



Supporting small forest enterprises



A facilitator's toolkit - DRAFT

Pocket guidance not rocket science!

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Executive summary

The goal of this toolkit is to help supporters of small and medium forest enterprises (SMFEs) do their job better. It targets what we call ‘facilitators’ both at the international level (e.g. donors) but especially at the national level (e.g. government extension services and NGOs) – but N.B. is not written for enterprises themselves.

The toolkit is arranged in a series of self-explanatory modules (or tools), each of which provides step by step guidance for a different element of SMFE support. There is inevitably some overlap between the modules (or tools). Nevertheless, the toolkit follows a logical progression beginning with broad international considerations on setting up capacity building programmes for SMFE support (primarily aimed at donors), then moving to considerations of national level planning and capacity building, before providing more hands on advice for direct facilitation activities. The idea is that practitioners at whatever level will dip into bits that catch their eye – but that people completely unfamiliar with enterprise support will be able to read through the toolkit in a logical way and hopefully be wiser for it!

Each of the sixteen modules (or tools) begins with a purpose statement that clarifies what type of guidance the module provides. There are then a series of steps, often illustrated by boxes and figures, that include the main content of each module. Finally, authors have included a number of practical tips, based on their own experience, followed by a section that points to further information. In this field there are innumerable useful manuals and tools already in existence and this last section tries to point to some of the more useful ones.

The intention is that this toolkit is akin to ‘open source soft ware’ and that practitioners may comment and send in their own ‘experience boxes’ at any time to enhance the quality of the guidance and the number of useful examples. Whether this intention happens in practice will depend a little on whether readers find the material useful and whether a donor agrees to support subsequent updates.

We have tried to provide a fairly comprehensive and up to date reference list at the end. We also include a glossary of terms to help people make sense of any jargon that has crept in.

Introduction

High rates of deforestation are a global threat to our climate and biodiversity. The last forest frontiers also have a high incidence of poverty. Avoiding deforestation while simultaneously reducing poverty will be a challenge. One of the only economic alternatives to agricultural conversion at the forest frontier is sustainable forest enterprise. But governments are often reluctant to give control over forest resources to local people. Nevertheless, small locally run enterprises are the norm in many of these regions and their impacts vary widely. With spiralling demand for forest products, anchoring secure local timber and non-timber forest product (NTFP) rights to responsible and profitable small forest enterprises is perhaps the best bet to reduce poverty, avoid deforestation and tackle climate change.

It goes without saying that not all small forest enterprises are the same. They range from small family businesses and companies to more democratic and social forms of enterprises such as associations and cooperatives. Working with the reality of small business constitution is clearly an imperative, but it is also important to give particular emphasis to the latter forms of organisation where local social and environmental accountability are likely to be highest and where the greatest benefits for poverty reduction and avoided deforestation are likely to be found.

Moving such enterprises towards secure resource rights, responsible production and profitability is not easy. They face huge constraints to do with isolation. They are isolated in various ways, not only from neighbouring enterprises with whom they might work for scale efficiencies and bargaining power, but also from a range of potential buyers that would give them sales options, from financial and business development service providers who would help them 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 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). It currently involves action plans in 11 countries: Burkina Faso, China, Ethiopia, Ghana, Guatemala, Guyana, India, Laos, Mali, Mozambique and Nepal plus a broader network of supporters in 48 countries linked by an international social networking site (<http://forestconnect.ning.com>).

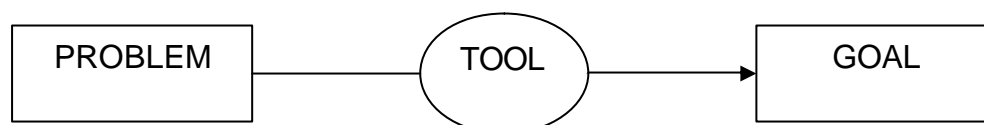
The Forest Connect alliance is co-managed by the Natural Resources Group within the International Institute for Environment and Development (IIED) and the Community-Based Forest Enterprise Development programme (CBED) of the Food and Agriculture Organisation of the United Nations (FAO). New support from PROFOR and the FAO hosted National Forest Programme (nfp) Facility is helping this alliance to develop (and roll out across Facility partner countries) a toolkit for the facilitation of support for small and medium forest enterprises. The intention is to develop this toolkit 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.

Country presentations at the first international Forest Connect workshop (2-4 July 2008, Edinburgh UK) showed how these country partner institutions are already working to connect small forest enterprises. Almost all partners have now undertaken a diagnostic of the types and numbers of small forest enterprises in their country / region – building databases of who is doing what and where. Most have also mapped out potential service providers. Some have gone further, supporting collective action within producer associations, identifying, benchmarking and linking service providers to them and exposing them to markets through news letters, 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. Some partners are experimenting with Forest Connect membership based around particular ethical principles and criteria. Many have begun to establish local level contact points (e.g. at village level) often piggy-backing on existing government or private sector infrastructure. Most are also working towards clearer understanding of how forest production could be made more sustainable and how forest governance in favour of responsible small forest enterprises could be enhanced. National steering committees with newly established monitoring systems were also emerging in many cases in support of such aims. The aim is to capture relevant lessons from such action-learning so that others can benefit from the experience.

What is this toolkit?

This toolkit¹ is simply a collection of tools. By 'tool' we mean a 'means to an end'. Tools help people get from a problem to their goal. For example they might help international donors who want to support small forest enterprises but do not know where to start (problem) identify national partners who can facilitate such support (goal). Or they might help national partners confronted by unplanned and unprofitable businesses (problem) to develop and spread business planning skills (goal). The tool is simply the 'packet of experience' that enabled you to get from problem to the goal. The main reason that the Forest Connect alliance is developing a toolkit (alongside direct action to achieve specific goals in each partner country) is because tools are transferable.

Figure 1. The role of a tool



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. 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 (e.g. donors, international agencies, national governments etc.) and (ii) national facilitators who are directly seeking to support small forest enterprises in the field (e.g. Non-Government Organisations, umbrella associations, national extension agencies etc).
- **Demand. Why are particular problems a priority?** We have identified key areas where more guidance is needed for our target audiences through a three day participatory planning workshop in Edinburgh from 2-4 July 2008². This 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: (i) facilitation capacity building – largely directed to our audience of external agencies; (ii) facilitation planning and (iii) facilitation in action – largely directed towards our audience of national facilitators. This pattern reflects the experience of current action-learning spread across multiple countries. Within each of these components there are a number of specific tools each 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 their problems be addressed so as to meet their goals?** Within each module or tool, we have taken pains to describe as accurately as possible the purpose of the tool (e.g. how to get from problem to goal). The logical pathway has emerged from the collective experiences of Forest Connect partners in the 13 countries represented at the planning workshop.

¹ This section draws on Vermeulen (2005) How to make a tool. IIED, London, UK.

² Macqueen, D.J. and Morrison, E. (Editors) (2008) Developing a toolkit for facilitation of support for small forest enterprises – proceedings of the first international Forest Connect workshop at the National Museum of Scotland, Edinburgh, 2-4 July 2008. IIED, Edinburgh, UK,

- **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 on useful tips – 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. Our starting premise is that none of the tools or modules should be seen as set in stone. Each one is a work in progress – which 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 horizon, so as to allow time for such progress.
- **Development. What process is needed to capture and test a breadth of alternatives?** As noted above, this toolkit is a work in progress. Tools do not have to be fully developed and road-tested before sharing them with others. Our experience is that people are always eager to learn from real experience. Of course, real experience is not tidy or finished business. So country partners have agreed to note what has and has not worked for them and help to revise the toolkit over time. We have scheduled a second workshop in 2009 to review country experiences – including testing pre-conceived ideas and capturing innovations.

We try as far as possible to provide a “recipe”, giving a step-by-step procedure of how to implement the tool. A straightforward, concise explanation like this is an easy and flexible starting point for others to pick up the tactics and methods they want and get going. In the “recipe cards” linked to this project we have tried to describe tools using four simple headings:

- Purpose – just a few sentences to describe what the tool is for
- Outline – the main steps you need to try it 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 reasons such as:

- 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 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 put it on the side as a tip. Each tool or module has a linked set of “health warnings” – contextual and procedural issues and principles to keep in mind – if there is danger of the tool being misapplied. Most importantly, we work on a principal of trust – we trust future users to understand and extract what they need themselves, to be experienced enough to interpret our work flexibly, and to get in touch with us if they want to know more.

What is this toolkit aiming to deliver?

This toolkit aims ultimately to help reduce poverty and promote sustainability through guidance that helps *support institutions* to better link small forest enterprises: to each other, to markets, to service providers and to policy processes (such as national forest programmes). As noted above, the main audience for this toolkit is forest enterprise support institutions, *not* the forest enterprises themselves. The immediate intention is to empower those forest enterprise support institutions by giving them sufficient confidence to launch into some practical and useful interventions – basing their confidence on tried and tested approaches and successes from elsewhere. Of course those support institutions – or ‘national institutional hubs’ as we have called them below – will have to have direct contact with forest enterprises themselves. And of course some of the toolkit modules proposed (e.g. value chain analysis or business planning) may be just as relevant to enterprises as to support institutions. But we wish to be clear about who we are intending this toolkit for – support institutions, not small forest enterprises.

The main emphasis in this toolkit is on *facilitation* of support to small forest enterprises not the direct provision of services³. This emphasis is an important one in generating confidence within those support institutions – it immediately removes any perceived pressure to possess internally many fields of business and financial expertise. It is more about knowing the right people to ask 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, retooling services to meet the needs of the forest sector, linking service providers with those who most need them, taking policy constraints to those with the power to do something about them etc. Through using this toolkit, facilitators will also become repositories of information on small forest enterprises, which can hopefully be institutionalised within support institutions and 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 that facilitators will have the confidence to ‘have a go’ and develop their own experience through action. The guidance has been written in as concise a form as possible by people who have done these things 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 many will take issue with some of what is offered up here and propose better ways of working that can be captured into this document. Our vision for this toolkit is very much like the ‘linux’ open-access software, or ‘wikipedia’ information portal within the computer world to which all contribute and from which all benefit.

³ Tanburn et al. 2001.

AUDIENCE 1. EXTERNAL AGENCIES

This initial section has as its target audience those external agencies (e.g. donors, international institutions and NGOs, multilateral banks etc) 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 itself.

Component 1. Facilitation capacity building

Module 1. Managing an international peer-peer learning group or alliance on small enterprise support⁴

1.1 Purpose – what the tool is for

This tool describes how to set up an alliance to tackle lack of experience within institutions that are trying to 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 – the main steps you need to try it out

- **Step 1. Develop shared ideas for an alliance** - The success of any alliance depends on the degree to which its members share an interest in a particular area of action. But it also depends on how well those interests are identified, captured and converted into a fundable programme of action. There is no general prescription as to how to do this, as much depends on the collaborative intent, dynamism and time of those involved. One general hint is to balance electronic communication with face-to-face interactions. The Forest Connect alliance emerged over two years based around the following overlapping steps:
 - Informal professional interactions with other professionals interested in supporting small forest enterprises at a series of international meetings.
 - Joint preparation of a concept paper based on a shared perception of the core problem and how to address it – for example the perception that it was the ‘isolation’ of small forest enterprises at the root of many of their problems and that better ‘connection’ was therefore an appropriate response.
 - Broader feedback, garnered through exposing the concept to wider practitioners from a variety of contexts to see whether all, parts or none of the concept resonate in different situations.
 - Development of a clear objective and ‘brand’ for the alliance, for example using a graphic logo and strap line to communicate clearly what the alliance is about.
 - Initial electronic probing to see which institutions in different countries might already have a mandate and disposition to join the alliance.
- **Step 2. Incubate fund raising proposals**– No alliance will go very far without at least some core funds. Such funds are essential at least to resource the 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. Various failed fundraising attempts usually precede success as ideas are honed and it becomes apparent which elements of work are attractive to which donors. For the Forest Connect alliance helpful steps have included:
 - Development of a longer concept narrative to provide a reference point for members of the alliance developing more specific proposal ideas
 - Clear break down of the constituent elements of a response to the core problem: e.g. participatory engagement of small forest enterprises, research, capacity building, communications, learning events, advocacy etc.
 - Production of a flier (a calling card) that succinctly puts across the problem and main constituent areas of the response.

⁴ Developed by Duncan Macqueen

- Brokerage of informal meetings with potential donors to assess and then develop tailored proposals based on particular interest in different elements of the whole work programme
- **Step 3. Organise a set of annual themed events** – For peer-peer learning, any fundraising must at least partially be orientated towards thematic events that together constitute a ‘learning journey’. These can be virtual events using email or wiki technology if funds are scarce, but face to face interactions inevitably improve the learning opportunity. To make this work across different country contexts, it is essential to structure in at least some shared thematic content or programmatic objectives in work programmes. Thematic events can then draw together learning on various partner’s approaches and tactics to deal with specific challenges. A number of useful tactics can help make this work:
 - Setting preparatory tasks such as country powerpoint presentations or posters with a template that ensures attention is given to the same tactical areas
 - Involving event participants in the peer review of other teams presentations, approaches, work plans etc.
 - Using participatory techniques to analyse shared problems, brainstorm potential solutions, debate contentious issues, shape new proposals.
 - Include a local field event that illustrates and can help to focus discussion on particularly challenging issues.
- **Step 4. Establish a rotating steering committee** – It neither easy or in most cases necessary to avoid 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 the many and not the few. Electing a steering committee that take strategic decisions, improve the profile, contacts and fundraising opportunities for the alliance and undertake monitoring and evaluation can help to channel work along a path of greater consensus and hopefully relevance.
- **Step 5. Develop a communication platform at international level** – Any alliance needs to be challenged by new ideas. Restricting the alliance to those whom funding allows (however generous or restricted) is likely to diminish innovation. New information technologies on the internet can allow much broader membership. 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 etc. 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
 - Maintain a database of relevant published resources or internet sites where here is useful content.
 - Spread findings – either as an outcome or to encourage critical review and revision of the same.
- **Step 6. Manage the ‘front door’** – Clarity about who is managing or co-managing an alliance can lead to various approaches. Since Forest Connect became established numerous spontaneous links have been made by: SMFEs themselves, 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.

1.3 Useful tips – practical advice based on experience

- 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 with simple language
- Don’t let short term needs and deadlines drive out the longer term vision or ‘learning journey’ which the alliance is dedicated towards.
- Be as inclusive as time and money allow – especially in regard to the management of an alliance. It is often from unexpected sources that innovation emerges.
- Factor the time and resources needed to maintain an international communication platform.

Box 1. Setting up a Web 2 international communication platform for Forest Connect members

Forest Connect was established in 2006 as an ad hoc international alliance of those seeking to better link small forest enterprises to each other, markets, service providers and policy makers. As interest in the alliance grew, the potential to be more creative in networking partners emerged through developments of 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 (e.g. 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 provide a means to publically add written text, while the messaging tool allows members communicate directly with one another (albeit in a way that others can see if they trouble to 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 a particular audience – civil society groups, government departments and private sector representative bodies who acted to support SMFE development. Content was designed to build capacity of those organizations 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 would 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 then the IIED and FAO Forest Connect co-managers stocking the site with a few 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 persons were invited to join the site. All new members received a welcome message to encourage them to spread word of 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.

In order to encourage repeat visits and new members alike, a threefold strategy was adopted. 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 (e.g. 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 blog and photos and videos. By highlight such contributions, repeat visits by members have greatly improved.

Source: Macqueen, 2009

1.4 Further information – where to get further advice

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 practice⁵: <http://www.iied.org/pubs/pdfs/G02295.pdf>

⁵ Macqueen and Morrison, 2008

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)⁶: <http://www.iied.org/pubs/pdfs/G02496.pdf>

To see the Forest Connect networking site please see the following link⁷: <http://forestconnect.ning.com>

For further information on the Web 2.0 platform used by the Forest Connect alliance⁸ plus a range of other Web 2.0 technologies⁹: <http://www.planotes.org/index.html>

⁶ <http://www.iied.org/natural-resources/key-issues/forestry/forest-governance-learning-group#resources>

⁷ <http://forestconnect.ning.com>

⁸ Macqueen, 2009

⁹ IIED, 2009

Module 2. Identifying national facilitation hub institutions¹⁰

2.1 Purpose – what the tools is for

This tool describes how to help small forest enterprises by identifying and engaging the institutions which 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 – the main steps you need to try it out

- **Step 1. Map institutions in-country through a scoping mission** – Building competent, long term institutional support is crucial to assist SMFEs to develop and adapt to changing markets. But generic agencies that support small enterprises often have little specific knowledge of the forest sector. Conversely, forest agencies that know the forest sector often have little business development capacity to support small enterprises. 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 for as long as time and resources allow to national and regional centres, visiting and interviewing both institutions set up to help SMEs in general and forest development institutions in particular, e.g.:
 - National government agencies (e.g. small enterprise support programmes embedded in Ministries of Industry, Commerce, Economic Affairs etc)
 - National initiatives such as programmes supporting Competitiveness and/or Export
 - Regional government agencies (e.g. Regional or provincial development agencies)
 - Private sector groups (e.g. Chambers of Commerce, Industry associations, Unions)
 - Civil society groups (e.g. Development or environment NGOs, Forest campaign groups, project networks)
- **Step 2. Screen promising institutional facilitators** – Any scoping visit needs a structured format to distinguish optimal institutions in which to invest further. Personal relationships with individual champions of enterprise development with energy and drive are important, but sustainable support to SMFEs also requires a sustainable institutional environment. It is worth formally recording / scoring a number of other features that are likely to affect practical performance over time:
 - 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 / non-aligned engagement with existing SMFEs
 - 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 etc)
 - Participation and facilitation skills (e.g. workshop facilitation, expertise in participatory methods such as brainstorming, problem and SWOT analyses, timelines etc)
 - Fundraising and project management experience
 - Information mining and packaging for dissemination (e.g. a track record of effective communication)

¹⁰ Developed by Duncan Macqueen

Box 2. Identifying a national facilitation hub in Guyana

On the back of three years of work documenting Guyanese SMFEs and their associations in collaboration with the Guyana Forestry Commission (GFC) and the Guyana National Initiative for Forest Certification (GNIFC) respectively, an IIED scoping mission was made in 2006. 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 (GFC), the Forest Training Centre (FTC), the recently established Forest Products Marketing Council (FPMC); (ii) industry bodies such as the Forest Products Association (FPA), the Guyana Manufacturers and Services Association (GMSA); plus smaller associations such as the North Rupununi District Development Board (NRDDDB) or Ituni Small Loggers Association (ISLA) and (iii) non-government organisations such as the Iwokrama International Centre for Rainforest Conservation and Development or Conservation International (CI). Semi-structured interviews with staff of these institutions and other experts were carried out with reference to a set of criteria. Iwokrama international was eventually selected on the following basis:

- It's institutional mandate and mission for sustainable *and equitable* use of tropical rain forests through research, training, and the development and dissemination of technologies.
- It's sustainable financial base and staffing, surviving a recent lean period partly through existing entrepreneurial success in eco-tourism and certified forest production.
- It's 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 the North Rupununi and other 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 products 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 of work 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).

