

Policy pointers

Incubating sustainable business in forest landscapes can help governments deliver triple wins for the economy, society and the environment.

Forest producers need support to build the necessary skills to diversify, strengthen and upgrade their businesses, but their remote settings make this a costly challenge.

Forest and farm producer organisations that aggregate product in these remote settings can provide effective and sustainable incubation support to their forest producer members.

Governments and donors can facilitate such incubation support by reducing bureaucratic steps and increasing fiscal support for these forest and farm producer organisations.

Forest business incubation: the heartbeat of healthy landscape livelihoods

Forest producers and their local organisations often lack the skills they need to maximise sustainable business opportunities that reduce poverty, improve climate resilience and mitigate climate change. Although people working as small forest and farm producers organise to sell their products together, building the skills to develop their businesses in often remote areas is costly. Larger forest and farm producer organisations (FFPOs) that aggregate, process and market their members' products are well placed to also finance and support their members' skills development so they can grow sustainable businesses from their landscape-based livelihoods. This briefing explores how these FFPOs do this and how donors and national governments can increase their support to help them upscale this role.

Some 1.5 billion producers inhabit forest landscapes worldwide. Forest and farm producer organisations (FFPOs) play a vital role in their livelihoods, aggregating their value and gaining access to markets through collective action. Together, smallholder producers within forest landscapes have a gross annual value of around US\$1.3 trillion,¹ but much of this is in the form of unprocessed commodities. FFPOs can do a lot to add value to these commodities and diversify and upgrade FFPO businesses in forest landscapes; but there is a considerable business skill deficit in these often-remote areas. One way to reduce this deficit is through forest business incubation.

What is business incubation?

Business incubation is a support process that accelerates the successful development of sustainable businesses. Business incubators

offer such support to early-stage businesses, which often lack premises, facilities, market information, technological knowledge, business management experience, procedures, finance and legitimacy. Based mostly in urban settings, the number of business incubators has risen sharply since the first incubator was recorded in 1959, to more than 7,000 today. Over time, the concept has evolved, in three clear stages. The first generation offered a shared space or premises support. The second generation also offered mentoring support. The third (and current) generation encompasses shared space, mentoring and networking.

Business incubation in forest settings

Forest business incubation is a key mechanism for governments to meet their commitments under

the Paris Climate Agreement and implement the Sustainable Development Goals,² because it can:

- **Reduce poverty** by increasing rural incomes
- **Improve climate resilience** by diversifying incomes
- Help **mitigate climate change** by incentivising forest restoration and sustainable forest management.

If mediated through and for FFPO businesses, incubation aligns many separate agendas under one roof

It also offers financiers an opportunity to pool lower-risk investment opportunities. But despite its huge potential and the general upward trend of business incubation in urban settings, forest business incubation has lagged behind. It is time it got more global attention.

Remote forest landscapes present several challenges for business incubation. These include low densities of educated entrepreneurs, high logistical costs, scarce infrastructure to differentiate products and few capable business mentors. Perhaps the biggest challenge is that business incubation in forest landscapes requires a different — and more expensive — service delivery model. Shared space is rarely practical, so there is a need for more on-site client visits, virtual services and field exchanges, which have high cost implications.

Financing forest business incubation

Four main types of 'incubator' have emerged to address the business skills deficit in forest settings: non-governmental organisations (NGOs), for-profit business incubators, larger FFPOs and government agencies. In general, these are financed through a mix of four main income sources (Figure 1).

Forest producers have limited ability to pay client fees (Option 1), so for-profit incubator models are rarely viable. Public grants and overseas development aid (Option 2) are usually project-based and therefore unsustainable. The availability of investors or buyers in forest settings to provide grants or loans for business incubation (Option 3) is scarce and the reach of commercial banks generally poor.

In forests, the most effective strategy for business incubation is to build incubator capacity into larger FFPOs, which can finance such services with profits from adding value to their members' forest and farm commodities (Option 4). These FFPOs also have a strong

vested interest in improving the business capabilities of their supplier members.

Country contexts vary and not all forest producers are organised into strong and profitable FFPOs. But, rather than seeing the future of forest business incubation stutter due to the poor reach of for-profit and government models and the unsustainability of NGO project finance, a more useful trajectory is to invest in strengthening local producer organisations and supporting them to form or join larger cooperative or federated FFPOs that can provide business incubation funded out of the profits of the business itself. This is part of the vision of the Forest and Farm Facility (FFF), which sees many benefits in supporting FFPOs, such as strengthening their negotiating power to shape enabling policy environments and achieving forest landscape restoration at scale.³

Building incubation capacity in FFPOs

FFF worked with forest business incubator specialists and other partners to design a collaborative toolkit for building FFPO capacity for forest business incubation.⁴ It explains how FFPOs can bolt forest business incubation capacity onto their existing management structures. Larger cooperative associations or federations will already include men and women with strong business development skills, who ensure the profitability of their business. These core staff can mentor and deliver central recurrent training — for example, in financial accounting, marketing and business management — to producers and local FFPOs. Given the wide range of technical, business and financial skills required, these internal mentors' core skillsets can be augmented through a network of external expert mentors.

