such imbalances are to be exacerbated. For this reason, some governments have been devolving forest resource rights to local people (RRI 2014)

In principal at least, diverse, locally-controlled, forest farm enterprises (in which decisions are made democratically by member land owners) are likely to be better at balancing the supply of local and public goods than monotypic, capital-controlled forest farm enterprises (in which decisions are made by often distant owners of capital). But achieving scale-efficiencies and market access for the former model requires unprecedented levels of investment.

For this very reason, representatives of international alliances of community, family and indigenous people's forestry helped to lead a series of 11 dialogues with investors about how to make Investing in Locally Controlled Forestry (ILCF) more attractive (Macqueen *et al.* 2012). The dialogues concluded that, to change the business paradigm from 'capital seeking natural resources and needing local labour' to one of 'local rights-holders managing natural resources and needing capital' required enabling investment to put in place four pre-conditions (none of them optional): secure commercial rights, better technical service provision, enhanced business capacity and strengthened forest and farm producer organization. The strengthening of forest and farm producer organizations was seen very much as the entry point through which to achieve the other the three pre-conditions (DeMarsh *et al.* 2014).

In order to scale-up forest and farm producer organization, therefore, the Forest and Farm Facility (FFF) was launched in 2012 to channel funding directly towards strengthening forest and farm producer organisations for business and policy engagement (Macqueen *et al.* 2014b). It partnered with an existing knowledge alliance of supporters of locally controlled forest enterprises, Forest Connect (with more than 1000 members from 94 countries). But three key questions remained. What ownership and management structures work in different contexts and why? How might these success stories be scaled-up? What risks must be considered in doing so?

Methodology/approach

In early 2013 the FFF and Forest Connect alliance jointly commissioned a series of 19 case studies of successful locally controlled forestry businesses.¹ The objective was to find answers to the three questions listed above.

¹ The Forest Connect Alliance has defined successful community forest enterprises as entities undertaking commercial exchanges based on sustainably managed forest or tree products or services, overseen by credible representative bodies suited to act as rights holders and which have legitimacy within self-defining 'communities' in terms of people and area, that generate and redistribute profits within those communities (Macqueen, 2013)

Local experts picked the cases with an emphasis on the equitable distribution of benefits to local people (local control). A business model framework was then adapted to focus on 'how' success emerged, not solely what that success consisted of. Following introductory information on context, this involved a more informative and sequential description of: (i) what the business is, (ii) who has control over it, (iii) how it overcame challenges, (iv) what the key success factors were.

Results

A discussion of the full results of the 19 case studies listed in Table 1 is beyond the scope of this brief paper (for more information please refer to Macqueen *et al.* in press). Here we restrict our findings to issues that shed light on which ownership and management structures work in different context and why. These four findings correspond to the four main sections of enquiry in the case studies. For each of these sections we try to identify an issue that was common to all the case studies presented and then illustrate it with a couple of pertinent examples.

Four key findings from case studies of successful locally controlled forestry businesses:

- **Strong local origin and member based ownership** - in which local cultural skillsets form the basis for competitive business advantage.

In defining what the business is, particular sub-sectoral choices (be they for timber, NTFPs or service provision) appeared to matter less than the commitment to building on the assets of members. For example, in Bolivia the Cururu Community Indigenous Wood Association (AIMCU) saw its asset of 26,500 hectares of forest as an opportunity to develop, not only log sales, but also a specialized service provider capability by setting up a subsidiary company SERFORCU that sells forest inventory, management and harvesting services (both to its own parent company and to other adjacent community areas). Created in 1998, AIMCU and its subsidiary company became the first community timber business certified by the Forest Stewardship Council. Despite major setbacks in 2012 where its principal buyers failed to pay (leading to the collapse of SERFORCU), the management professionalism gained with AIMCU has helped it survive through continuing local sales.

Another example comes from Cambodia, where the traditional cultural practice of honey collection for food and medicinal purposes, often mediated through street-vendor sales, led to the idea, amongst honey producers, of a more professional business that could generate higher returns. Initial sensitization work with 17 honey groups in 6 provinces supported by a civil society programme (NTFP-EP) led directly to a strong emphasis on guidelines and training for production and quality control. By 2010, founding members had structured a business called the Cambodian Federation for Bee Conservation and Community based Wild Honey Enterprises (CBHE) in which a department for production and quality control, was complemented by departments for training and communication, marketing and, administration and finance. Again, the strong local origin of the idea and investment in the skillsets of the membership base have led to a successful business venture.

- **Transparent autonomous organizational structure, roles and finances** - in which business management is separate from but collectively overseen by members and customary authorities.

Maintaining control of group businesses, however strong the initial cohesion of members, can be threatened by internal rifts (particularly over decision-making relating to financial management). The solution to this is found in clear organizational structures and roles, transparency of financial accounting and some form of independent oversight. One good example of this is from emerging multi-product cooperatives in Ethiopia such as the Aburo Forest Management and Utilisation Cooperative founded in 2011. One of the product groups within this cooperative is the Agubela Frankinsense Business Group. Between functions of the General Assembly of all members of the cooperative, and the Executive Committee of the particular Frankinsense business groups lie two

important committees: an independent ‘Audit Committee’ and an ‘Elders Committee’. These committees ensure that the financial returns from and social impacts of the business are fully transparent and in line with the wishes of the broader community – without trespassing into the operational management decision of the Executive Committee.