The main alternatives would either have involved a conflict of interests (e.g. government enforcement roles alongside proposed facilitation of enterprise support), partiality (e.g. industry membership bodies to which only some SMFEs belonged), limited national coverage (e.g. regional associations) or lack of expertise in all of the areas deemed necessary for this role (e.g. community participatory research and facilitation skills). Many of these other institutions have since been drawn in as advisors or participants in the programme of Forest Connect work.

- **Step 3. Negotiate fit with potential facilitation hub institution** – Pre-existing institutional agendas are a necessary and valid starting point from which to assess how to develop mutual interest in more concerted support for SMFEs. From any existing SMFE support activities, it may be possible to agree ways of expanding the target institutions facilitation role. It is usually difficult to foresee an end to the many temporary facilitation needs – so depending on resources available, clarity on the scope of facilitation should be agreed. 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 demonstrate 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. Develop a flexible plan to develop facilitation capacity by doing it** – Different institutions will obviously vary hugely in their familiarity with different approaches and tactics to facilitate support for small forest enterprises. For those institutions with a solid track record, specific interventions for particular types of upgrading in specific value chains may be possible (e.g. modules 10-16). For institutions new to enterprise support there are likely to be a number of stages which have to be

gone through in order to bring the institutional 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:

- Familiarise staff with the various approaches to facilitation of support for small enterprises, especially literature on Market system development (see module 4)
 - Conduct small forest enterprise diagnostics and data collection in country where this does not already exist (see module 5)
 - Map and benchmark financial and business development service providers both within and beyond the forest sector (see module 6)
 - Identify promising subsectors and conduct participatory value chain analysis to identify key opportunities and constraints for upgrading together with SMFEs (see module 7)
 - Prioritise and sequence further facilitation steps based on the outcome of the above for specific subsectors (see module 8)
 - Develop a communication strategy that makes available the information on SMFEs, policies, service providers, subsector analysis and approach to the wide range of stakeholders involved (e.g. SMFEs themselves, service providers, policy and decision makers).
- **Step 5. Encourage the establishment of a steering committee** – No single institution, unless extremely well resourced, would 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 in such expertise and helping to smooth the path to real change as interventions become more specific. A national steering committee can also spread ownership of and skills to undertake facilitation.

2.3 Useful tips – practical advice based on experience

- 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-sectoral impacts that affect small forest enterprises and invest in 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 publically about why that institution was chosen (to avoid possible sabotage by competitor institutions)
- Make use of the steering committee to bring in other useful actors into the facilitation process and increase ownership / funding possibilities for what is going on
- 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 institutional choices 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 – where to get further advice

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 hubs¹¹:

<http://www.iied.org/pubs/pdfs/13548IIED.pdf>

¹¹ Macqueen, 2008

Module 3. Setting up an evaluation process¹²

3.1 Purpose – what the tools is for

This tool describes how to overcome the lack of awareness about what does or does not work in support to small forest enterprise. It lays out options for evaluating the success of facilitation of support for small forest enterprises, with sets of indicators based around different perspectives. Clearly, the responsibility for evaluation must involve national facilitators as much as external agencies, so this module bridges the first and second audiences.

3.2 Outline – the main steps you need to try it out

- **Step 1. Be clear about what evaluation is needed by whom** – Evaluation allows us to learn how to do things better. But complex adaptive systems such as evolving forest product subsectors (or the enterprises therein) challenge simple cause and effect models of evaluation¹³. Importantly, there is no general consensus or ‘off-the-peg’ model on the best way to evaluate successful enterprise support¹⁴. It is rare to get a simple link between a costed activity and a clear cut enterprise outcome. There are usually multiple influences that shape enterprise outcomes which make the attribution of success difficult (e.g. an enterprise outcome might have happened anyway with or without the costed 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) or 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. Rather than prescribe one route to follow, experience suggest placing greater emphasis on negotiation with clients of the vision towards which an enterprise support programme is trying to get. There will then be various possible evaluation perspectives that would together provide a ‘balanced scorecard’¹⁵ to assess progress towards that vision. These evaluation perspectives¹⁶ in roughly escalating order of cost might include:
 - Internal perspective - performance against financial and activity plans towards that vision.
 - Client perspective – performance in terms of direct client satisfaction at achieving that vision.
 - Uptake perspective – performance against planned spread beyond direct clients.
 - Verifier perspective – performance against chosen controlled indicators of progress.Because evaluation is costly (and can even exceed the costs of the original intervention¹⁷), 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 a cheap 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 a more costly verifier may need to be brought in to perform a controlled quantitative evaluation of specified impacts.
- **Step 2. Negotiate with clients the vision for an enterprise support programme and the causal links to deliver that vision** – In order to develop a viable vision it may be necessary to convene a meeting with clients during the programme design process, either with partner enterprise support NGOs at international level or client enterprises at national level, at which their perspective can be expressed. Credible evaluation depends on the degree to which the often multiple causal links leading to a vision can be presented and assessed. So 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 what you want to achieve – the overall vision. 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 broad outcomes would be necessary in order to achieve 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’ outcomes and working together to give a title to each outcome. Capture these outcome titles on new cards below the vision statement.

¹² Developed by Duncan Macqueen

¹³ Eoyang and Berkas, 1998

¹⁴ Tanburn, 2008

¹⁵ Kaplan and Norton, 1995

¹⁶ Henderson, 1999a

¹⁷ Henderson, 1999b

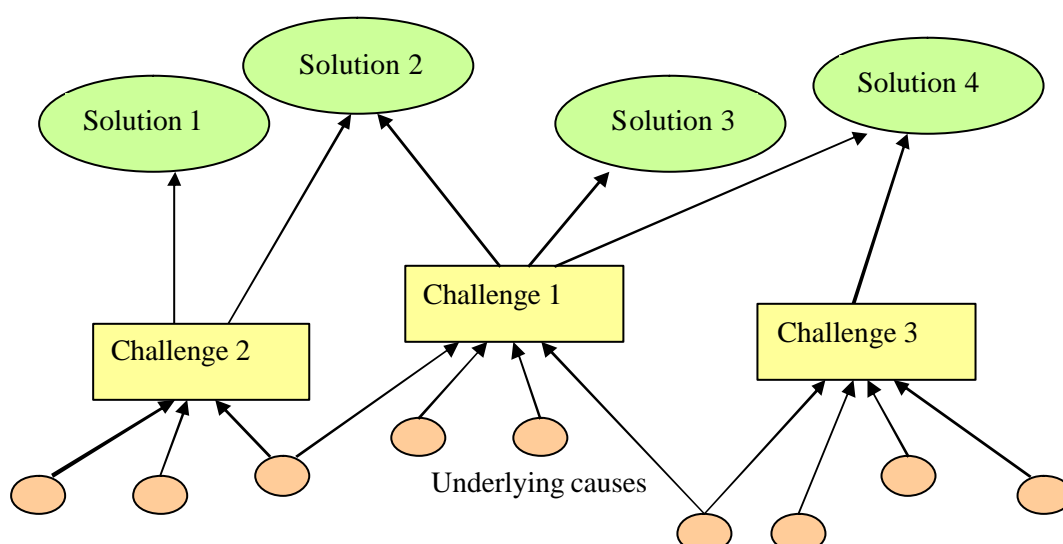
- List out the various ingredients that would need to be in place to achieve an outcome¹⁸. Once again it is useful to give all participants cards to write on before collectively grouping them on a wall into 'like-minded' ingredients under each outcome. If necessary repeat to unpack sub-ingredients that need to be in place for each ingredient to perform its role.
- Link the ingredients, outcomes and vision with causal arrows. The ingredients 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

Box 3. 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, 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. Each participant wrote on coloured cards their perspective on the main challenges faced by SMFEs before all members grouped card 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 enabled time-effectiveness and facilitated contributions by all – reducing debate capture by 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.



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 7). Whether VCA has or can be done prior to the establishment of an evaluation system will vary with different contexts. Nevertheless,

¹⁸ See final table in Skinner, 2009

evaluation processes should be flexible enough to reassess different visions and indicators that evolve as deeper analyses are carried out.

- **Step 3. Develop evaluation indicators** – ideally any international or national programme team would want four sets of combined qualitative and quasi-quantitative indicators, able to be scored by key informants for each of the four perspectives listed above, that are based on those ingredients and outcomes that the enterprise support programme intends to address in order to achieve its vision. 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 say “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 (x): 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 (x): 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 (x): 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 (x): Increased income flows to the poor¹⁹ 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 etc. which can also be presented on demand. It is important, however, not to neglect qualitative stories of how change came about and why in order to interpret such hard data.
- **Step 4. Establish an internal evaluation process** – The aim is to define both activity indicators, and the process, staffing and timing by which they are assessed. Any enterprise support programme will probably face externally imposed reporting requirements which will shape the frequency of internal evaluations 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 in the preceding bullet.
- **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).
 - 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 - too early and new ways of working based on support programme interventions may not yet have emerged – 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.

¹⁹ Ashley and Mitchell, 2008

- Think about sampling your interviewees. In limited interventions that target only a few enterprises it may be possible to contrast client perspectives with those outside the support programme (although sometime innovations spill over to outside individuals too). Where the support programme targets an entire sub-sector, 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-selection²⁰
 - Make sure that clients are consulted regularly, not just at the end of the programme. Facilitators need also to monitor progress in relationships and coordination amongst market actors (see below) as well as ensuring the ongoing relevance of their facilitation as market trends evolve.
- **Step 6. Develop an uptake and influence strategy and evaluation process** – Relationships are crucial to enterprise support that has facilitation at its heart. 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 policy makers is likely to be a central aim. There is no short cut 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 matrix²¹ 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, processes that indicate their health (e.g. supplier selection, transparent information sharing, value added services, collaboration versus competition) and then develop a baseline against which to monitor progress.
- **Step 7. Plan (and budget for) external verifier to evaluate impact if needed** – While qualitative and quasi-quantitative indicators of internal progress, client satisfaction and spread of information may be sufficient to learn about how to do things better 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, of course 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 these activities into evaluation frameworks 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 etc. Six useful columns in that document act as an important check list of questions to consider in any evaluation process by an external verifier:
 - Has the verifier benchmarked our enterprise support against global alternatives
 - Has the verifiers job been made easy because evaluation is integral to the support programme facilitation activities?
 - Has the verifier assessed impacts of 'crowding in' due to new entrants or displacement of others?
 - Has the verifier traced upstream impacts on forest producers, or downstream impacts on value-added processors?
 - Has the verifier disaggregated data by sex?
 - 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.

²⁰ Snodgrass, 2005

²¹ See SEEP, 2008

3.3 Useful tips – practical advice based on experience

- 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 what you are about and the causal links between vision, combined outcomes and necessary ingredients to make it all work.
- Evaluation indicators can best be developed by questioning 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 – where to get further advice

The 2008 reader on Private Sector Development deals specifically with the subject of measuring and reporting results for enterprise support programmes²²:

<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)²³: 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 Programme²⁴ from which a useful case study on evaluation can be found here: 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 on quantitative methods for research, decision makers or business²⁵: http://www.amazon.co.uk/s/ref=nb_ss_b?url=search-alias%3Dstripbooks&field-keywords=quantitative+methods

²² Tanburn, 2008

²³ Shaw et al., 1995

²⁴ Henderson, 1999b

²⁵ Cresswell, 2008; Wisniewski, 2005; Morris, 2008

AUDIENCE 2. NATIONAL FACILITATORS

This section switches attention to our second target audience - national facilitators who are directly supporting small forest enterprises in the field (e.g. Non-Government Organisations, umbrella associations, national extension agencies etc). The aim is to provide guidance to these intermediate institutions who wish to improve prospects for 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 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 bits, facilitation planning and facilitation in action. The divide is slightly artificial, but our intention was to introduce first areas of preparatory work that facilitators need to think about before getting stuck into direct support to SMFEs. As the modules progress the engagement with SMFEs moves away from the generic and becomes ever more specific. In effect the modules in this component help facilitators to identify 'entry points' for their engagement.

Module 4. Introducing the 'market system development' approach²⁶

4.1 Purpose – what the tool is for

Direct market intervention is often expensive and unsustainable. This tool aims to unravel the ways and means by which market system development can be brought about in favour of SMFEs and the relative merits of facilitation and or direct market interventions in adapting to different contexts. It provides a basic framework / mandate to help define the activities of the lead institutions involved.

4.2 Outline – the main steps you need to try it out

- **Step 1. Understand what 'market system development' means** - Market system development 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'²⁷. Market system development targets more than one firm's supply chain, one set of horizontal linkages or one cluster in favour of a wider set of goals to do with the development of an entire market system. A market system has various dimensions that include: (i) the core market (e.g. forest product businesses and their associations, their customers and suppliers), (ii) support markets (for technology, financial and business services), (iii) other 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 geographical, environmental, cultural or political influences on the market). Market system development is distinguished by its broad vision of a well-functioning market, defined as²⁸:
 - An expanding market (growing sales, increasing numbers of firms or employees and strong linkages to other markets)
 - A resilient and responsive market (increasing diversity of products, trusting business relationships, innovation in the face of market shifts, and improving services)
 - A market that channels benefits to the poor (increasing poor peoples' participation, offering increasing choice, and 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 (facilitating the above)
- **Step 2. Resist the temptation to do it alone** - Traditional supply side approaches for supporting small forest enterprises have sought either to provide or subsidise financial or business development services directly²⁹. The demand for direct services from producer groups may be quite high due to

²⁶ Developed by Duncan Macqueen

²⁷ Miehlabrad and McVay, 2006

²⁸ Miehlabrad and McVay, 2006

²⁹ EDIAIS, 2003.

habits instilled from past support initiatives. But experience shows that direct service provision tends to have poor reach and low sustainability, often driving out more sustainable private provision of the same services. So facilitators may have to brace themselves to resist succumbing to such demands. For example, extensive work on enterprise support by Practical Action has concluded that supply side approaches have the following weaknesses³⁰:

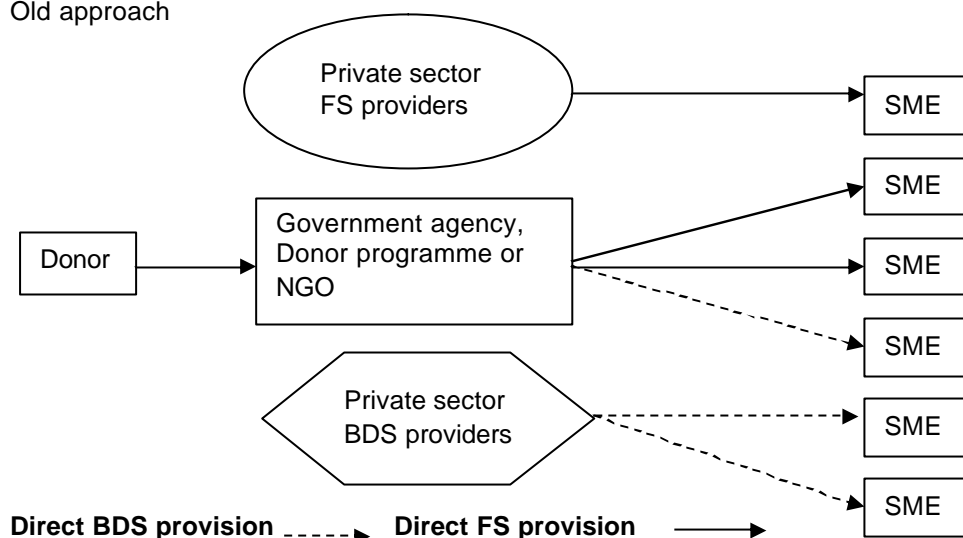
- Donor / public funds are limited, so relatively few people benefit
 - Supply-driven interventions create gluts of products, services, skills which exceed market demand
 - NGOs and governments do not really understand changing market contexts and needs and so they supply inappropriate products
 - Small and medium enterprise 'beneficiaries' become increasingly dependent on support and isolated from market
 - Other (private) service providers are discouraged or driven away (market distortion)
- **Step 3. Develop a simple plan of realistic facilitation actions** – As noted above, most current authorities on enterprise development endorse the recent paradigm shift away from direct provision towards the facilitation of a sustained increase in the demand and supply of services³¹. As noted in the introduction and in step 2 this shift was in response to some of the failings of supply side service provision. For many 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 hub institutions might:
 - Improve information on the type and extent of SMFEs and existing service providers and the challenges and opportunities they face
 - Survey SMFE value chains to help identify needs for technology, business or financial services.
 - Point out to SMFEs the value of engaging technical assistance and potentially making investments in their business.
 - Point out to service providers the potential value of SMFE clients.
 - Help SMFEs to organise themselves into groups for whom service provision is more cost efficient.
 - Build capacity to provide services where this does not already exist – for example by bring in experts to train local embryonic service providers in specific areas.
 - Network with authorities and funders to support event at which SMFEs, customers and service providers can meet – including trade fairs etc.

³⁰ Griffiths, 2008

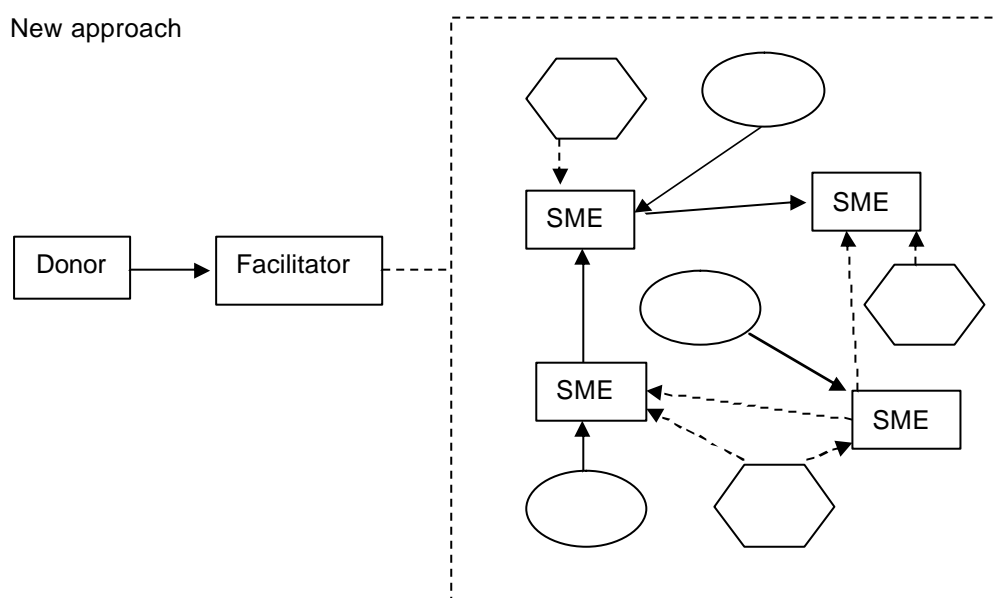
³¹ Tanburn et al., 2001

Figure 2. Old and new approaches to support for service provision to small and medium enterprises

Old approach



New approach



Source: Adapted from Tanburn et al. 2001 and Hitchins et al, 2004. N.B. A donor could also be a self financing agency such as an enterprise association.