The shape of FFPO forest business incubators

While FFPO forest business incubators vary, they normally involve a time-bound support process, providing training and mentoring from different sources of expert advice (Figure 2) and sharing facilities or services such as webspace, printing and storage. Detailed guidance on how to set up, finance and manage an incubator is widely available.^{4,5}

The FFF toolkit outlines a modular process that covers how to:

- Define and assess the needs of potential FFPO client businesses
- Design the structure, staff and financing of the FFPO incubator

- Identify and develop capacity to deliver useful services
- Manage client business enrolment, servicing and graduation, and
- Measure and communicate impacts.

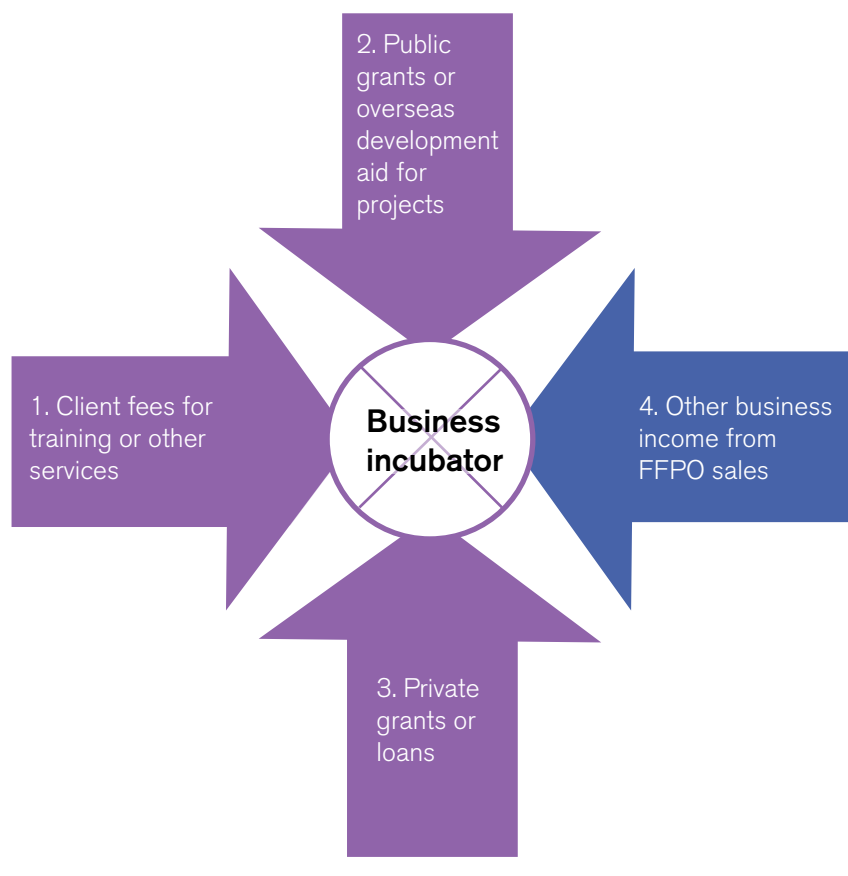
We explore each of these five modules in more detail below (using IIED data).²

1. Clients: there is a long history of cooperative FFPO incubators, augmented more recently by NGO attempts to support forest enterprise development and a wave of dedicated for-profit agribusiness incubators working in rural, if not fully forest, landscapes. Forest business incubators usually have few potential clients, so can rarely choose to select just very promising ones. Instead, they engage a mix of start-ups, early-stage and more mature businesses. The latter act as aggregators and processors of product from smaller businesses. While numbers vary, most incubators serve 20–60 quite diverse clients a year, carefully tailoring their servicing to each one.

2. Design: most forest business incubators have a general manager (a core business specialist), overseen by an advisory board that covers the wide range of skillsets necessary for good business support. Incubators usually have internal administration and finance departments alongside external services, which might cover many areas. Newer, smaller incubators can have as few as two to five core staff, while more established ones often have between five and ten, or even more. In almost all cases, these core staff are complemented by external experts in various fields. Because forest business incubator field staff usually require mobility, they tend to need higher levels of funding than their urban counterparts, unless they offer incubation services as part of their routine operations.

3. Services: forest business incubators usually offer generic core services such as business training and planning, accounting and financial management, linking to finance providers and market needs assessment support. They may also offer resource management or technology sourcing and upgrading services. Training in leadership and organisational management are also useful, as forest-based businesses usually involve collective or group ownership to achieve economies of scale or buy-in to collective community resources. Quality assurance is another important service area when production is from multiple grouped smallholdings or through multiple community members. Finally, networking in areas such as technology expertise, market promotion functions, legal compliance support and certification are also common features.