Another example comes from Mexico, where a business established in 1988, Unidad Comunal Forestal Agropecuaria y de Servicios de Ixtlán (UCFAS), is the final link in a chain of three community owned companies that handle (i) forest management and felling (ii) transport, and (iii) wood processing and furniture manufacture from three community forest areas. Under the overall umbrella of the General Assembly of Community Land Owners of Ixtlan, there is a Vigilance Council, that independently oversees the financial management and social impacts of the three community owned businesses under its charge. Once again, there is clear separation between the community customary authority and the management of the business (who in this case was a professional hired from outside the community) but with an oversight mechanisms to ensure transparency.

- **Market research that drives reinvestment to improve the consolidated offer to customers** - matching customer demand and building a trusting customer relationship.

Overcoming challenges is often possible by keep a sharp eye on the business market niche and reinvesting profits to improve what the business has to offer within it. For example, in the Guatemalan Petén region, founding members of Chachaklum S.A. realized that a government programme (PINFOR) had incentivized, through cash payments, the establishment of plantations – for example in a local Tree Grower’s Network of San Francisco Petén. However, the rush to grow trees (for those cash payments) had not been accompanied by adequate attention to how to manage those plantations, identify markets for products arising from thinnings and final logs, and mediate sales. Skills within the founding members of the Tree Grower’s Network were built up through a range of strategic partnership with civil society groups, so that they could then provide those commercial services – initially to the full membership of the Tree Grower’s Network, and later to other plantation owners in the region. Rather than distribute profits to members, Chachaklum has decided to reinvest resources into a small dimension sawmilling business to broaden its capacity to offer markets for plantation thinnings. Local recognition of that market gap underpinned the local origin of the Chachaklum business in 2012 and reinvestment into the business has helped to consolidate its place in the market.

Another example comes from Nepal, where a joint venture company Himalayan Naturals, established in 2010, identified a market niche in supplying charcoal briquettes to the Kathmandu house heating market. Sourcing waste wood from community forest user groups, some 21 fully community owned charcoal briquette enterprises (together holding a 20% share in Himalayan Naturals) developed a standard product and packaging. Teaming up with a stove design company they then reinvested profits in 40 one-day marketing kiosks retail outlets, and opened a series of retail outlets for both stoves and briquettes. Substantial profits are now being reinvested into the design of stoves for the commercial heating and cooking markets.

- **Broad sustainable livelihood vision within which profit maximization is considered but is subsidiary to broader livelihood gains** – is one of the key factors for success.

Unlike profit driven companies, locally controlled forestry business often have broader sustainable livelihood benefits in view. Indeed it is this which is both distinctive, helps to underpin commitment to the success of the business, and merits greater investment. For example, the Koperasi Wana Lestari Menoreh (KWLM), established in Java, Indonesia in 2009, serves as a marketing company for its member teak growers. It has managed to maintain and expand its membership, and deliver increasing volumes of timber to clients, by offering members a fair price for their timber. It provides Forest Stewardship Council certified forest management and sales services to those members. The market access advantage of that certification, as well as the livelihood and sustainability benefits for members, allows it to remain viable, despite very thin profit margins for the actual cooperative itself.

Another example comes from the Yemboama Non-Timber Forest Product Union in Burkina Faso that was set up in 2012 by one of a number of village tree enterprise managers supported by TreeAid. The Union is essentially an aggregation and marketing enterprise for 39 community enterprise groups producing baobab, shea, balanites (desert date), gum arabic, tamarind and honey products. Its role is to secure additional, more lucrative, markets for those groups amongst national and international wholesalers, processors and traders. Good relationships within the Union have helped it to develop and reinvest profits into basic processing and packaging equipment and larger storage facilities. Members are free to sell independently, but chose to sell through the union, in part because of higher prices offered, and in part because they can see the longer term livelihood benefits of developing the infrastructure of the Union.

Discussion

So, how might these success stories be scaled-up and what risks must be considered in doing so? Three main points deserve brief discussion:

- How to align the agency behind the necessary enabling investment?

Evidence of the benefits of locally controlled forestry is now compelling. New funding facilities such as the FFF, together with knowledge alliances such as Forest Connect, are making steady progress in developing the capacity of forest and farm producer organisations to scale up success (Macqueen *et al.* 2014b). Focus on improving organisational structures is the key to scaling-up as it motivates other members to join and participate in those groups, especially if there is a strong emphasis on business. Support to facilitate the emergence of first-, second-, and third- level organisations brings both market benefits (through scale efficiencies) and political influence (through voter numbers). Issues are then directly represented by producers, instead of being articulated by intermediary NGO's, or through consultations with individuals with no formal representative mandate. However, progress needs to be matched by governments making simultaneous efforts in improving commercial tenure rights, providing technical extension services, and underwriting business development and finance services. In order to make the shift to a supply model based on local forest and farm producers, their group enterprises will need to be able to attract asset investors, and this will only happen once these pre-conditions are in place.