- **Step 4. Be clear about the ends towards facilitation is directed** – In the preceding module 3 on setting up an evaluation process we noted the importance of agreeing an overall vision for the enterprise support programme. However this vision is couched, if it aims to support enterprises it will almost certainly involve facilitation that catalyses service provision towards some form of upgrading³²:
 - Process upgrading – increasing production efficiency – either to produce more outputs for the same input or the same level of output for less input.
 - Product upgrading – qualitative improvements either in substance or marketing that make a product more desirable to consumers
 - Functional upgrading – entry of an enterprise into higher value-added levels by taking on the role of intermediaries

³² Dunn et al., 2006

- Channel upgrading – entry of an enterprise into higher value-added levels by product diversification
- **Step 5. Emphasize neutrality to develop best practice in facilitation** - Neutral facilitation (with no commercial stake in the market) is preferable to ensure transparency and trust and to maintain a focus that meets the negotiated vision of multiple clients³³. Facilitation requires an impartial understanding of the roles of different players in the market – and 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 (e.g. that service provision should involve commercial transactions, whether full fees are charged 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 are from or understand the context of recipients
 - Strive for maximum outreach – using channels which are likely to deliver that aim, which will often involve promoting competition between service providers
 - Aim for 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 so that service provision evolves in line with the needs of recipients (e.g. through benchmarking exercises see Module 7)
- **Step 6. Encourage experimentation within an action learning approach** – the best, perhaps the 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. The following 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 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 do have that expertise however. So active dialogue and engagement is essential on a regular basis.

4.3 Useful tips – practical advice based on experience

- Understanding the whole terminology of markets and ‘market system development’ needs significant capacity building. But the best way of developing capacity is to start out with the best knowledge available to you and learn as you go.
- Markets work when people think the benefits of something outweigh the costs. If a facilitator institution constantly has to subsidise costs to make something work – then the ‘market’ isn’t working.
- 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 matching funds to subsidise and so create interest in those services.
- The best people to provide specialist services are specialists, not facilitators – so in general you will be 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
- There is no ‘right way’ to help small forest enterprises, so get alongside them and see what they feel are the priorities and help where you can.

³³ Kaplinsky et al., 2003; Roduner and Gerrits, 2006

4.4 Further information – where to get further advice

Solid justifications for the need for 'market system development' have been produced for donors such as DFID³⁴ (<http://www.springfieldcentre.com/publications/sp0402.pdf>) or GTZ³⁵: http://www.value-chains.org/dyn/bds/docs/525/Implementation_BDS_Concept_0206.pdf

A good foundation for understanding the 'market system development' approach was the report on 'Business development services for small enterprises' synthesised for the committee of donor agencies for small enterprise development³⁶ (<http://www.intercooperation.ch/sed/download/policypapers/donorguidelines.pdf>) followed by work of other similarly broad coalitions³⁷: http://www.donorplatform.org/component/option,com_docman/task,doc_details/gid,50/Itemid,98

Another useful summary piece of this type of approach is given by Development Alternatives Inc.³⁸: http://www.dai.com/pdf/daideas/DAIdeas_Vol_1_No_1.pdf

The 2006 Reader on Private Sector Development provides a very thorough grounding in the approach³⁹: <http://www.bdsknowledge.org/dyn/bds/docs/497/PSDReader2006.pdf>

³⁴ Hitchins et al., 2004

³⁵ Waltring, 2006

³⁶ Tanburn et al., 2001

³⁷ GTZ, 2003

³⁸ Snodgrass, D.R. and Winkler, J.P., 2004

³⁹ Miehlabradt and McVay, 2006

Module 5. Planning, sequencing and exiting activities⁴⁰

5.1 Purpose – what the tools is for

This tool addresses the problem that there are rarely enough resources to do all that is needed to support small forest enterprises at a national level and describes some simple ways of prioritising different interventions and sequencing facilitation of support to optimise outcomes.

5.2 Outline – the main steps you need to try it out

- **Step 1. Start by incorporating market system development into your institutional mandate.** Institutional hubs for support to 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 or side-line. Yet aligning the commercial ambitions of local forest communities with sustainable forest management is an increasingly respected conservation and poverty reduction approach which appeals to multiple stakeholders. Forests stay if they pay those who control their fate, and in the climate change age, advocating poverty reduction through forest conversion should be an option of last resort. As a result, facilitating commercial use of forests that is both sustainable and puts income in the hands of the poor can be a unifying theme that delivers win-wins against a range of common environment and development objectives. Making it explicitly part of the institutional hubs core objectives 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 years⁴¹, data in most countries is usually thin, except for formal, often large-scale, timber production. As small and medium enterprises, 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, market system development as an approach 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 a representative sample of contexts and assembling information on who is doing what. 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, 7, 8 and 16 give further details on how to go about this.
- **Step 3. Be realistic by focusing in on a manageable and more promising sub-sector.** A two-fold structure amongst SMFEs usually prevails⁴²: (i) a large number of rural, very small, low-input low-output enterprises that proliferate to meet household needs where there is easy access to resources and few capital and skills barriers – important in coping strategies for the poor; and (ii) smaller numbers of larger more productive enterprises responding to market opportunities often linked to urban or peri-urban areas which require capital and skills to set up – important in breaking out of poverty. For many types of development assistance it is legitimate to target the former ‘coping’ strategies, enterprise support is interested in the latter. In order 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 discriminating value chains where:
 - Demand rises with rising income (people stop gathering and start buying a product), rather than products whose demand falls, as income rises
 - There is no alternative way of making the product so that it is not outcompeted by factory and synthetic alternatives as these become available

⁴⁰ Developed by Duncan Macqueen

⁴¹ 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.

⁴² Arnold, 2006

- The production process does not have significant diseconomies of small scale (for example, it is as cost efficient or even more cost effective to make 'tailor-made' furniture in a small carpentry workshop compared to a large factory).
- The production process can be made more efficient economically as competition increases rather than products that become uncompetitive as labour and other costs rise
- Parts of a larger production process can be efficiently produced by out-sourcing 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. If data is available use this instead. For example, in southern and Eastern Africa, employment in woodworking enterprises grew at 31% annually, but in cane, bamboo and grass-working enterprises it grew at 3%. In woodworking enterprises, 55% of new jobs came from expansion of existing enterprises while 80% of jobs in the cane, bamboo and grass-working enterprises came from new start-ups. Woodworking enterprises therefore have more potential for enterprise support programmes than cane, bamboo and grass-working.

- **Step 4. Work with your clients to build up a vision for the programme.** Enterprise engagement and participatory value chain analysis must be the foundation of facilitation work. Where facilitation is actually carried out by a producer organisation (e.g. an enterprise association) these client interactions and value chain knowledge are that 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 sub-sector. Adequate participation by the SMFEs themselves is key. Setting up an early workshop with these clients to run a visioning exercise with them is a good starting point. A visioning exercise simply allows target enterprises to state their aspirations – tailoring the format to the type of enterprises involved. An example of a well-educated professional audience is given in Box 3. A simpler more pictorial visioning exercise with Indian women fuelwood collectors is described in Box 4. Such exercise can then pave the way towards participatory value chain analysis described in more detail in Module 8. 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 action⁴³ 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)". An early facilitator / client workshop to thrash out the programmes vision and outputs can help to get things off to a good start (see Module 3).

⁴³ Griffith and Osorio, 2006

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



Box 4. Visioning exercise to capture Indian fuelwood collectors' hopes for their enterprises

The fourth international meeting of the Forest Governance Learning Group (FGLG) 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 field work 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 expectation, 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. Sketches, regardless of how artistic, were to be produced (without copying) in the agreed understanding that no-one was going to be judged on the quality of their artwork. After allowing time for drawing the artists were then asked to explain to the group what their drawing meant. It was agreed that all visions were a valid point of view. The sketches were all placed on a free standing board, and could have been grouped into those with similar features had time allowed. 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 is ideally transient in action, but that does not mean it need by time-bound in nature. 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, prompt the establishment of systems that continue to link SMFEs in the core market and services 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 pragmatic concerns usually intervene, such as time bound finance for work on SMFEs. 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 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 discussion include the following⁴⁴:

- Communicate to market actors clearly and from the very beginning what your role as a facilitator is
 - 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 who might take on the roles you are currently facilitating.
 - Monitor these incipient facilitators over agreed periods of time e.g. those dictated by your resources: commercial interest from them is a sign that you can leave it to them - lack of commercial interest might indicate you should withdraw from a flawed business model.
 - Involve relevant service providers, both public and private, from the very beginning of program 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. Getting a communication strategy sorted right from the outset is therefore a central consideration in any support programme (see Module 9 for more detail).

5.3 Useful tips – practical advice based on experience

- The more you can make facilitated enterprise support integral to 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, 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.
- 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 most 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 – where to get further advice

The Enterprise Development Impact Assessment Information Service lay out some generic steps that are needed to facilitate enterprise support⁴⁵:

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

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 work⁴⁶:

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

A report to GTZ also examines how to plan and sequence activities, noting that you must not underestimate the time taken to build general awareness of the need for 'market system development' as an approach.⁴⁷:

http://www.value-chains.org/dyn/bds/docs/525/Implementation_BDS_Concept_0206.pdf

⁴⁴ Osorio, 2008

⁴⁵ EDIAIS, 2003

⁴⁶ Miehlbradt and McVay, 2006

⁴⁷ Waltring, 2006

Box 5. Planning and sequencing facilitation of support to SMFEs in Laos 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 in order 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, a first step was to engage with the producer groups at village level in order 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 begin to 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.

Module 6. Conducting and presenting small forest enterprise diagnostics⁴⁸

6.1 Purpose – what the tools is for

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 in order to improve the visibility of the sector, identify the major sub-sectors within it, assess at the enterprise level some of the main opportunities and constraints and prioritise areas for intervention.

6.2 Outline – the main steps you need to try it out

- **Step 1. Decide what the diagnostic is for.** An SMFE diagnostic is a preliminary work that begins to build the capacity of a national institutional hub to undertake facilitation in support of SMFEs. It is therefore an initial attempt to assemble 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 facilitators understanding of particular areas of enterprise support (e.g. Module 8 on mapping and benchmarking support services; Module 7 on value chain analysis; Module 16 on Policy analysis for change). But 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:
 - 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 (e.g. identifying clusters of SMFEs that share similar challenges, might useful work together in association, might form a profitable clientele for service providers etc).
 - Starting to identify particular value chain challenges for further detailed investigation (as detailed in subsequent modules of this toolkit).
- **Step 2. Identify an appropriate team of researchers to carry it out.** There are a number of important consideration in choosing who should carry out an SMFE diagnostic. Firstly, since the diagnostic affords an excellent opportunity to start networking and building relevant contacts which will help with facilitation, at least one member of the team should come from the proposed national institutional hub. Secondly, any diagnostic will require engagement with a wide range of informants in very different contexts, from face-to-face meetings with policy makers 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. Thirdly, there are issues of 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. Fourthly, 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 an 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.
- **Step 3. Develop a reporting framework with clear chapter headings.** 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, or 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 abandoned in the field, or mangled in translation simply through lack of careful documentation. Numerical data, for example on production volumes and costs, is often the

⁴⁸ Developed by Duncan Macqueen

most convincing for policy makers but the most neglected by researchers! A good start is to decide on the different categories of information which you wish to assemble data in. For example the recent series of IIED SMFE diagnostics⁴⁹, used the following structure:

- Background – to 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.
- Current status of SMFEs – This section should include: national definitions of SMFEs; a typology of the different product and service SMFEs with a summary table describing their scale (e.g. fuelwood and charcoal, NTFP collectors and processors, timber extraction, primary processors, secondary processors, wildlife and tourism ventures, etc) and; more detailed description by sub-sector that describe: 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. This section should cover in detail: 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 (N.B. there may be a big discrepancy between policy and practice!); degrees and types of formality, informality (and illegality)
- Markets and finance – This section should include: 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 (FDI)); 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 – This section should include: 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 etc; conflict management; types and scale of other external business service providers; perceived effectiveness of support.
- Key challenges, opportunities and conclusions - This section should try to distil out a prioritised list of barriers to be addressed, key subsectors with opportunities for upgrading, and some thoughts on who should do what to make it all happen.

⁴⁹ 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; Nhancale et al. 2009.

Box 6. Gathering information for Mozambique's SMFE diagnostic

In mid-2008 a team comprising a community forestry specialist and 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.

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

A sampling strategy was then devised with field visits carried out 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, enterprises were selected and visited in such a way that at least one enterprise of each of a number of types (where applicable) was approached. The decision about which specific enterprise was to be visited (of the same type) was made on a pragmatic basis largely based on accessibility. District government staff played a very important role in helping the researchers to identify useful enterprises to visit and translate where appropriate. Semi-structured interviews assessed the main opportunities and constraints faced.

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. Questionnaires were circulated to professionals of forest department at national, provincial and district levels, with the owners of forest enterprises, and with service providers.

- **Step 4. Design an information gathering strategy and process.** Research budgets rarely allow as much information to be gathered as you might like. The trick is to balance different ingredients:
 - Literature reviews (so as not to 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 to get an accurate snapshot of what is happening across different areas of the country, focusing perhaps on particularly important forest areas or sub-sector clusters. Statistical sampling can be used here so as to be able to extrapolate towards national estimates of SMFE numbers, types, employment, value added etc. 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) to get the 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 honey collector to processor to village shopkeeper) as this can help to 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.
 - Dialogues are a very useful tool to improve the quality of and spread your findings. On a simple level you might want to convene a meeting to discuss your draft report (both critiquing and anchoring 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 method⁵⁰ works particularly well for this. See figure x and box x

⁵⁰ O'Hara, 2007

Figure 4. Malawi charcoal entrepreneurs make a point in a fish bowl debate with environmentalists



Box 7. 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 licenses 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 (FGLG) 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 four 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 has 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, no one on the outside. 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 are chairs free. The respondents had to leave the central circle immediately once they have made their statement, returning to the outside ring and waiting until at least one other respondent speaks before coming back to the centre again when there is a space available. 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 use to manage this 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. But it is also possible to end by reviewing all the statements 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.

- **Step 5. Present, publish and launch the diagnostic.** Collecting useful information is just the beginning. Presenting it well and getting it to the right people is the main business. 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 text⁵¹. 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 in-boxes). 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) and based on stories and images that tap into people's emotions makes them stick in people's minds⁵². Once a publication is ready, a launch event can help to alert the right people to it. Building up media contacts (e.g. through linking to a press club) and preparing a newsworthy press brief can help you get key messages out too.

6.3 Useful tips – practical advice based on experience

- 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.

⁵¹ Tufte, E.R. 2001

⁵² Heath and Heath, 2007

- Take time to develop a detailed terms of reference for the different categories of information that it would be useful to collect – and 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 etc. 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 – it can be very powerful to record in the actual words of small forest enterprise managers their perceptions of opportunities and constraints.
- Invest in a thorough review process, if possible drawing 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.

6.4 Further information – where to get further advice

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 weaknesses⁵³. See for example: <http://www.iied.org/pubs/pdfs/9538IIED.pdf> , <http://www.iied.org/pubs/pdfs/13546IIED.pdf> or <http://www.iied.org/pubs/pdfs/13553IIED.pdf>

⁵³ 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; Kabore et al., 2008; Kambewa and Utila, 2008; Nhancale et al. 2009.

Module 7. Participatory value chain analysis⁵⁴

7.1 Purpose – what the tools is for

This tool moves away from the national perspective of the previous modules towards the interrogation of a particular SMFE subsector using value chain analysis (VCA). The aim here is to identify specific interventions that could be made in specific subsectors to improve the prospects for SMFEs (rather than broad findings in national diagnostics). The module explores how pre-existing VCA tools can be used to achieve different ends across a range of value chains (from local to international in extent).

7.2 Outline – the main steps you need to try it out

- **Step 1 Select promising sub-sectors** - Development organisations need to make strategic choices about where to focus their resources. Sub-sectors should be selected with two key factors in mind:
 - On the basis of market potential
 - To maximise impact on the poor

A focus on these two points at this stage helps the organisation to ensure that the facilitation support will benefit more than a “lucky few hundred” SMFEs which can be typical of so many donor funded projects. Furthermore it helps to ensure sustainability because any activities will be underpinned by a viable market (responding to “*Demand Pull*” rather than “*Supply Push*”). It is helpful to have at least two phases in the selection process:

Draw up a long list of potential sub-sectors. Choose about 4-5 key selection criteria to assess each sub-sector against. Typical criteria⁵⁵ might include:

- Unmet demand in the market for particular products
- Sufficient natural resources to meet supply sustainably (note emphasis in Modules 11 and 15)
- Potential for increase in household incomes
- Number of SMFEs in the value chain
- Potential for employment generation
- Existence of linkages for potential collaboration between actors
- Potential for positive coordination and synergy with donors and government
- Degree to which the value chain has been neglected by other support programmes
- Representation of women in the value chain
- Representation of youth in the value chain
- Potential for positive effects on the natural environment (e.g. forests)

The first two criteria are critical and are usually weighted. Selection of other criteria will depend on the objectives of the organization and the program. Once criteria are established they are used to compare different sub-sectors. Those that rank the highest are then chosen for more detailed analysis.

Analyse and compare the short list of sub-sectors. This step involves a more detailed comparison of a few (2-4) sub-sectors. The analysis team consists of those involved in leading and facilitating the analysis process, probably involving those central to the facilitation effort. This team needs to gather more detailed information from key informants (such as actors in the market system, organisations who work in the sub-sector, researchers, government) to score against a tighter set of criteria. For example unmet market demand can include market trends.

- **Step 2. Understand the market system** - Having selected the most promising sub-sectors the next step involves understanding the market system in which they are housed (see Module 4 Step 1 for a description of the market system). This means building up a picture of who is involved, the dynamics of how it works and the critical issues that affect it. One way to do this is to conduct a preliminary market mapping exercise. This involves gathering information about the market system and using it to construct a market map (see Figure 1). Typically this will explore three areas of the market system:
 - The value chain

⁵⁴ Developed by: Alison Griffiths of Practical Action (formerly ITDG) which works in Africa, South Asia and Latin America see www.practicalaction.org.uk The Markets and Livelihoods Programme case studies: http://practicalaction.org/?id=pmsd_case_index

⁵⁵ Adapted from AFE, 2009

- services and inputs,
- the enabling (business) environment. In each of these areas the actors and issues will be identified. In developing a market system map try to show where the links are working well, which links are weak and where links are non-existent but there is potential. Also try to show initial information on numbers of actors, prices and volumes

Box 8. Mapping the market – generic steps for running a workshop from Practical Action

Once a facilitator has 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. A one day workshop can be used to achieve this. After any open ceremony, ice-breakers and presentations of any preliminary findings (1hr), a facilitator can presents the goals of the workshop (30 mins):

- Development of a map of the market actors, key services and input providers and major business environment and policies related issues.
- Validation of any preliminary information collected by the market facilitators so far
- Prioritisation of key constraints (to the extent possible) and propose solutions and a joint action plan.