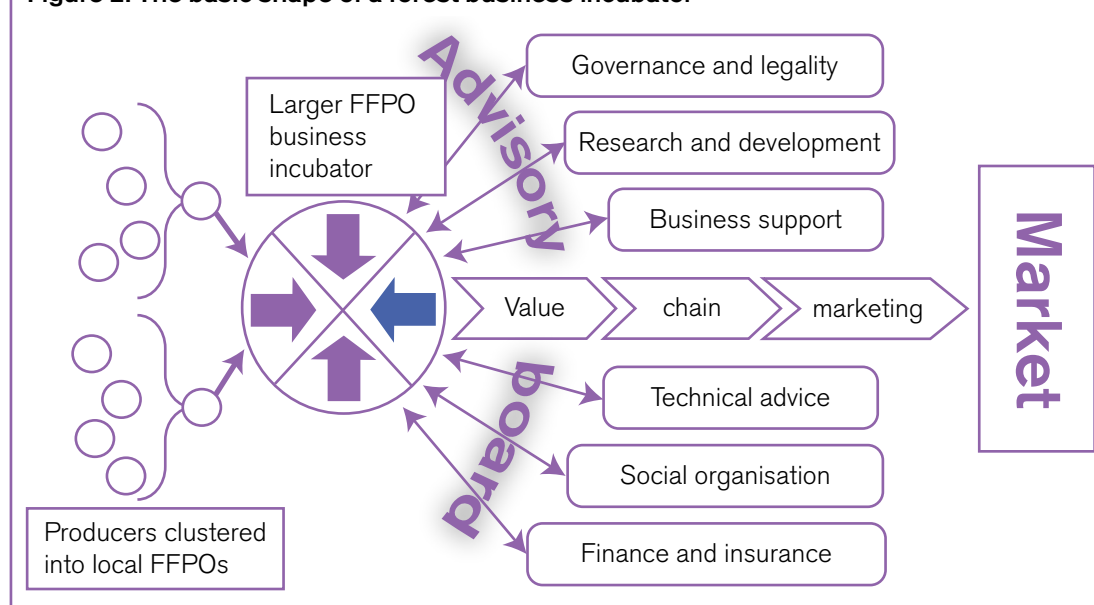
Figure 1. Options for financing forest business incubation



4. Management: incubators usually make a preliminary assessment of the client business to form a baseline against which to measure progress and assess how long they will need support. They usually provide mentoring and other services over several years, although the client relationship in FFPO incubator models is indefinite because it forms part of an ongoing business relationship. Many incubators track their clients after they have stopped providing support.

5. Impacts: incubators can track impact against several parameters, including sales, customers, employment, new funding raised and new product launches. Many also assess the broader impacts of their support on their clients' forest management capacity and the forest area in general. Some measure social impacts such as human capacity development, advances in women's and youth entrepreneurship or sector support. They report that good outcomes are most frequently a result of clear vision, roles and responsibilities; relationship-building between the parties; a holistic, multi-actor value chain approach that links remote forest landscape production with markets; a long-term commitment to forest business incubation; careful selection of clients; and a customised approach to those clients.

Figure 2. The basic shape of a forest business incubator



Priorities for donors and national governments

We have seen that FFPOs are more effective and sustainable than for-profit or project-based models for delivering effective forest business incubation. To upscale their efforts, we recommend that donors and national governments:

- Reduce bureaucratic steps for FFPOs and channel more development aid, climate finance and national programmes for economic growth into strengthening sustainable FFPO business — for example, through REDD+ implementation finance or national small enterprise support processes
- Make stronger efforts to facilitate clustering of local FFPOs into larger FFPO associations that can aggregate and add value to products, reinvest their own profits directly into forest business incubation for their members and have a vested interest in achieving positive outcomes
- Provide extension services to give more concerted and sustainable support for such a

model through administrative streamlining and tax incentives for locally controlled FFPOs, procurement strategies, market information services and trade fair events.

Forest business incubation that is ultimately financed by larger FFPO businesses (even if initially catalysed by development or climate finance, or preferentially supported by government services) could be game-changing or transformational because it is funded by its own profits. If mediated through and for FFPO businesses, incubation aligns many separate agendas under one roof. Because it has to make business work, it must also secure rights and legality, advance sustainable forest use, develop market access, deliver social and economic inclusion and benefits, and so on. This is what might ultimately make forest business incubation deliver a triple win for the economy, society and the environment.

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Knowledge Products

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Forest and Farm Facility

Notes

¹ Verdonne, M (2018) The world's largest private sector? Recognising the cumulative economic value of small-scale forest and farm producers. IUCN, Gland, Switzerland. / ² Macqueen, D and Bolin, A (2018) Forest business incubation: Towards sustainable forest and farm producer organisation (FFPO) businesses that ensure climate resilient landscapes. FAO, Rome and IIED, London. <http://pubs.iied.org/13595IIED> / ³ FAO (2018) Forest and Farm Facility. Putting producers first works: impacts and lessons learned from enabling government and strengthening forest and farm producer organisations. Report December 2012 – December 2017. FFF, FAO, IUCN, IIED and Agricord, Rome, Italy. / ⁴ Bolin, A, Macqueen, D, Greijmans, M, Grouwels, S, Camara, K and Ndethiu, L (2018) ForBInc: Forest business incubation toolkit by and for Forest and Farm Producer Organisations. IIED, London. <http://pubs.iied.org/13596IIED> / ⁵ infoDev (2010) Business incubator definitions and principles. Module 01 (of 12). infoDev and World Bank, Washington, USA.