- How to overcome the fear of individual failure in a process targeting success?

Businesses fail – even the most successful ones. There is no guarantee that all 19 of the case studies reviewed in this paper will survive. Failures can be entirely self-inflicted but it can also be the result of reasons beyond the control of the business. The case study from Bolivia is a good example of this. The subsidiary company failed for reasons beyond its control, but capacity was easily transferred over to the parent company, the community wood association. In the end capacity was significantly increased within the local area and association, and that in itself is a win. Building knowledge about *how* to achieve success and the many steps that have led up to it allows for a broader analysis of what success is. It also puts more emphasis on learning from challenges, or failure. In our research we have attempted to capture the story behind both to support service providers advising small scale forestry businesses on how to address key challenges (which are often similar in nature) and learn from them.

- How to build partnerships that work for the partners as well as the beneficiaries?

Support agencies for locally controlled forest enterprises exist in their thousands. But they too need to secure their funding, often competitively – in an environment where novelty is king. Support agencies such as NGO's have access to funding resources that these businesses don't, especially during the initial stages. Local control can only be achieved once the business can access and control finance flows on its own. However, getting funds directly to businesses on the ground continues to be a challenge, also to the

businesses reviewed here, despite evidence of financial prudence and business capacity. There are numerous examples where co-dependency is developed between NGO's and small scale businesses, where the former rely on their beneficiaries to meet their (donor) goals so that they can continue to secure funding (Elson, 2012). However, this can stifle entrepreneurship and ability for businesses to mature. One way of avoiding this trajectory is to ensure partnerships are developed with clearly agreed goals, expectations, benefit sharing and exit strategy (Elson, 2012).

Conclusions/outlook

This paper has highlighted the potential of locally controlled forest enterprises. Their ability to incorporate long-term social, economic and environmental values into their business models makes them different and rather special – vis-à-vis for-profit corporations. Processes such as REDD+ and FLEGT have so far failed to engage and support adequately these locally controlled business models as an integral part of the solution to deforestation and illegal logging.

History has shown us that even the most impressive policies to stimulate local participation in managing forest landscapes mean very little if not implemented or enforced. Although commercial tenure rights, technical extension and access to business development and financial services are key for enterprises to scale up, these will not be realised unless producers are organised *before*, to negotiate what support is needed, and then *after* to make sure that support is delivered. Scaling up organisation of producer organisations and linking them effectively with each other is therefore a fundamental pre-condition and a priority for enabling investment.

These case studies represent governance and natural resource contexts from all over the world. The results therefore have wide application and can be used to increase understanding and encourage agencies to support locally controlled forest enterprises in many different countries and contexts.

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Annex 1. Table of case studies of successful locally controlled forestry businesses on which this paper is based.

	Name	Location	Registration	Offer
1	Asociación Indígena Maderera de Cururú (AIMCU)	Bolivia	2001	Timber (standing and felled)
2	Lomerio	Bolivia		
3	Cooperativa Mista da Flona do Tapajós (COOMFLONA)	Brazil	2005	Timber (felled in log yard)
4	Yemboama Union of Non-Timber Forest Product producers	Burkina Faso	2012	NTFPs: Baobab, Shea, Balanites, Gum Arabic, Tamarind and Honey
5	Cambodian Federation for Bee Conservation and Community based Wild Honey Enterprises (CBHE)	Cambodia	2010	NTFPs: Honey
6	Aburo Forest Management and Utilisation Cooperative and Birbirsra Natural Resource Conservation Cooperative	Ethiopia	2011 / 2009	NTFPs: Frankinsense and coffee
7	Tumani Tenda Eco-tourism Enterprise	Gambia	1999	Services: Eco-tourism
8	Kombo Cashew Farmers Enterprise	Gambia	2009	NTFPs: Cashew nuts
9	Chachaklum S.A.	Guatemala	2012	Services: Plantation management, marketing and client mediation
10	Xate Mayaland Committee	Guatemala	2004	NTFPs: Xate palm leaves
11	Koperasi Wana Lestari Menoreh (KWLM)	Indonesia	2009	Timber (teak logs and sawn timber)
12	Koperasi Wana Manunggal Lestari (KWML)	Indonesia	2006	Timber (teak logs and sawn timber)
13	Keoset organic coffee producer group	Laos	2011	NTFPs: Organic coffee
14	Unidad Comunal Forestal Agropecuaria y de Servicios de Ixtlán (UCFASI)	Mexico	1988	Timber (sawn timber and furniture)
15	Himalayan Naturals	Nepal	2010	NTFPs: handmade FSC certified paper
16	Himalayan Bio Trade Pvt. Ltd.	Nepal	2000	Timber: charcoal briquettes
17	Sunflower Weavers.	Philippines	2009	NTFPs: Hinabol weaving craft
18	Doi Chang Coffee Farm	Thailand	2006	NTFPs: Coffee
19	Acacia producers cooperative	Vietnam	tbc	Timber (Acacia sawn and pulp-wood)