Mapping. Once the goals have been presented and discussed, the facilitator can then encourage participants to produce a market map (2hrs) – in other words they should write on cards and place them on a wall or floor. The aim is to produce three horizontal tiers one after the other 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 etc) - linking with lines the actors or service providers to which that opportunity constraint refers.

Validating. Once this map is complete, the facilitator can lead a discussion to validate the map (30mins) ensuring that any last minute inclusions or queries are dealt with. An area of wall or floor can then be used as a 'parking lot' for any issues that do not fit in the framework – or for issues that would require further investigation before they could be included with any accuracy. These should be captured in any report on the session.

Prioritising issues The facilitator now invites participants to prioritise issues (1 hr). One option is to divide participants into groups, ideally with one group looking one part of the market system: one group on core actors, one group on service and input providers and one group on the business environment). Each group should be asked to brainstorm 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. They should then be asked 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). Voting can be done by allowing each member to mark the two clusters that they feel to be the priorities. Once complete, each group is asked to present their findings in the plenary session (30 mins).

Identifying responses Having identified opportunities and constraint, the next step is to identify realistic actions that could together form part of a workable joint action plan (1hr). The facilitator can introduce some key parameters to think about such as feasibility and / or availability of private sector actors as partners to carry out the intervention with examples such as: cost shares for visits of equipment supplier to trade fair in Europe / development of practical training modules for technical training institution. The facilitator leads 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).

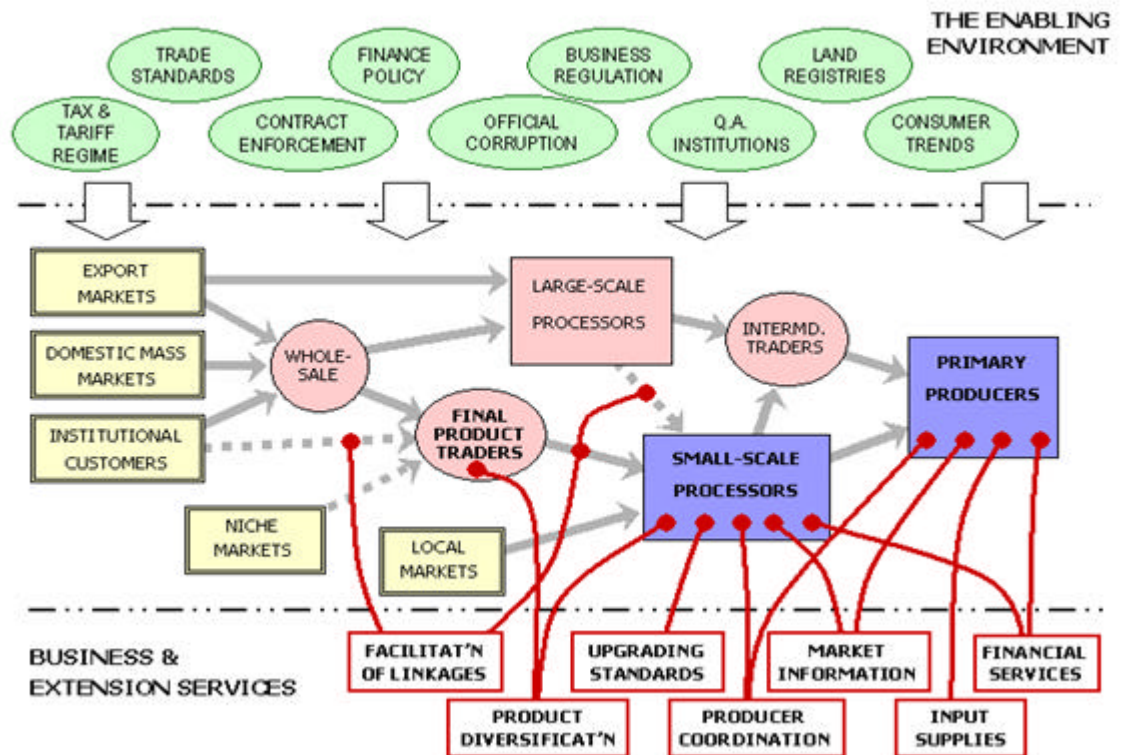
With the facilitator managing the discussion, someone else should be invited to try to formulate the wording of each intervention taking into account what they hear from the participants and capturing it on a flip chart.

Finalising a Joint Action Plan. The facilitator reviews in plenary the proposed joint action plan (30 mins) – checking that everyone is happy with the formulation of the interventions. Responsibilities for next steps should be a particular focus in this concluding session. Any final queries can be addressed.

In the generic map in Figure xxx below note the direction of the arrows which encourages the user to think about the flow of money from final market to SMFEs rather than the other way (which is more typical) which indicates the supply of goods from SMFEs.

Figure 5. The component parts of a market map

The Market Map (a generic schematic)



Source: Practical Action

Gathering this information enables the facilitator to:

- Build their knowledge of how the market system works
- Find out who the key players are
- Begin to develop their credibility.

Box 9. 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. The bitters are sold to traders in market towns who in turn supply four 'export agents' over 1000 km away in Mombasa. Kenyan aloe bitters were then exported at well below world market prices to South Africa, from where they were re-exported to Europe, the Middle East and South Asia.

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

- Since 1999, international rules (CITES) on aloe export, and an un-ratified Presidential ban, pushed the Kenyan aloe trade 'underground'.
- Harvesters are scattered and disorganized. 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; so harvesters needed advice about sustainable harvesting techniques.
- Quality control in harvesting was a problem. Processors 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: in the past harvesters, discovering the world market price of aloe bitters, inferred incorrectly that processors were making exploitative profit margins and refused to do business.

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. \$10/kg instead of \$2/kg paid by South African intermediaries); and
- the benefits to all actors of quality improvements at critical stages of sustainable harvesting and processing.

The 'market map' summarizing 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 in 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 (and often end!) with the communities and their needs. Instead it highlighted a critical issue in the enabling environment which was a major blockage to the 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 3. Build credibility with key market actors** - It is important to establish credibility with key market actors for at least 2 reasons:
 - To gather high quality information for decision making and
 - To effectively facilitate a process of change which engages the actors.

As noted in Step 2 mapping the market system can be a useful tool to do this in a systematic and organised way. Until this point, 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 market system actors. Getting their interest in the process initially can be a challenge so preliminary mapping can help the team to build up their knowledge of the market system and find out some of the critical issues affecting key actors. This information can be

used to “hook” market actors into the process. But try to avoid using *price* as a hook; instead identify issues affecting the efficiency and competitiveness of the chain such as *quality, quantity or timeliness and co-ordination*. 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.

Box 10. 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 formalized milk chains. The rest produce milk for self-consumption and/or informal markets with very low levels of productivity and efficiency. The program design team’s analysis of the sub-sector 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 percent of requirements to operate at capacity. But the problems facing small-scale dairy farmers are many and varied, 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 program 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. The detailed Market Map and more information gathered can be reviewed at Annex A

http://www.microlinks.org/ev.php?ID=35558_201&ID2=DO_TOPIC

Initially the team were primarily concerned with program 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 organized) 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 these are the areas to support in order to 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

- **Step 4. Develop capacity of SMFEs to engage in the process** - 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 SMFEs are organised, confident and able to negotiate with market actors, who may be more powerful. SMFEs should be able to choose what organisational structures work best for them, in their context. External agencies must avoid imposing a structure even if they have seen it work well in other contexts. An assessment can be made of how effectively SMFEs are working together and what steps are needed to strengthen their linkages. The existence of a new and promising market opportunity can promote collaboration amongst SMFEs and is a useful starting point (rather than the incentive to organise being to access donor money!).

Box 11. Market opportunity groups – an example from 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 who are 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 more 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% 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 in carefully encouraging the group to consider the bigger market system map in addition to just prices.

Note: 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 5. 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); service providers and input suppliers; and representatives from the enabling environment e.g. government and other institutional representatives. Having completed some preliminary analysis (such as a Market Map, see Step 2) the team will know who should be involved in this step. Facilitating dialogue can be approached in different ways. For example, one option is to bring together sets of actors who directly deal with each other and facilitate “bi-lateral” discussions about how they can work together more effectively and efficiently. The advantage 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, which will not be fully understood. Another option is to facilitate dialogue between representatives of the whole market system.

Box 12. Participatory market mapping

Participatory market mapping is a tool which 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 & constraints. Facilitating this process can be challenging but has the potential to produce positive outcomes (see example from Nepal in Case 2 below).

The “Whole System in a Room” (WSR) or ‘Multi-Stakeholder Forums’ (see Box 13) is a similar 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 development⁵⁶. This step is an important part of the analysis process because the analysis shifts from the external team to the market actors. The aim is to create dialogue and build trust. It is also the foundation for future collaboration. This can take time and sometimes one workshop is not sufficient.

Workshop Tips:

- 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
 - Communication technologies may be useful e.g. using video to share perspectives of market actors who cannot attend
 - Consider using pictures instead of text to explain the actors and linkages in the market system to forest enterprises
 - Involve a technical expert (e.g. from the product sector) who should play a passive role in the background but is available to give guidance and solve problems
 - Allow market actors to disagree and share their perspectives with each other.
- **Step 6. Move from dialogue to action** - The purpose of market system analysis is to have clear picture of how that market system can change in ways that will benefit large numbers of SMFES. This step involves facilitating a process that enables market actors to take their vision of market system change and use the analysis (now owned by them – see Step 5) to develop specific action plans to address blockages and take advantage of opportunities. At this stage NGO/facilitators can get specific about the type of interventions they may facilitate to bring about market system change. Up until this point the interventions and actions have been broadly indicative. Market actors’ work together to develop Joint Action Plans on the most critical issues affecting:
 - Strengthening value chain linkages
 - Provision of services and inputs
 - Improving 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 etc. There are pros and cons: some will have the advantage of neutrality, whereas others will have investments in the market system and therefore may have greater incentives.

Box 13. 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 are⁵⁷:

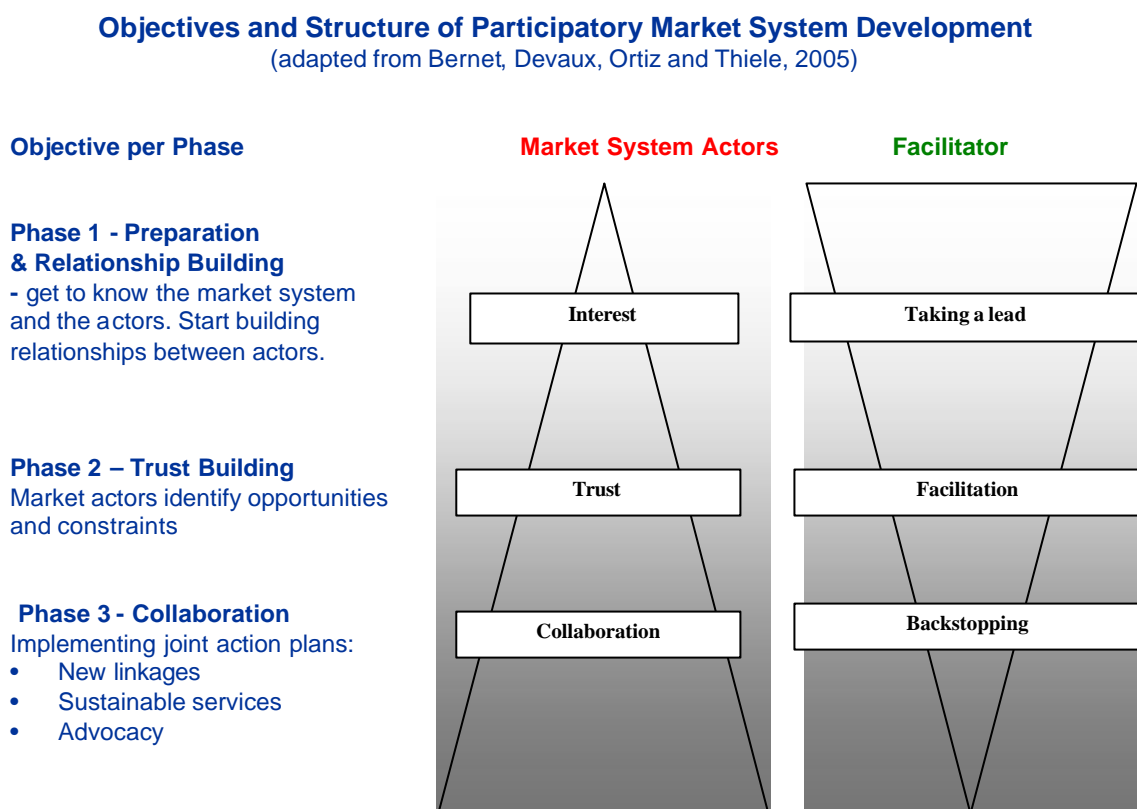
- (i) It should be able to help its members to solve problems and exploit opportunities that they cannot solve or exploit on their own
- (ii) It is not be explicitly pro-poor; instead, it should be a neutral space where the voices and interests of its members compete under equal conditions. Hence empowerment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

Moving from dialogue to action also requires careful assessment of whether the facilitator should now exit from the process of enabling market actors’ 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.

⁵⁶ USAID, 2009a

⁵⁷ Practical Action, 2009

Figure 6. Objectives and structure of participatory market system development⁵⁸



7.3 Useful tips – practical advice based on experience

- Understanding market demand and market trends is usually a challenging criteria and it is critical that information is gathered from the right sources. Determining the minimum information needed to go ahead with a sub-sector 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.
- For selecting sub-sectors, do not get caught in the trap of continuing to work in sub-sectors on the basis on their past work rather than future potential. Use key informants and gather information to complete missing parts, don't rely on hunches (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 &/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 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 enable them to establish the benefits of participation early on.

⁵⁸ Adapted by Practical Action from CIP/CGIAR

- 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.

7.4 Further information – where to get further advice

A couple of good web-based tools have been published by Action for Enterprise⁵⁹:
<http://www.actionforenterprise.org/approach.htm#step1>

A number of value analysis tools which basically cover the same ground but offer slightly different emphases⁶⁰ have been prepared by:

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

GTZ: http://www.value-links.de/manual/pdf/valuelinks_complete.pdf

ILO: <http://markets4poor.org/index.php>
http://www.bdsknowledge.org/dyn/bds/bdssearch.details?p_phase_id=545&p_lang=en&p_phase_type_id=6

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

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

Van den Berg et al.: <http://markets4poor.org/index.php>

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 Microlinks⁶¹ and a powerpoint that summarises some of the points outlined here⁶²: http://www.microlinks.org/ev.php?ID=35558_201&ID2=DO_TOPIC;
<http://www.bdsknowledge.org/dyn/bds/docs/452/Griffith.pdf>

⁵⁹ AFE, 2009; USAID, 2009b

⁶⁰ Kaplinsky and Morris, 2000; Spinger-Heinze, 2004; Albu and Griffiths, 2005; ILO, 2006; GTZ, 2007; Van den Berg et al., 2007

⁶¹ Griffith and Osorio, 2008

⁶² Griffith, 2005

Module 8. Mapping and benchmarking support services⁶³

8.1 Purpose – what the tools is for

This tool describes steps through which facilitators can identify and locate service providers for small forest enterprises. It also 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 which they may not be willing to make at first.

8.2 Outline – the main steps you need to try it out

- **Step 1. Assess the type of SMFE and its likely service provision needs** – 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 in four categories so that facilitators can customise the advice given to fit the needs of the particular SMFEs they are supporting. The categorisation is on the basis of scale and maturity:
 - *Group I - Basket of products; usually run on subsistence mode*; are in most cases a seasonal activity and not operational round the year; usually owned and operated by very low income families with women often managing activities. Could be one off in many cases (i.e. the enterprise might not function in the next season – investment in the enterprise is not assured when the season recurs). In some case SMFEs of this type use different products in different seasons to maintain subsistence needs.
 - *Group II - Single activity enterprises, run round the year with supplies coming in from relevant sources if not available locally throughout*; the majority are run by families but often with lead individuals and some committed investment from private or other sources into the enterprise on regular intervals or as required. These are the first phase of continuous and dedicated enterprise in specific activity lines (unlike the first group).
 - *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 getting into perfumery production. Men usually outnumber women by significant margins in this group of enterprises
 - *Group IV - Highest form of SMFEs*; are mature in terms of their capacities and business knowledge base; usually connected to financial institutions (more formal than informal ones); ownership and titles are in most cases clear and legalised; product lines diversified and management more complicated.

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 a SMFE in scale, resources, capacities, profits and sustainability – including but not limited to services in two rather overlapping categories:

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

Strategic or specific services

- Legality compliance support
- Inventory management
- Logistics (transport/power/storage/warehouses) support

⁶³ Developed by Leena Chakrabarti and Rohit Magotra

- Inputs sourcing (raw materials, technology, plant & machinery etc)
 - Specific market intelligence
 - Product design and development and product mix identification
 - Quality management, assurance and certification
 - Sales support
 - Diversification planning
 - Quarantine services (specially for EOUs)
 - Carbon credit consulting
 - Waste Management
- **Step 2. Decide how broadly to map the service provision ‘universe’** - Narrowing down the long list of service options must be done with the specific target group of enterprises being supported. A checklist can be developed with these clients that specifies as far as possible the nature of services required. 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 20km sq radius around the enterprise adequate as its mapping ‘universe’ while for a Group IV SMFE with greater scale and ambition, a 500 sq km 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:
 - Which group as identified above does the SMFE fall under (less developed SMFEs often need less specialist services and can benefit from local provision)
 - How specialist is the need for that service both now and for the future (generic services can often be found more locally than specialist ones)
 - What is the potential of the SMFE to group together to cover costs of more distant service providers
 - What is the ability to pay for services (if cost is no object then a large spatial mapping exercise may be called for)
 - Timeline and facilitation resources – how much time and cash is available for facilitators to scope for relevant service providers (the more time and resources there are, the more thorough the mapping exercise can be)
 - Success of search – 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.
 - **Step 3. 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. There are two main methods which we advocate for locating service providers:
 - A referential search – this 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 to find service provider listings. 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 the other 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.
 - A channel search – this 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 etc); (iii) contact details of references from about 2-3 clients that they have serviced in the area of work relating to the advert; (iv) contact details and C.V.s of key staff (v) basic features of the service that the provider is going to 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) 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 etc), 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.

Box 14. Identifying business service providers in India

Content to be supplied from CEFI

- **Step 4. Benchmark the service providers over time** - The success or failure of service providers / vendors 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 vendor and in most developing contexts this remains a key constraint. 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 providers character that can be assessed immediately, and some elements which 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 rough and ready from 0 (worst) to 5 (best).
 - *Experience of the vendor / service provider:* How long has the service provider been operating? A good track record might indicate some degree of quality (and hence commercial survival over time). Vendors with some experience in the forest sector or at least similar natural resource markets elsewhere might be an indication that they 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 is the right one to be used to conduct a market analysis for wooden planks mainly used by the construction and ship building industry. Alternatively, would a service provider who has worked on compliance requirements for metal exporters in Guyana be the right provider for advising and supporting compliance meeting for timber export? Optimising the fit between the need and the vendors 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 or attempting the more difficult task of weighing up the total cost (especially the recurring cost incurred) of achieving the desired end amongst 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 capacity building of human resource within the enterprise to implement and adapt to changes brought in by the solution, and the cost of implementing those changes (resource usage escalation on facilities, electricity, human resources, 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.
- *Capacity to deliver:* Understanding the capacities of the service provider to implement the solution that they have prescribed in their proposition is an important criterion to decide and benchmark one vendor against others. Looking for service providers who would be able to start supporting the SMFEs without bringing on new staff, undergoing a reorganization or developing a new product is one way to minimise the chances of disappointment. Has the service provider demonstrate to your satisfaction the workability of their solution or is it 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 etc) it is important to assess vendor capacities in terms of whether they depend on a single individual or have necessary skills institutionalized. Individuals can be highly skilled but their leaving the institution midway can jeopardize the implementation and service support provided by the vendor.
- *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 for, these might be biased and clear decision making is best supported by 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 amongst 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 etc 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 they will be able to make assessments of the actual performance of different service provider options through the eyes of client SMFEs. These assessments can weigh heavily in deciding whether to continue to use or drop a particular service provider.

The weights for each criterion will ultimately be decided by the SMFE context and this list is less a strict ranking exercise and more a string of facets to use in evaluating vendors and deciding which one should continue to be recommended from the available group

8.3 Useful tips – practical advice based on experience

- Making a site visit invariably helps decision making. Visit the vendor's office and get a first hand view of ways of working, meet the implementation or provision team and assess their skills in line with the requirement identified by the SMFE

- The more relevant questions that a facilitator asks, the better the procurement decision is likely to be – so turning assessment criteria into a more detailed checklist of questions is a good first step.
- Experience suggests that it is better to use a referential approach to finding service providers rather than a channel approach (in which an advert for service provision is placed) – or at least to back up the channel approach with references
- Keep the spatial map small as far as possible for services to SMFEs – it is much easier to follow up a local service provider if further inputs or clarifications are required.
- The capacities of service providers to impart knowledge and train entrepreneurs and staff employed by SMFE is usually key skill which needs assessment. It is no good knowing how something should be done if a service provider has not got the skill to pass on that knowledge.
- Involve the SMFEs in the selection process - a service provider selection decision has a direct and long term indirect impact on profitability of the enterprise and hence the ability to make this decision is a key part of building SMFE capacity

8.4 Further information – where to get further advice

A good source of information on business development services in general is that of the USAID Miroenterprise Learning Information Sharing and Knowledge⁶⁴: <http://www.microlinks.org>

An introductory article is given to using a balanced scorecard to select which service providers to use⁶⁵: <http://www.cioupdate.com/trends/article.php/3559381/simplifying-the-vendor-selection-process.htm>

A toolit for self analysis and planning for service providers has also been developed in Spanish by FAO and CATIE⁶⁶: <http://www.fao.org/forestry/media/16736/3/0/>

⁶⁴ www.microlinks.org

⁶⁵ Lakey, 2005; Miller, 2009

⁶⁶ Junkin, 2008

Module 9. Designing communication strategies⁶⁷

9.1 Purpose – what the tools is for

This tool is designed to consolidate many of the activities described in other modules into a coherent communication strategy that makes sense of different objectives and target groups, including which communication channels, products and activities to use. It is essentially a way of thinking systematically so as to identify any gaps that better communication approaches might be able to fill.

9.2 Outline – the main steps you need to try it out

- **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. In this module there are two primary objectives (i) first to help the facilitator institution clarify its own communication strategy and; (ii) to introduce basic concepts that can then be passed on to SMFEs as they prepare their own communication strategies. Different options may be needed for communication between facilitator and SMFEs compared say between SMFEs and customers, service providers or decision-makers. International meetings amongst supporters of SMFEs⁶⁸ have identified many different communication problems that affect SMFEs directly or indirectly. It is worth giving some thought first 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 broad issues such as:
 - Language barriers and illiteracy can make it difficult for facilitators to reach some forms of entrepreneur and sensitivities that can make discussion with policy makers difficult
 - Geographical remoteness can be a significant barrier to regular communication between facilitators and SMFEs, and between SMFEs and customers etc – and lead to a dependency on a few intermediaries
 - Lack of awareness of the need to communicate amongst SMFEs to share costs for service provision etc
 - Mistrust between facilitator and SMFE that can result in a deliberate withdrawal due to a desire to shield informal or illegal activities from scrutiny
 - Irrelevance of information that is developed by some facilitators with strong agendas (e.g. towards environmental certification etc)

Box 15 – Setting up communications with remote Amerindian groups in the Guyana interior.

Content to be supplied by

⁶⁷ Developed by Leena Chakrabarti and Rohit Magotra

⁶⁸ Macqueen and Morrison, 2008

- **Step 2. Review communication options that might provide a solution to the problems** – 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. Some options might be:
 - Make sure you match written materials with face-to-face dialogue, mobile phone conversations, pictorial materials, theatre pieces, and peer-to-peer visits. For policy makers, create safe spaces where frank informal discussions can occur.
 - Work information flows through local prime movers, group leaders or through places where local entrepreneurs regularly go such as supply stores, antenatal clinics etc.
 - Collate information that publicises numbers, types and locations of SMFEs, encourages them to get in touch with each other, and with benchmarked service providers who they can turn to.
 - Help to build groups of small forest enterprises, and acceptance of them, that register formally and front the interests of their members
 - Work with small forest enterprises to explore what information might be more useful and encourage, provide incentives for service providers to respond.
- **Step 3. Understand what a ‘communication strategy’ involves** – As understanding of the communication problems and possible solutions grows, it can be very helpful for a facilitator to develop a formal communication strategy (either for their own use, or assisting SMFEs to do the same if they have a particular communication issue). Communication is about telling something to someone, which elicits some response – for example if the facilitators audience is an SMFE this might lead them to increase efficiency of operations, improve health and safety, increase brand visibility, usher in of a new policy regime, identify new markets to access, etc. Communication involves a sender who sends the message which is then transmitted through a channel or through multiple channels to a receiver who then receives the message, decodes the same and frames an appropriate reply via the same or another channel. Communication does not happen on its own, it has to be developed, organised and then transmitted. The first step to this is to have a *communication strategy* – which defines what is communicated, how, to whom and for what end. A strategy also helps identify how to cut costs, plan the timing of communication activities, create awareness or ‘advertise’ communication events and plan for expected responses.

Given that different aspects of SMFE survival and growth are influenced by different types of stakeholder, designing communication strategies needs to factor in such complexities associated with multiple levels of understanding, skills, influence, impact and effectiveness. As a facilitator of support to SMFEs it is critical to have clarity on what you want to achieve or what you want the SMFE you are facilitating to achieve out of this communication strategy. Most communication strategy toolkits rely on few basics that are essential before one actually moves forward to design a particular strategy. The basics that need to be considered include the following:

- **Objectives:** This is the most important area before you design a communication strategy. First decide why a particular communication initiative is needed and by whom. For example, are you trying to help set up a communication system that informs SMFEs of market prices? or are you as a facilitator organisation trying to provide information to SMFE service providers of the financial returns involved in providing services to those SMFEs? Once your objective is clear, work out how this objective can be met within the organisational structure of the implementing institution. Communication activities cannot be set in a silo. They need to work in tandem with an organisation and contribute to its core goals (for example, the support aims of the facilitator institution or the business aims of the SMFE). Clarity on the objective of communications activity can make or break a communication strategy. It should also be kept in mind that a communication activity needs resources and channelling resources is easiest when there is coherence between the communication strategy and the overall goals of the organisation in question. There is no use saying better communication *ought* to happen if there is no organisation to *make* it happen.
- **Target audience:** For any communication strategy to work, the target audience of the strategy needs to be identified clearly. For example, for SMFEs seeking better market information, the target audience is the SMFEs themselves. But if the facilitator is trying to communicate with potential service providers, it is those institutions that make up the target audience. Once you have identified the objective of the communication, the target audience is usually obvious. But at times the obvious target audience might not be the right choice. Look at all audience options and choose those who can bring about the change that you hope for at least cost. Using cost-benefit parameters can be helpful – what cost would you

have to allocate to reaching a target audience group to get the desired change? For example, if the objective of the communication strategy is to change a particular policy governed by particular decision-makers, one option might be to choose mainstream media as the target audience. But is the allocation of resources towards mainstream media likely to be more effective than setting up a direct lunchtime meeting with a politician (for instance)?

- *Activities:* Once the audience is identified its time to identify what activities will comprise the communication strategy. This is usually dependent on the nature of audience you have targeted and the kind of message you want to send across through the activity. For instance may be an advertisement in the local TV channels is the right one when communicating about a new product by a SMFE or may be an email to forest advocacy groups when trying to build pressure to influence a policy change.
 - *Resources:* Deciding 'who should pay' for communication is a key consideration. The objective, audiences and activities may be finalized, but a communication strategy can hardly be implemented without time and resources (physical, financial and human). And a facilitator should be very clear about who should pay. A simple rule of thumb is for facilitators to restrict any payments for communication to their own communication strategy related to market system development but insist market actors should pay whenever the communication is about a particular product or service. Performing a solid reality check of the communication strategy you are trying to implement through careful budgeting of time and resources can help to correctly target the ambition of the strategy likely success.
 - *Evaluation followed by correction:* A strategy design is only as good as its effectiveness in giving desired results. Results only emerge from its implementation. The first step after implementation should always be to check whether communication has been effective – often referred to as a performance audit on the strategy. Getting someone who has not been involved in the communication strategy to evaluate its effectiveness is a good way to avoid obvious biases. If a correction is required then the evaluation should be used to inform the correction and incorporate it in the strategy.
- **Step 4. Design a communication strategy from information to reception** – A communication strategy simply thinks through in a logical manner how to achieve its 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? For example, information on market prices might best be sourced from market traders on a daily basis, but information required to overturn an unfavourable tax policy might need to be generated by careful economic analysis over several months. Knowing how to source your information and developing a cost efficient strategy to get hold of it is the first step in any communication work. This is where research is most important. Depending on what message needs to be given, information or informants need to be mined. One point worth remembering is that figures usually speak louder than words – so investing in quantitative research is often worth considering. 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 amongst all their relevant partners and networks can help to achieve the range of information that you need to achieve your objective. When compiling information identify (and communicate) any weaknesses so that the target audience is not misinformed and so that a strategy can be developed to fill the gaps.
 - *Message:* The message is the sum total of your idea, knowledge, information that you aim to put together to influence or elicit a particular response. It is not enough for a message to be transmitted – it must also be understood. You should therefore consider whether how to make your messaging more: (i) succinct – trying to avoid multiple concepts or interpretations; (ii) credible – trying to ensure it is based on sound research and cannot be easily refuted; (iii) consistent – preparing to restate the message in different ways but with the same meaning to drive home what you intend to say; (iv) direct – exactly expressed in the way most relevant to the target audience. It should be remembered that each group of audience has different skill sets, knowledge base and interpretation capacities and a message is incomplete if it does not take these factors into consideration.

- *Channels of communication:* A communication channel is the medium used to convey information from a sender to a receiver. It is possible to mix various communication channels - print, electronic media, web based, tele-calling or mobile based, personal interaction (this could be group based like workshops, seminars, meetings or one on one). Each channel type has its advantages and weaknesses for a target audience 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!

Where the communication objective is general awareness, for example of a policy that is unhelpfully constraining SMFE business, using mass media with a range of channels can be effective, but there are obvious costs associated with posters, booklets, radio, television, newspapers, leaflets/flyers, videos, and announcements through loudspeakers, press conferences and press kits. Nevertheless a range of products can inform a larger audience on issues to do with a particular sector, seem to reinforce facts and legitimize information, help develop pressure groups around the target issue, and reach out effectively to highly placed decision makers.

Where the communication objective is marketing, principally targeting consumers, there are specific ways in which brand recognition can be developed. Striking designs can be developed using particular colours, symbols, words and names, and accompanying music also drives the product into consumer consciousness. A range of channels can be used 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, target the same clientele etc), 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.

Where the communication objective is behavioural change (for example improving labour conditions), it is often effective to use interpersonal communication channels, which could be group based or one on one. Examples include seminars, workshops, group discussions, meetings, festivals, public meetings, even religious events, exhibitions and fairs. Facilitation is the key to the success of these particular communication channels in order to build ownerships or consensus about the behavioural change desired and empowering multiple champions of the cause. These days social networking sites, online discussion groups, blogs, push messaging through mobile networks are also used for similar purposes.

- Reception of the message – A message has to be read, heard or viewed by a receiver followed by understanding or decoding of the message, once this process is completed only then is a response made. The receiver would interpret the message as per their knowledge, skills and capacity and the right kind of message designing needs to take this into account. Allow for the dilution that would occur due to different dialects, languages, and literacy levels that are used by target audiences, especially so for channels that work on one way streaming of information and interaction is limited.
- Feedback - Usually the last step of a communication strategy and the most difficult to accept for designers and implementers of the strategy. Both forms of feedback exist – positive or constructive feedback and negative criticism. While its easy to incorporate positive feedback, handling negative criticism could be difficult – some tips to manage negative criticism could be: agree with the critic, garner more information from the critic, interact further to identify the source of the problem or the criticism. Usually there are four types of feedback. One that clarifies – this form revolves around restating instructions, clarifying different facets of the message to avoid confusion later. Decoding – this form usually makes observations on different parts of the message and the communicator or the tools used to communicate. Judgmental – this form of feedback is centres on drawing conclusions from the communication activity. Reactive – this is usually about expressing personal opinion or feeling about a message or communication activity or tool.

Box 16. Commonly used channels of communication

Letters – These are commonly used to communicate non-routine information, for example job offers or refusals, awards or special announcements. But they are also widely used as a tool for advertising, with the increased electronic ability to personalise the letter of target individuals. The down side is a growing antipathy to so called junk mail!

Emails – widely used today for routine communication, bulk communication and summary informers. This is also used to lead to other channels of information. A modern variant of this is 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 channelling communication 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 in many ways is cost effective. This is usually preferred when the other alternatives available are expensive or the need is immediate.

Telecom – communication over telephone is richer than printed words. This mode also provides for immediate feedback, responses. However there is a disadvantage – some target audience groups find this mode invasive and would probably repel 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 through kiosks - increasingly becoming a communication option to reach out to remote communities and is catching up fast in developing countries. Getting uninitiated communities to come to the kiosk could be a challenge but once surmounted this could be an effective channel in transmitting information.

Box 17 – 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% 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 (www.tradenet.biz) 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.

More recently mobile phones are starting to provide 'cellular banking' to the unbankable. 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 which are accessible to the poor. Finally, they 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, SMART developed pre-paid accounts operating on a system run by the SMART mobile phone platform. The main SMART account was held by five commercial banks in the main urban centres. But 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) but instead of spending the money on calls, the money can then be transferred to other users simply by sending an SMS message – and they can do this far distant from any bank.

Source: Samii (2009)

9.3 Useful tips – practical advice based on experience

- There are few critical areas of communication problems which usually run across most organisations and can be assumed to be the same amongst SMFEs as well. Watch out for:
 - Poor accessibility of information

- Use of the wrong communication channel
 - Lack of message clarity
 - Failure to connect with communicators within the target organisation
 - A failure to balance the flow of communication with an appropriate coordinating communication to avoid overload
- Training of people entrusted with the job of communicating a message – communication styles of individuals can range between passive, aggressive to assertive. However it is the communication channel and the target audience which should be used to decide on the communication style and each individual communicator should be carefully trained to use that particular style
 - Identify and communicate across the organisation, a single individual or a core team that would be at the helm of controlling communication
 - Effort should be revolve around connecting the present communication with what is happening in the organisation or the enterprise – in other words communication strategies should be integrated to the core values of the organisation.
 - As far as possible use multiple channels to communicate
 - Revisiting the strategy to inform it with whatever external changes are happening in the environment is essential

9.4 Further information – where to get further advice

A general manual on communication for partnerships contains some useful communication tips⁶⁹:
<http://www.commdev.org/content/document/detail/2021/>

A basic template for writing a communication strategy can be downloaded from the Economic and Social Research Council⁷⁰: http://www.esrcsocietytoday.ac.uk/ESRCInfoCentre/Images/strategytemplate_tcm6-7374.doc

Recent thinking on how multi-channel communications can lead to better results can be found at the following link.⁷¹ http://www.tukaiz.com/index.php?option=com_content&task=view&id=190&Itemid=39

For communication specific to marketing a good introduction can be found on the website of the Chartered Institute of Marketing⁷²: <http://www.cim.co.uk/filestore/resources/10minguides/communications.pdf>

There is material available on establishing information centres that work for⁷³:

Farmers clubs: <http://www.nabard.org/development&promotional/farmersclubprogrammomore.asp>
 Illiterate audiences:

http://www.ruralfinance.org/servlet/BinaryDownloaderServlet?filename=1119826556049_dfid_briefing_literacy.pdf

Both genders: <http://www.ruralfinance.co.uk/lesson4.2/pages>

⁶⁹ McManus and Tennyson, 2008

⁷⁰ ESRC, 2009

⁷¹ Tukaiz, 2009

⁷² CIM, 2009

⁷³ DFID, 2002; NABARD, 2006; Heney, 2007b

Component 3. Facilitation in action

We have tried in the preceding modules to provide 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 10. Developing market understanding⁷⁴

10.1 Purpose – what the tools is for

Forest enterprises, as all enterprises, to survive must be able to sell, and to sell at profitable prices. Facilitators thus need to be able to support SMFEs to successfully access the market, for which the capacity to get, analyse and utilise a range of market information is a key prerequisite. The focus of this tool is on 'market understanding' rather than 'market information systems' to underscore the fact that the end goal is not just provision of market information, but the long-term development of the capacities of SMFEs to understand and therefore better access markets.

10.2 Outline – the main steps you need to try it out

- **Step 1. Design support programmes with a market focus** – The very first step in increasing market understanding lies in the design of the support programme itself. In the past, forest enterprise support programmes have often focused on sustainable management of the forest resource or on improving production, with little attention to any existing or potential market outlets for the products or service that was produced. 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) right at the heart of the design process. 'Marketing' must also be central to the approach and can be defined in three main ways:
 - A management process through which goods and services move from concept to the customer.
 - A philosophy based on thinking about the business in terms of customer needs and their satisfaction.
 - A practice involving what are frequently called the 4P's: (1) Product development, (2) Price determination, (3) Placement through appropriate distribution channels and (4) Promotion to those customers.

Above all, any facilitator of market system development must verify that there is a market for the product or service that enterprise clients have an interest in. A support programme can take a "top-down" approach whereby vibrant market demand is identified and the supporting institution then seeks producers to work with to satisfy that demand; or a "bottom-up" approach whereby the supporting institution identifies its target group according to institutional or other criteria and then undertakes research to determine what markets the target group can supply⁷⁵. Whether a top-down or bottom-up approach is used ideally the supporting institution should find a way of involving the target group, during or after the design phase, in the market analysis process to ensure that the target groups has or starts to develop a market orientation.

Participatory value chain analysis (see module 8) is perhaps the most valuable tool for identifying market potential and what kind of support activities are 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 producer groups, other actors such as trade intermediaries (the notorious middlemen) and large-scale buyers may also constitute an important target group for interventions aiming at increasing market understanding.

- **Step 2. Get access to necessary marketing expertise in house** - In adopting a stronger market orientation, facilitators will have to be able to develop or to co-opt real marketing expertise, including a good understanding of how markets and the private sector functions. However, in the forest sector extension services generally only have technical forestry expertise and little or no training on marketing aspects. NGOs also often lack staff with commercial acumen: at a sub-regional workshop

⁷⁴ Developed by Yarri Kamara

⁷⁵ Shepherd, 2007

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, and this is a common reality.⁷⁶

It can be difficult to find staff that combine marketing skills with the social skills needed for development, especially in a natural resource context such as forestry. Establishing multidisciplinary teams within support programmes is one option. In the FAO conference mentioned above⁷⁷ participants also suggested that NGOs use marketing and business professionals as a shared resource or outsource marketing services. The facilitators of market system development who are embarking on support programmes should survey existing marketing services, whether provided through donor support or by private sector actors, and see if there are opportunities to co-opt some of this existing expertise into their support programme.

- **Step 3. Catalyse greater organisation amongst market chain actors** - Based on the findings of value chain analysis a facilitator chooses with whom to work. This may involve well-established and organised forest enterprises or enterprise associations. But often it will also involve producers at the beginning of the value chain – often based in remote rural areas. For such producers, market understanding and access can often be greatly facilitated if the producers are organised into groups to achieve economies of scale (see Module 14 for more detail). 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 of the value chain⁷⁸. The advantages of organising producers into groups include⁷⁹:
 - 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 facilitators 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. In terms of the ideal size of groups for collective marketing, a balance must be sought between being big enough to exploit economies of scale and market potential but small enough to minimise the risk of internal conflicts⁸⁰. The key is to ensure that everyone is clear on the benefits, and that the perceived benefits achieved by individual producers are seen to outweigh the costs of compliance with collective rules and norms.

There are of course different levels of group organisation. Facilitators may work with the basic group unit – small groups of producers in the same locality – or with a collective of group units organised to form producer organisation or cooperatives with a wider geographic coverage. In the medium term, supporting institutions working with the basic group unit should encourage the regrouping of these small units into a larger collective for greater efficiency and market power, again taking care that this process be bottom-up. Besides organising producers, facilitators may also want to support the formation or the consolidation of traders in trade associations to help achieve greater efficiency in the marketing chain⁸¹.

Once groups are established support on organisational aspects will be needed in order 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

⁷⁶ FAO, 2005

⁷⁷ FAO, 2005

⁷⁸ Belcher and Schreckenberg, 2007 [Full reference : Belcher, B. and Schreckenberg K., 2007: “Commercialisation of Non-timber Forest Products: A Reality Check”, *Development Policy Review* 25(3): 355-377, Oxford, UK

⁷⁹ Robbins et al. 2005

⁸⁰ Shepherd, 2007

⁸¹ see Shepherd, 2005 for a discussion on roles of associations of market traders

and technical support in developing by-laws, in leadership and conflict resolution skills and in record-keeping.

- **Step 4. Facilitate contacts between SMFEs and their clients** - Recent agro-enterprise development parlance frequently uses the term “linking producers to markets”⁸². In an agricultural context this phrase describes a common problem whereby large buyers often complain about inadequate supply whilst producers complain about lack of markets. The same often holds for forest products. Facilitators have a key role to play in bringing supply and demand closer together.

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

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.

The role of the facilitator should be that of catalyst, linking people with one another having gathered as much market information as possible. The facilitator should try to minimise the risks of exploitation of small forest producers by providing some market oversight. In the initial phases, before the small forest enterprises have developed the necessary capacities, the facilitator may be required to take a leading role in establishing contacts, however progressively the small forest enterprises and their associations should take more initiative in this domain. 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.

⁸² Shepherd, 2007

Box 18. Helping SMFEs make contact at national, regional and local-scales

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 national level trade expositions for the whole forest subsector – 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 in 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 hundred 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 actions. 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 5. 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 in order to improve their bargaining position. This service provision has often proved costly and sometimes ill-adapted to the information needs of the target group – outdated information, irrelevant information, inaccessible format of information provision, etc. Whilst national market information systems certainly have an important role to play in increasing market transparency⁸³, facilitators, especially on the NGO level should think less in terms of static provision of market information and more in terms of supporting producers in setting up flexible and sustainable systems for accessing information on prices continuously. In this sense the term “market information system” takes on a broader meaning of being a structured approach to collecting, analysing and communicating information about markets and marketing. The FAO manual on marketing information systems for NTFPs gives good practical guidelines on how to support producer groups to develop sustainable market information systems⁸⁴.

Facilitators should survey what data is already being collected and disseminated and whether this corresponds with the information needs of the target group (e.g. farm-gate prices versus retail prices). One issue may be to see how SMFEs can access such information if currently inaccessible. In the absence of suitable sources of price information, the SMFEs should be supported 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.⁸⁵ 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 based information systems.

It should be noted that it is not enough to simply provide SMFEs with price information; SMFEs, and indeed facilitators, need to be able to correctly interpret the information received. Accusations levered by NGOs against traders for taking too large margins arise sometimes because the marketing costs incurred by the traders have not correctly been taken into consideration. Manuals such as the FAO's “Understanding and Using Market Information”⁸⁶ give useful guidance on how

⁸³ 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.

⁸⁴ FAO, 2003

⁸⁵ See www.manobi.net for examples from Senegal and South Africa

⁸⁶ FAO, 2000

facilitators can help producers better interpret price information, such as how to estimate farm-gate prices from wholesale selling prices.

Another area in which capacity may need to be built is in contract negotiation. To shift the power balance in favour of small-scale producers, it is important that these producers develop skills in contract negotiation to get better deals from buyers. Successful contract negotiation requires that producers are not only good negotiators but also that they have sound background information to enable them to negotiate⁸⁷. A vital backdrop to such negotiations is record keeping – especially so that SMFEs understand their production costs and profit margins (see Module 12).

- **Step 6. Nurture interest and capacity to conduct market research** – Market information is all the data that can help those involved in production and sales identify and meet clients' needs which are generally dynamic⁸⁸. Whilst accessing information on current product prices is often a key concern for SMFEs, this is not the only useful market information. In order 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. To support SMFEs in developing a market research plan, facilitators should help them identify what information is most useful, that is, is most likely to increase the profitability of their enterprise, e.g. identify challenges posed by competition (direct or substitutes), assess opportunities to improve production efficiency, inform new product design, etc. Facilitators 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 give a good insight into clients' needs and the competition. 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 chose 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. on the street). 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?
- how many potential customers are there?
- 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. Facilitators 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 - could they make yours look outdated?
- How competitors are changing - what are their plans?
- What are competitors offering and what prices do they charge?
- How do competitors advertise and promote themselves?
- Is demand for your product or service growing or shrinking as a result?
- How might customer requirements and buying behaviour change in the future?

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?

⁸⁷ Shepherd, 2007

⁸⁸ FAO, 2003

- Placement (or distribution): what are the appropriate distribution channels for getting the product to the customers (through wholesalers, establishing a retail outlet at production site or in urban centre, etc)
- 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.)

10.3 Useful tips – practical advice based on experience

- It is easier for facilitators to provide adequate marketing support if the range of products being promoted is limited. This allows the supporting institution to better develop the in-depth knowledge of the product markets, allowing in particular better facilitation of contacts between clients and SMFEs.
- Facilitators 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 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 producers⁸⁹.
- Supporting institutions 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.

10.4 Further information – where to get further advice

For starting and running a business – there are many good guides. Two of the best are produced by⁹⁰:

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

FAO:

http://www.ruralfinance.org/servlet/BinaryDownloaderServlet/2404_Document.pdf?filename=1128084661360_The_group_enterprise_resource_book.pdf&refID=2404

A good general overview of market-oriented support to rural producers is widely cited above and listed below⁹¹:

http://www.ruralfinance.org/servlet/BinaryDownloaderServlet/50996_Paper.pdf?filename=1182944174164_ag13.pdf&refID=50996

For those wishing to organise producers for collective marketing a good guide is also available⁹²:
http://www.ciat.cgiar.org/agroempresas/pdf/CIAT_Agro_Enterprise_Strategy_Paper.pdf

An analysis of roles and functioning of market traders associations can be found on the web⁹³:
<http://www.fao.org/ag/agS/subjects/en/agmarket/assocs.pdf>

For practical marketing advice aimed at producers, de Velde has produced a useful guide⁹⁴:
http://www.ruralfinance.org/servlet/BinaryDownloaderServlet/24576_Marketing_for_Small_.pdf?filename=1130257058906_agromisa_marketing.pdf&refID=24576

Guidance on setting up sustainable market information systems may be found at the FAO website⁹⁵:
<http://www.fao.org/docrep/005/AC692E/AC692E00.HTM>

Guidance on how to interpret market information has also been produced by Shepherd for the FAO⁹⁶:
<http://www.fao.org/ag/ags/subjects/en/agmarket/understanding.html>

⁸⁹ Shepherd, 2007

⁹⁰ UNESCO, 2006; Bonitatibus and Cook, 1995

⁹¹ Shepherd, 2007

⁹² Robbins et al., 2005

⁹³ Shepherd, 2005

⁹⁴ De Velde, 2004

⁹⁵ FAO, 2003

Module 11. Product development⁹⁷

11.1 Purpose – what the tools is for

Most SMFEs sell to existing markets with existing products – and a number of the facilitation modules 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 – or the need to stimulate demand through marketing. It highlights some of the key issues to consider based on extensive practical experience.

11.2 Outline – the main steps you need to try it out

- **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. If they 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, 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

Box 19. A bottom up approach to Market Analysis and Development (MA&D) 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. Business plans for collective marketing are developed for the most viable products. For a full description for this approach see Lecup and Nichol森, 2000; 2006.

Preliminary planning phase

Phase 1:

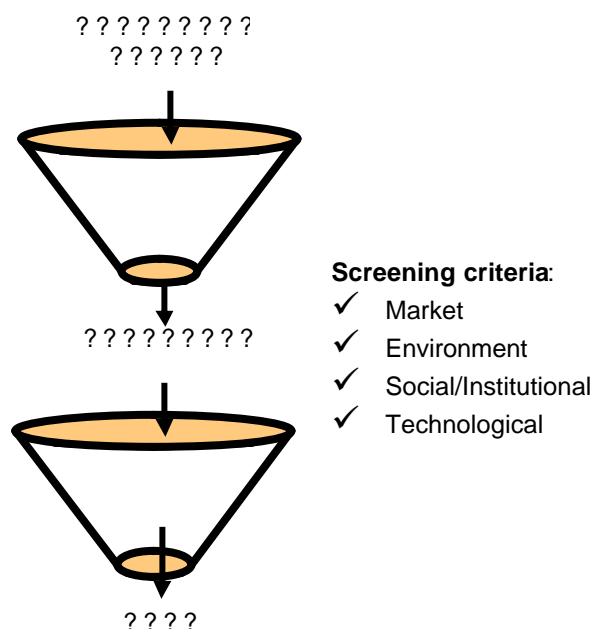
Identification of potential products

Phase 2:

Participatory feasibility studies and final product selection

Phase 3:

Plan enterprises for sustainable development & pilot testing



⁹⁶ Shepherd, 2000

⁹⁷ Developed by Pierre du Plessis

- It is almost always more sustainable to harvest flowers, fruits or leaves than it is to harvest whole plants, bark or roots
- Resources that can be cultivated easily may also be more sustainable, 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 (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 especially are often harvested in small quantities by many people; to make such resources into a commercial (product-development) opportunity SMFEs will need to have a cost-effective collation system to handle the logistics of bulking and transporting the harvest 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, the facilitator may have to suggest starting one to ensure harvesting will be done sustainably and meet commercial quantity and quality requirements

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” (MA&D) methodology developed by FAO contains a matrix-based approach to ranking potential products, which facilitators can adapt to local circumstances and use to structure an overview.

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/products.

- **Step 2. Work with SMFEs to investigate value-chain options for selected resources in more detail** – Once the SMFEs with whom a facilitator is working have selected one (or a few) resource(s) for further product development, they need to investigate and reflect on how they can structure the value-chain:
 - The most important thing is to be clear about the market(s) they want to target: local, national and international markets usually have very different quality requirements and regulatory regimes (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/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 to pay special attention to “business to business” markets and to selecting well-resourced, credible commercial partners who can help them to get their product to markets
 - SMFEs may sometimes need to do “trial purchases” to find out if people (and which people) will indeed harvest and sell a resource to them at the right price, in adequate quantities. For trial purchases (and other market experiments) it can be difficult and / or risky to secure finance for SMFEs themselves – and this may be one area where subsidies if available can be judiciously used by a facilitator. If they do trial purchases the raw material they buy can be used for processing trials and to make samples available to potential buyers or commercial partners; this will give them more information about required technologies, costs and prices. Trial purchases, especially of resources that do not yet have local markets, also help to show harvesters that there is indeed a potential market and source of income, which in turn tends to stimulate increased community interest in collaborating with the SMFE; 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”

- One of the most important considerations in structuring a value chain is economy of scale, which in turns depends on the level of technology employed at various stages: weaving baskets or extracting nuts from their shells can easily be done by hand or using traditional tools at homestead level, but expelling oil or making a botanical extract must be done in a (small) factory, which will need to process enough raw material to pay off the capital invested (or at least the recurring overheads and management costs, if the capital is provided by a donor). For this reason it is important to investigate and understand the technology options that are available for making an SMFEs planned products, including 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 meet the quality requirements of the next link in the value chain.
- If an SMFE starts from raw material supply and works its way through primary collation 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: all else (like access to transport and technical support) being equal, 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; But *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 is much better to have a successful factory in the capital city than yet another failed project in a facilitators pet rural area, and a facilitator can always encourage technology transfer later, once the market has grown and it makes economic and technical sense to do so
- Remember that good sustainable business requires that everyone in the value chain must make money – if any link becomes unprofitable the whole chain breaks down. To start with SMFEs can use the prices of similar products in their target market as a guideline about whether they will make money, until they have done a more detailed costing; remember that retail prices usually include a 100% retail mark-up (i.e. the wholesale price is usually about half the retail price, although obviously this varies quite a lot). It is useful to do this work in two directions: from final retail sales backwards, and from primary production of raw materials forward. 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, who will 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.
- 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

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 better informed decisions about fair prices and profits for the various actors.

- **Step 3. Work to fine-tune client SMFEs product description** – When SMFEs understand their competitive and/or comparative advantages, as well as the potential 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. They may well need to change it later, but they have to start somewhere so don't be too concerned if they end up with a few unknowns at this stage – they can address them later, as part of developing and implementing their business plan. In writing the product description, include the following elements as appropriate:
 - A clear statement about how they see the potential buyers for their products, e.g. “Urbanised consumers who want traditional foods that meet modern sanitary standards” or “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 (USP), e.g. “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”

- Any available certification schemes that could add value or open up additional markets, like Organic, Fair Trade, Forestry Stewardship Council (FSC) etc., and how the SMFE plans to get its product certified (see Module 15).
- Any quality standards particular to the product, as minimums, e.g. “Cosmetic oils with Acid Values <4mgKOH/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, e.g. “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 220l 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 (can an SMFE get by with a pallet trolley or will it need a forklift?)

- **Step 4. Assist SMFEs to turn their 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 (or for a few products, if they are still unsure about which one to prioritise). They need to do this regardless of whether they are starting a new SMFE around the product(s), or just adding (a) new product(s) to an existing business. If they are envisaging a range of products they need to do the relevant parts of this business planning 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 are often outdated as soon as they are completed, so SMFEs need to be flexible and respond quickly to changing circumstances, but always bearing their original plan in mind and understanding clearly why they are deviating from it. If outside assistance for business planning is available in a particular location, e.g. 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 doing a business plan is finding the “break-even point”, i.e. determining when income will cover all the expenses – earn less than this and the SMFE loses money, more and it makes a profit; this is very closely related to economy of scale: if production is too low to cover capital and overhead costs it may never break even. Bear in mind that some units in any business plan can only be increased by whole numbers (it is not possible to have 20% 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 fulltime 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 – what does the country’s labour law have to say about hiring people on short contracts, and the compensation to pay when the season ends and the SMFE lets them go? The following steps can help to assess the break even point (and see also Module 12).

- Start getting the SMFE to do a realistic “at full cost” assessment of its fixed capital investment requirements, including 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, etc. (don’t forget the office furniture and kettle!)
- Do a realistic estimation of the SMFEs fixed overheads costs, like rent, municipal charges, utilities access charges, telecommunications, insurance, 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) – these are the expenses without which the SMFE will not be able to produce at all (if it is adding a new product to an existing business, think about the incremental costs)
- Next do an analysis of 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 etc. – don't forget taxes and licence fees!

- The SMFE will usually need enough money to keep on producing (for variable periods, typically at least a few months) beyond the stage where sales growth allows it to reach break-even point; during this “capital burn” period the SMFE may have to meet the repayments on equipment (if bought on credit), as well as paying overheads and variable costs; the amount of money needed during this period is also known as “working capital” (if this is borrowed the SMFE may have to pay interest too)
- Add the “capital investment” bottom line to the “working capital” requirement – this gives the total amount of money the SMFE will need to start producing its new product, and an idea of 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
- 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: how does this price compare with that of actual or potential competitors and/or substitute products? NB: DO NOT make the very common mistake of comparing the factory gate prices with retail prices in the market without allowing for all the costs and mark-ups in between!
- Double check by working out the net profit margin on a per-product-unit basis: how many units must the SMFE sell to make the enterprise as a whole profitable? Is the required volume of sales, at the projected prices, realistically achievable in the target market? Remember that higher prices usually mean lower sales numbers
- Both facilitator and 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 every 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, but if that does not work, accept reality and move on to another product idea

Working through the planning processes detailed above will help facilitators and SMFEs together to decide whether to go ahead with the actual process of developing a new product. In many cases it will also give you the basic information an SMFE needs to write a formal business plan for e.g. a credit application to a bank, or a proposal to a donor. Unless an SMFE is very experienced at doing this it will benefit from seeking professional guidance on how to structure and present such a business plan in a convincing manner.

- **Step 5. Finalising the product development process** – Once the SMFE has a clear idea of which product(s) it wants to produce, and it is certain that it can do so profitably and sustainably, and it has secured the necessary funding to take the process all the way to fruition, and it also has an actual market or buyer lined up and ready, The SMFE can be said to be ready to go ahead and finalise its new product(s), and start production. At this stage the SMFE can be encouraged to:
 - Write a Standard Operating Procedures (SOP) manual for the product, detailing every aspect of its production and quality control
 - Make appropriate arrangements with upstream and downstream value-chain partners, preferably in the form of a written Memorandum of Agreement, 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 regulator(s)
 - Register the product and/or tradename with the relevant authorities as appropriate
 - Ensure that it has all the necessary licences and permissions
 - If the SMFE is going to use retail packaging it is strongly recommended that it get professional help to design it; in any event 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 the SMFE needs to start production well in advance of the target start date
 - Have fallback 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!)
- **Step 6. Fine-tuning, improving and renewing 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 (without cutting quality!) and/or increasing productivity, e.g. 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, and try out some potential solutions at small scale before introducing them more widely. Remember that most products have a limited life-cycle, 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, too, follow market developments in the industry sector closely, and start collecting ideas for giving the old product a new lease on life in good time!

11.3 Useful tips – practical advice based on experience

- Forestry enterprises are utterly dependent on secure and adequate supplies of raw materials, so pay attention to raw material supply chains before considering further value-adding. If there are not enough raw materials no amount of value-adding and product development will make an enterprise viable. Sometimes there is a need for several different suppliers to create enough volume for one processing facility.
- As far as possible, work with existing institutions and organised groups at community level, rather than starting new groups. Rural people are mostly very busy trying to scrape together a livelihood and they don't have time for endless meetings. Working with credible groups builds on and strengthens existing local capacity and gives a facilitators intervention the credibility it needs.
- These things always take longer than imagined – five to fifteen years for brand new NTFPs to get from raw material stage to international consumers markets is not unusual. Make sure the facilitating institution has a plan that will allow it to work beyond normal donor-funded project horizons. Bear in mind that commercial partners will be spending time and money on product development and make sure they too 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 stakeholder bodies (e.g. multi-disciplinary task teams or trade associations) to provide a focus for donor funding. Such bodies can provide the momentum required to bridge successive phases of donor funding.
- It is better to own 25% of a functional value chain than 100% of a dysfunctional one. Do not begrudge downstream commercial partners their profits – if they don't make money the target SMFE won't either, and no-one benefits.
- Product development is not very useful if it is done in a business vacuum. When facilitators are working to help SMFEs develop products always also consider the SMFE at the same time, so that there will eventually be a clear commercial operator to take the opportunity forward.
- Be very careful about the reputational risk involved in facilitators making promises (to producers or buyers) that they 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, or the local market is too small).
- Spend the time and make the effort required to get to know target markets. It is especially important to understand exactly what it is that the next functional stage in the value chain really wants to buy. As an example: if an SMFE produces crude cosmetic oils they 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% doing it for them.
- Don't encourage a DIY attitude amongst SMFEs to every single stage of the process: it is usually better and often cheaper to contract a service provider (e.g. a toll refiner) or a contract manufacturer or a distribution agent than trying to do everything itself, losing focus and finding that the SMFE fails 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 at 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; 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 M&E to tie you into an inflexible logframe!)
- 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 – where to get further advice

A whole independent framework for product development and business planning has been prepared by the FAO under the acronym MA&D which can be downloaded at <http://www.fao.org/forestry/25499/en/>⁹⁸

⁹⁸ Lecup and Nichol森, 2000

Module 12. Business planning and the facilitation of business development services⁹⁹

12.1 Purpose – what the tools is for

This tool describes how facilitators can help small forest enterprises to 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 – the main steps you need to try it out

- **Step 1. Assess your own and clients comprehension of business planning** - As noted above, SMFEs have different forms that span a 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. Making a difference to such enterprises through skilled facilitation will require a varied approach. For the former, it may be necessary to facilitate very practical, field orientated learning about basic business concepts (see Box x). For more productive enterprises, planning and investment both to add value and cut costs is necessary and routine and the needs may rather be to hone existing expertise by facilitating specialised marketing, finance or business management consultancies. 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 an obvious need to do some background reading, it is proposed here that an initial half day meeting with target enterprises is scheduled to assess the capacity for business management and particular areas where business training might be required. For the first part of the meeting, a set of discussions can take place where both the facilitators and client businesses can explore their mutual comprehension or incomprehension are detailed in the following bullets which draw heavily on an excellent FAO guide¹⁰⁰:
 - **Business definitions** – Understanding and conveying what business is about is an evolving process. With experience, basic definitions can be adapted in such a way as to make a number of points, 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”. Adopting and spreading such definitions can help drive home important points, for example, in this case the need for: *planning*, rather than ad hoc activities; *industry*, not people trapped by force of habit or ticking over; *organisation* not isolated individuals or people with overlapping roles. It could also be used to emphasise the importance of customers *perception* in determining value.
 - **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 behaviour¹⁰¹. It is worth doing some homework on this and exploring which (if any)

⁹⁹ Developed by Duncan Macqueen

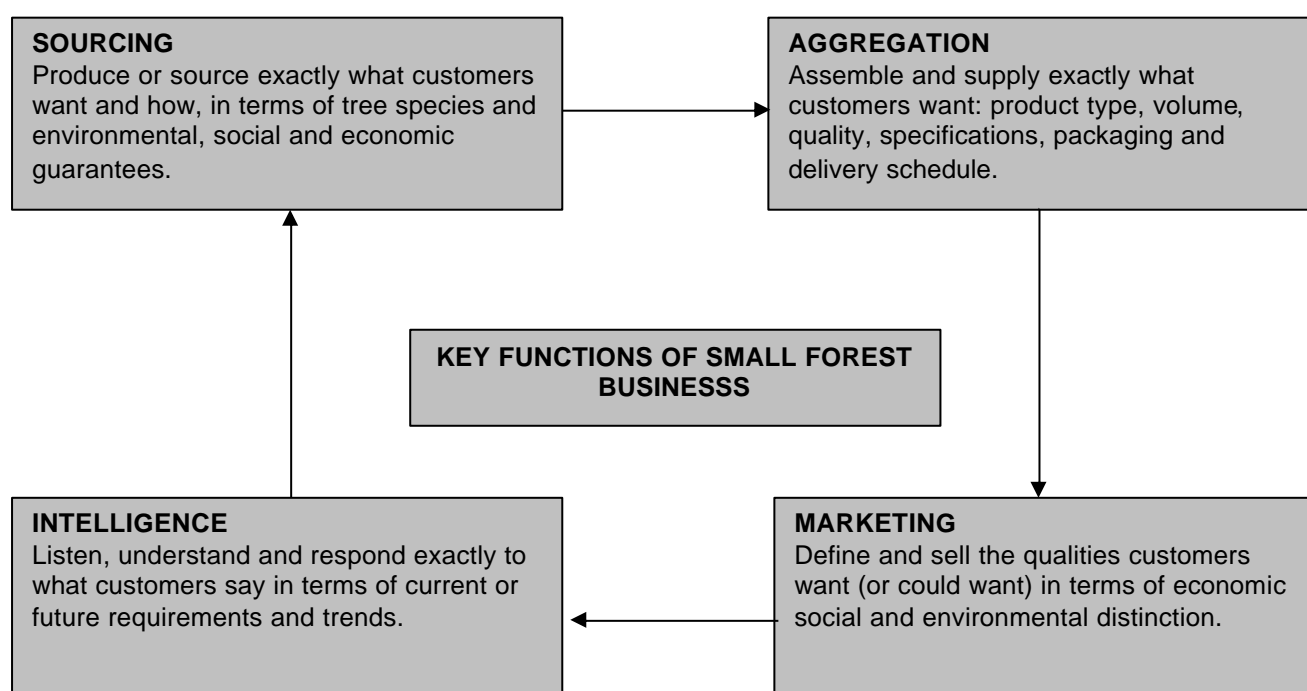
¹⁰⁰ Bonitatibus and Cook, 1995

¹⁰¹ Boyd, 2005, Macqueen, 2006

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 a 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 requires to get its chosen product or service to the customer. These linked sets of activities are common 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 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.

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 to their product or service. Who customers chose is ultimately defined by a businesses’ 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 comes 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 clear about their competitive advantage, a business should know how it will keep that advantage – what marketing strategy it will use to keep ahead of the competition. Someone in the business should be doing some market research – which essentially means finding out what customers want. Once a business knows what its customers want it can chose how to succeed. This might involve simply promoting the existing product to more customers in an existing market. But it could also mean modifying the product to make it sell better in that existing market, or searching out new market places to sell an existing product – or going further to sell something new in a new market. A business should be clear about what its customers want and how it plans to develop its market – the customers to whom it sells..

		Product	
		Present	New
Market	Present	Market penetration – e.g. work to promote your existing product to more customers in your existing market	Product development – e.g. work to develop new products or product packaging
	New	Market development – e.g. try to sell your existing product in new places	Diversification – e.g. in addition to what you already produce, try to produce something new

- **Business records** – All businesses need to know 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). In order to know these things, 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 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. It is especially important to make these credible if the business needs to borrow money from any mainstream financial institution. Good simple guidelines can be found in the FAO group enterprise handbook¹⁰².
- **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 – and may be a requirement for a financial institution giving a loan. There are a number of key elements to a business plan, each of which has a purpose as shown below:
- Overview (Business owners, name, address, description of the product and enterprise objectives)
 - Organizational structure (form of business chosen and who does what)
 - Market strategy (competition analysis based on product, price, promotion, place – and market strategy)
 - Business operations (what activities in production, processing and transport you will carry out)
 - Record keeping (investment and balance sheet, profit and loss account and cash flow)
 - Conclusions (is the business viable?)

¹⁰² Bonitatibus and Cook, 1995

Box 20. Basic business training for new state forest enterprises in Oromia, Ethiopia

Between 28-30 May 2008 a Forest Enterprise Business Training course was run by Forest Connect partners for almost 40 participants in the town of Goba, Oromia, Ethiopia. Participants included representatives of 4 of the new State Forest Enterprises (SFEs) which now have financial autonomy (hence need to make a profit) wedded to a strong commitment to community development.

The course aim was to equip participants with the generic business skills necessary to write a business plan. There was a deliberate focus on business planning in partnership with communities (for example, State Forest Enterprises sourcing honey from community honey enterprises and then processing and packaging it). The reason for this was that many new State Forest Enterprises do not have sufficient plantation timber resources to generate a profit, so alternative means of income generation will be needed. The most logical approach will be to try and add value to the many forest product enterprises that are already well-established (e.g. lumbar, fuelwood, bamboo, furniture making, honey production etc). Business planning was needed so that these partnerships both add value for all concerned and gradually move from unsustainable (and possibly illegal) resource use, towards sustainable and legal resource use.

The first day introduced what 'enterprises' are – and what functions and roles they typically contain. Participants were sent on a field exercise in groups to the local market. They were asked to assign roles within each group equivalent to the roles in a real business (e.g. business manager, production coordinator, marketing coordinator, accountant etc). Each group documented how real life community enterprises in the Goba market carried out core business functions such as production, aggregation, marketing and market intelligence. Useful profiles of fuelwood, bamboo poles, wood furniture, honey trader and bamboo furniture enterprises were produced by the group. The aim of the exercise was to cement ideas about enterprise functions and roles.

The second day opened with session on business ethics (what values and principles an enterprise works to) and business structures (how these values and principles are put into practice by the way the business is structured and relates to other groups such as communities). Participants were then asked in their groups to look at the non-ideal actual situation in community forest enterprises (from the first days market visit) and then brain storm how the SFE could help to bring about a desired situation that might have a new business structure. The aim of this exercise was to introduce the basic idea of how business ethics lead to business objectives (moving from a non-ideal actual situation to a desired situation) which can then be realised through appropriate business structures. Market strategy, competition and pricing were then introduced as the heart of business planning. Participants explored basic marketing concepts – producing a Product at a Price and Promoted in a Place so that customers will buy it (the 4Ps). Basic notions of market strategy and competition theory were also introduced. Each group was asked to go away and develop a promotion package to be delivered by their marketing coordinator (poster and 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. Some basic elements of operational planning were revisited (basic forest operations). The participants were then introduced to the main steps of business development and how the business plan fit into those steps. The main pillars of business planning were presented as: (i) business ethics / objectives/ structure; (ii) market analysis and planning; (iii) operational planning (iv) financial projections and record keeping. A template business plan was distributed and participants were asked to develop a business plan of their own. All groups made good progress, although time did not allow final products to be produced.

A final evaluation session at the end of the training course demonstrated that most participants has enjoyed the training methods and field work and found it useful to their work. Almost all felt the course had been too short, and larger than expected numbers had meant some hand outs were not available to all. Some wanted further training in business administration, economics and marketing. Others wanted more specific training on GIS mapping, participatory forest management and community development (an area which will be very important as SFEs attempt to develop business partnerships with communities).

- **Step 2. Prioritise what type of capacity building is most necessary** – Once the main areas of business planning have been discussed a facilitator can run a participatory ranking exercise in the

second part of the half day meeting with target enterprises. The aim of this is to prioritise where capacity building is felt to be most needed. Ranking exercises simply allow enterprise representatives to express or 'vote on' where they feel the greatest need for support lies. For example – the facilitator could use a simple voting exercise. Participants could be asked to write on separate cards what they think the main elements of business planning to be. As a group they could then order these cards into clusters of like-minded ideas, and give each cluster a title. These titles could then form the basis of a list down the left hand side of a large sheet of paper. Each participant could then be given a number of votes – 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 against these areas they most feel the need of training. Alternatively a more game-type exercise could be run such as a business training auction. This might identify key areas of business planning as before, but now writing the resultant cluster titles on card. The facilitator divides the participants into 3-5 teams. Each team is given 100 imaginary credits to bid for training relating to those titles. The facilitator auctions off the title cards – with each team trying to secure the single training, or mix 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. The 'cost' of each title is recorded and reflects 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 business trainers that can step forward to provide business training needs. These need not only be used in business planning, but also throughout the lifetime of a business during the business implementation phase. Assessing which service providers offer value for money by benchmarking them is described in more detail in Module 7. There are two important considerations that a facilitator 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 of that training would provide value for money? Or do they have cash flow issues that might require longer term savings-towards-training approach? In such cases there may need to be subsidised demand side work. If the problem lies with the lack of available business service providers, then it may be necessary to subsidise supply side work – paying for external experts to train up 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 – perhaps regarding business as the simple ad hoc task of getting their products to market without the need for any record keeping or planning. A facilitator 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 could then lead on to greater interest in further business training.
- **Step 5. Creating 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 such consultants in from the outside allowed the facilitating organisation and local groups to participate in design training, which could then be passed on to other members who were not able to attend the training workshops.

12.3 Useful tips – practical advice based on experience

- Take time to get to know the client businesses with whom you are working. The more closely you understand what their level of competence is – the greater the chance you will be able to link them with training that will be useful.

- In more elementary business training situations, it can be useful to explore business understanding through field work – for example, taking client business leaders to market to talk through value chains, business structures and competition, organising a competition to market a product etc.
- 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 – where to get further advice

An excellent initial introduction to group enterprises and the types of business skills they need to master has been produced by FAO¹⁰³:

http://www.ruralfinance.org/servlet/BinaryDownloaderServlet/2404_Document.pdf?filename=1128084661360_The_group_enterprise_resource_book.pdf&refID=2404

The rural finance learning centre have produced a series of downloadable lesson guides on enterprise development, which is intended for the staff of NGOs and other organisations, including government departments, whose mandate is to promote "income-generation" or "micro-enterprises" among poor people¹⁰⁴: <http://www.ruralfinance.org/id/6538>

For rural communities, poster guides have been produced to introduce the (largely financial) elements of business planning¹⁰⁵: <http://www.ruralfinance.org/id/46343>

A significant toolkit has been developed under the title ‘Market Access and Development’ (MA&D) that takes facilitators and enterprises through the various stages of business planning¹⁰⁶: <http://www.fao.org/forestry/25499/en/>

A practical example of a preliminary business training workshop can be found on IIED’s website¹⁰⁷: http://api.ning.com/files/uKlt6ybCLpIHxyHepIPbmfljO4cmFA08IRuWAC3h9UI103jeeYT4F3W7j5H5lzl78iwgPuxiOz46lwGyD5oNxe*ouGq9SHUN/ReportGobaBusinessTraining3.pdf

¹⁰³ Bonitatibus and Cook, 1995

¹⁰⁴ Rural Finance Learning Centre, 2009; based on Harper, 1996

¹⁰⁵ Heney, 2004

¹⁰⁶ Lecup and Nichol森, 200; 2006

¹⁰⁷ Macqueen, 2008

Module 13. Financial planning and the facilitation of financial services¹⁰⁸

13.1 Purpose – what the tools is for

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 – the main steps you need to try it out

- **Step 1. Familiarise yourself with the nature of business and the financial reality of being a micro-entrepreneur** - It is really crucial that personnel who will be involved in advising and promoting the development of small forest enterprises are familiar with and appreciative of the challenges facing rural households with regard to managing money¹⁰⁹. Rural livelihood strategies are often complex, involving diverse income-generating and subsistence activities. Cash flows are uneven and it is not easy 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. Facilitators need to understand all these issues so they can help small rural entrepreneurs gain the confidence and ability to analyse their financial situations and plan and prepare budgets for themselves¹¹⁰.
 - 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 deposit-taking 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 microfinance often encourage people to form self-help groups to collect and manage members' savings.
 - Mapping the financial landscape in terms of geographical location of the major service providers and the types of products available is an important step. People often say there are **no** sources of credit but the assertion needs careful analysis; deferred payments (i.e. short term credit) between value chain actors are often overlooked.
 - Household interviews can reveal the extent of informal sources of credit and the existence of savings clubs and rotating savings and credit associations (ROSCAs)
 - Careful documentation of the terms and conditions of loans from formal and semi-formal organisations and businesses will provide essential reference material. The data should include: maximum and minimum amounts, repayment terms, interest rates, special conditions, e.g. regarding purpose, initial deposits, administration fees, etc.
- **Step 3. Introduce systems to help people engaged in small scale forest enterprises learn the essentials of financial management and planning** - The best approach to encouraging people to think about financial planning and how they are going to improve or develop a business enterprise is

¹⁰⁸ Developed by Jennifer Heney

¹⁰⁹ Bonatibus and Cook, 1995; Harper, 1996; Rural Finance Learning Centre, 2009a;

¹¹⁰ See Rutherford, 2001; Herrerias and Hernandez, 1998; Rural finance learning centre, 2009b

through group discussion. If people are being encouraged to form groups in order to improve their participation in value chains, this is the obvious context in which to introduce the topic of financial planning and accounts. If this is not the case, then groups can be formed following the farmer field school or study circle method (see 'further information at the end of this module'). It is essential to realise that such groups must be voluntary and motivated to learn about money management otherwise there is absolutely no point. There is quite an effort involved in working out cash flows or estimating profitability or deciding how much capital can be borrowed without excessive risk, etc., and it is generally inappropriate for people who are not engaged in developing a commercially-oriented enterprise. Group enterprises are notoriously difficult to manage successfully and in these instances, learning the basics of financial management is essential. Facilitators need to be well trained and able to communicate financial concepts to people in a simple manner.

- 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
- **Step 4. Try to establish information centres which contain details of financial services–** Focus on financial services that are available to people and promote dialogue between financial institutions and potential clients so that fear of approaching formal financial institutions is overcome. It is frequently very inhibiting for small scale rural entrepreneurs to approach more formal financial institutions and make use of the services they offer such as current or checking accounts, overdrafts, term loans, money transfers or deposit accounts. Literacy may be a constraint and cultural barriers may affect women in particular. The institutions can do much to address these issues through staff training and likewise, facilitators could help potential clients to overcome their reticence through visits and discussions. 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 and socially committed microfinance providers also may have good practices in relation to client advice.
 - 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 by groups and individuals to banks and other financial institutions
- **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 these clients. Many financial institutions have rigidly structured loan terms and repayment conditions that may not fit the requirements of rural business enterprises and 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 marketing approach to their business and undertake relevant research and product development. In terms of lending procedures, institutions may need to consider the following:
 - Adjusting loan terms and conditions to take account of 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.
- **Step 6. Assist financial institutions to lower their costs and reduce the risks of lending to small scale clients in remote areas.** There is no doubt that institutional outreach to remote areas is costly in terms of staff and office facilities, and lending small amounts to inexperienced entrepreneurs is considered risky. There are strategies which can help to overcome these limitations, e.g. 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, introducing credit scoring, etc. From the client point of view, the use of new technologies such as mobile phones offers a good way of lowering transaction costs. With regard to risk, guarantee mechanisms are a potential way of encouraging banks to lend to certain economic

sectors such as small businesses. But facilitators should be aware of certain disfunctionalities 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) 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. There may be scope to address the question of collateral, e.g. by promoting legal land titling or facilitating the use of alternative assets such as timber stocks in holding yards or machinery.

- 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 which 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 a 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 agreements and contractual arrangements
 - **Step 8. Where there are no accessible financial services, encourage the development of self-help savings and loan groups which can evolve over time into registered financial cooperatives or become linked to banks or other financial institutions -** 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 which can go on to make loans to their members and perhaps develop links with bank or other financial institutions to expand the resources at their disposal. There are a number of different strategies for organising and helping such groups to get 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 to evolve in the long term.
 - Decide which strategy is appropriate for your circumstances and introduce the idea to people carefully without undue encouragement or compulsion.
 - Ensure appropriate guidance is provided by facilitators familiar with the methodology to be used
 - Create a system of genuine self-management by the group members.

Box 21. Improving financial planning skills

SEWA Bank has found that financial counselling is a necessity if long-term benefits are to accrue to its clients. It leads to wiser and more sustainable decision-making processes. 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>

13.3 Useful tips – practical advice based on experience

- Far too little attention is given to helping small scale entrepreneurs to become competent in financial planning and government and non-government 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. 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:

- Participatory methods and visualising techniques are familiar to development workers and they should be encouraged to apply these 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 they can make the preparation of budgets and other calculations so much easier that they should always be provided to study groups and members of producer associations.
- Facilitators should understand the nature of financial service provision as a business which 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. The online lessons which can be found at: <http://www.ruralfinance.org/id/43534> may help in this regard.

Box 22. Financial advice in the Solomon Islands

Microfinance Rural Resource Centres (MRRC) have been established in the Solomon Islands. They are designed to enable rural communities to provide their people with timely and local access to financial service information and assistance. A Microfinance Rural Resource Centre can be compared to a village shop. It stocks and distributes information on a range of financial products and services that are relevant to the community.

A MRRC is typically housed in a small building or a room that is donated or built by the local community or a local community partner. Set up funds have been provided by Credit Union Foundation Australia to pay for the essential furniture, storage and notice board/display area as well as the initial communication costs, volunteer training and printing. A local Management Committee sets up and 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 with regard to available loans. They gain income from selling saving club packs and passbooks, commission on insurance sales, representation or information display fees, communication fees, e.g. for sending faxes or providing email access, and service fees, e.g. for assisting people to complete forms and prepare submissions for micro-enterprise loan applications.

Box 23. 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 to grow and diversify their businesses, generate more income and employment as well as creating forward-backward linkages.

DrumNet's support centres are simple, stand-alone facilities catering to clients who require financial, market and technical information in order 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.drumnet.org/home>

- These are good examples of efforts to provide people with information about financial services and break down the barriers which prevent people using the services.

Box 24. Improving bank – client relationships

The National Bank for Agriculture and Rural Development (NABARD) 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. However the clubs are also encouraged 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, collective farm produce marketing, etc. for the benefit of members. Read more at: <http://www.nabard.org/development&promotional/farmersclubprogrammehome.asp>

- Don't assume that higher risks and costs of small loans to rural producers cannot be overcome.
- Many financial service providers have found it worthwhile to help clients link to markets and provide them with business development services
- 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, and 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 pay out is called the "action audit" and it cannot take place until all members have repaid their loans.

Box 25. Introducing agricultural micro-lending in Georgia

The United Georgian Bank (UGB) have discovered that agricultural micro-loans can be very profitable, even for a commercial bank. At first experience was mixed but by the end of October 2006, agricultural loans made up 8.9% of all micro-loans and 4.1% of the entire portfolio value. Although still small, the share of agricultural loans is growing fast. Productivity has increased tremendously and loan officers are keen to lend to farmers. What was the recipe for this success? There were three key factors.

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

The second key was careful product design. The loan structuring is flexible in terms of disbursement and repayment, based on a cash flow analysis which considers all incomes and expenses of the household. Since harvesting and sales of produce differ from case to case and depend on the current market prices, the bank is offering "generous" repayment schedules with rather long duration. At the same time, the bank abolished prepayment fees for agricultural loans in order 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 important success factor was adopting a cluster approach for handling rural clients. The basic idea of the cluster approach is simple. The bank selects larger villages with good agriculture potential and talks to the responsible village headman, a political administrator elected by the people, about the loan scheme. Then the village headman spreads the word in the village and organizes a farmer meeting in the village hall. The meetings must be held at times when farmers are free from other obligations. In these meetings 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, easier monitoring, etc.

Read more: <http://www.ruralfinance.org/id/48591>

Box 26. 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 on-lend to rural producers in their network. However, BASIX also believes it is necessary to extend technical assistance and support services to improve livelihoods in rural areas, so their subsidiary, IGS, works in collaboration with various government, cooperative, non-government agencies and private sector firms to provide these. IGS is consciously building networks with the agencies to improve input supply, production and output marketing. In this way it 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 build a marketing organization providing integrated marketing services to rural producers which explores, develops and establishes first an internal (local market) and then a national market for rural products.

13.4 Further information – where to get further advice

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> for example, downloadable lesson on enterprise development¹¹¹: <http://www.ruralfinance.org/id/6538> or on understanding client enterprises: <http://www.ruralfinance.org/id/43526>

Recommendations for understanding rural enterprises and their finances include¹¹²:

FAOs Group Enterprise Book: <http://www.ruralfinance.org/id/2404>

A guide to the poor and their money: <http://www.ruralfinance.org/id/16457>

A report entitled 'Accounting is a kids game': <http://www.ruralfinance.org/id/32542>

Some key texts on understanding the financial landscape and financial services for the poor are listed by author below¹¹³:

Bouman :

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

de Klerk: <http://www.ruralfinance.org/id/60370>

Heney: <http://www.ruralfinance.org/id/49995>

Rutherford: <http://www.ruralfinance.org/id/16457>

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

Study circles¹¹⁴: <http://www.sccportal.org/Default.aspx?ID=827&M=News&PID=1534&NewsID=872>
or <http://www.ruralfinance.org/id/21322>

Field schools¹¹⁵: http://www.infobridge.org/ffsnet/output_view.asp?outputID=3363

Discussion groups¹¹⁶: <http://www.ruralfinance.org/id/27930>.

Cooperative enterprises¹¹⁷: <http://www.ruralfinance.org/id/27964> or <http://www.ruralfinance.org/id/31955>

The fundamentals for more specific guidance are available on:

A client-driven approach¹¹⁸: <http://www.ruralfinance.org/id/53107>

Rural finance products¹¹⁹: <http://www.ruralfinance.org/id/16469>

Self-study guides to financial services¹²⁰: <http://www.ruralfinance.org/id/37527>

Competent loan application and appraisal procedures¹²¹: <http://www.ruralfinance.org/id/22390>

Linked financial and business services¹²²: <http://www.ruralfinance.org/id/31790>

Cost and risks of financial service provision¹²³: <http://www.ruralfinance.org/id/39462> or <http://www.ruralfinance.org/id/42512>

Catalysing mobile phone banking¹²⁴: <http://www.ruralfinance.org/id/55204>;
<http://www.ruralfinance.org/id/35631>

Guarantees and collateral¹²⁵: <http://www.ruralfinance.org/id/19204>;
<http://www.ruralfinance.org/id/51083> ; <http://www.ruralfinance.org/id/42601>

Financial service facilitation within value chains¹²⁶: <http://www.ruralfinance.org/id/46770>;
<http://www.ruralfinance.org/id/50996>

Using financial service options available through actors within those chains¹²⁷:
<http://www.ruralfinance.org/id/12054>

¹¹¹ Rural finance learning centre, 2009a; 2009b

¹¹² Bonitatibus and Cook, 1995; Rutherford, 2001; Herrerias and Hernandez, 1998

¹¹³ Bouman, 1994; Rutherford, 1996; Heney, 2007a; de Klerk, 2008

¹¹⁴ Rural Finance Learning Centre, 2009c; Swedish Cooperative Centre, 2009

¹¹⁵ Okoth et al., 2002

¹¹⁶ Heney 2005-2009

¹¹⁷ Koopmans, 2004; ILO, 1986

¹¹⁸ Nelson, 2005; Heney, 2007

¹¹⁹ Evans and Ford, 2003

¹²⁰ Bankakademie (undated)

¹²¹ Bankakademie, 2005

¹²² Sievers and Vandberg, 2004

¹²³ Gallardo et al., 2006; Ivatury, 2006;

¹²⁴ DFID, 2006; Owens and Bantug-Herrera, 2006

¹²⁵ Deelen and Molenaar, 2004; Claire et al., 2006; Balkenhol and Schütte, 2004; Assets Capitalisation Bureau, video.

¹²⁶ Gonzalez-Vega et al., 2007; Shepherd, 2007

Finally, where there are no accessible financial services, useful guidance exists on how to create them¹²⁸:
<http://www.ruralfinance.org/id/2485>; <http://www.ruralfinance.org/id/11805>;
<http://www.ruralfinance.org/id/11564>; <http://www.ruralfinance.org/id/44179>;
<http://www.ruralfinance.org/id/47415>; <http://www.ruralfinance.org/id/28296>

¹²⁷ Goodland and Pearce, 2004

¹²⁸ Der Bruegge and Stack, 1999; NABARD, 2003a and 2003b; Gaboury and Quirion, 2006; Ritchie, 2007; Allen and Staehle, 2009;

Module 14. Strengthening community enterprise governance and structures¹²⁹

14.1 Purpose – what the tools is for

This tool aims to help facilitators enhance the social sustainability of community forest enterprise producers (but noting also that social sustainability is fundamentally linked to ecological sustainability – the topic of the next module). 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 – the main steps you need to try it out

- **Step 1. Participatory situation analysis**– To be able to strengthen an SMFE, a facilitator must get to know the enterprise he / she is working with. For simple scattered, unorganised enterprises the best way is undoubtedly an informal conversation with the owner. But especially where there are more complex group enterprise structures it can be useful to (i) interview key members of the enterprise against a check list 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 27. The Rainforest Alliance SMFE diagnostic tool.

Identify current status of SMFEs and develop Action Plan for achieving sustainability.

Through Rainforest Alliance's work supporting SMFEs it became apparent that there was the need for an evaluation tool that could be applied to an organization 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 (1st party) or through a facilitator (3rd party) with the objective of:

- Identifying current status of SMFE in terms of level of management; functional areas, and strategic orientation;
- Establishing "baseline" against which results of internal efforts and technical assistance can be measured;
- Focus 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 –

1. Financial Administration;
2. Financial Accountability;
3. Marketing;
4. Management of Value-added Processing;
5. Organizational Strength;
6. 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 which clearly shows areas of weakness and is a visual tool for SMFE performance improvement.

Rainforest Alliance is currently refining this tool to ensure consistent and rigorous application even when conducted as a self-assessment, and expects a final version to be available by mid-2009.

¹²⁹ Developed by: Mr. Shiva Shankar Pandey, Ms. Sony Baral, Mr. Sushil Gyawali, Mr. Prakash Katwal, Mr. Nabaraj Panta, Mr. Shambhu Dangal and Dr. Bhishma Subedi.

- *Interview of key members against a check list of key functions* 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? The constitution can be perused to complement the emphases given 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 of the roles and responsibilities of its members. Reviewing meeting minutes, records and reports also gives clear understanding on practical application of their constitution. An analysis of the relationship among individual members within the organisation can play a vital role to 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 idea on the record keeping practices.
 - How is *participation of all members* organised? Reviews of the meeting minutes and observation of meetings and focus group discussions help to identify the level and trend of participation in planning and implementation of organisation's activities.
 - 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* have been agreed? This can be further examined by discussing the issue with key actors of the organization and target groups (e.g. poor, women). Value chain analysis can also help to better understand the share of total value distributed among the different value chain actors.
 - What are the main *business development skills and approaches* that have been mainstreamed within the enterprise? Information from the interviews can be checked 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 that contribute to sustainability analysis are useful to develop understanding on sustainability.
- *Semi-structured interviews with independent people familiar with that enterprise*. Using the categories of information collected above, facilitators can also gather relevant information from national and regional stakeholders, giving an outsiders perception and experience on the enterprises governance and structure and any perceived strengths or weaknesses. External stakeholders might include government line agencies, leaders of enterprise federations / associations, informants in local Community Based Organisations (CBOs) or Non Government Organisations (NGOs), other private institutions, etc.
- *Participatory SWOT analysis with enterprise members*. The SWOT analysis can form the basis for identifying together what might change in terms of structure or governance to improve collective action, strengthen the skills of particular roles within the enterprise, improve efficiency and reduce transaction costs and increase benefits from better bargaining power¹³⁰.

¹³⁰ CAPRI, 2006

Box 28. Procedure for conducting a SWOT analysis (Source: O'Hara, 2007)

Write the enterprise title clearly on a piece of paper or floor. In advance of the meeting, prepare four columns in an appropriate language with titles strengths / weaknesses / opportunities / 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, next 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. They are then invited 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. Somebody should be asked 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. This can simply be done by allowing each participant a vote with a pen or sticker or other marker (e.g. stones if doing the exercise on the floor).

- **Step 2. Facilitate the establishment of an improved organizational structure and governance system** - An appropriate organisational structure and good governance mechanisms are crucial for sustainability in the long run. Organisational structure and governance are interrelated for a successful organisation – so attention should be given for the both. The preceding exercise should have given a clear indication of where things are working well and where people perceive the problems to be. The following activities are suggested as a process to move towards a better enterprise structure and good governance system.
 - *Facilitate better management.* The management of the enterprise should be appropriate to the enterprise both in terms of size (numbers of people in critical decision making positions) and structure (the roles those people play and the decision-making responsibilities they hold). The size of the management team 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, or roles and responsibilities to be played by individual members, needs to be designed so that the basic functions of the enterprise can happen smoothly (e.g. as a basic minimum management, supply and production coordination, marketing and accounts). Appropriate incentives should reinforce positive behaviour of those involved in management activities (see Box xxx). An analysis of the main activities that an enterprise carries out, and the roles and responsibilities needed to manage them can give an idea of where the weak points are whether there is a potential for improving the structure (e.g. adding new roles, differentiating roles, or deleting duplication of roles). Community meetings can be used to outline the existing structure and any suggested changes. Facilitators can also encourage members to develop more inclusive structures where the enterprise seems to be controlled by an elite. The case presented in Box xxx gives an example of an effective structure in its own context.

Box 29. Structure of Bhimeshwor handmade paper enterprise, Nepal

Established in 2005, **Bhimeshwor** is a community based enterprise in Dolakha district with technical assistance from ANSAB. It has a shareholding of 10 Community Forest User Groups - CFUGs (with a 30% share), 2 previous entrepreneurs (with a 35% share), 20 poor households (with a 10% share) and private investors of the CFUGs (with a 15% share) and a national company – Himalayan BioTrade Pvt. Ltd. (that buys all Lokta paper, provides technical advice, and owns a 10% share).

The general assembly of 34 shareholding representative finalizes the major policy and business plan of the enterprise annually. Major production and management decisions are overseen by a Board of Directors comprising 9 individuals who meet on a periodic basis. A 3 member management committee consisting of Managing Director, Marketing Manager and 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% of the profit respectively for their services.

The enterprise has an annual production capacity of 4,800 kg (24,000 large sheets) of hand-made paper worth NRs.1,680,000 (\$21,538), and annual sales are able to provide direct employment to 15 individuals. The raw material lokta, (*Daphne bholua*) is sourced from 10 CFUGs, of which 8 are Forest Stewardship Council (FSC) certified. The joint ownership and clear roles, responsibilities and incentives that exist within the management structure of this enterprise have proved an attractive model to follow for a wide range of natural resource enterprises and forest-dependent people, ensuring benefits for the poor and sustainable management of forest.

- *Facilitate good leadership.* A facilitator should not dictate who runs an enterprise. However, the identification of good leadership is the basis for a sustainable organisation and the facilitator may be better able 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. Setting up the correct criteria through which a democratic process can choose appropriate leaders of the enterprise is an important step – and the facilitator can help refine these criteria. The facilitators can also encourage the community to select the enterprise leadership from among all segment of the community including the poor, woman and the other disadvantaged members. The following points are suggested for the selection of the leadership.
 - During the process of situation analysis and meetings, the facilitator can help to clarify what particular characteristics might be useful in what particular business roles (see Box xxx)
 - The facilitator can also identify natural candidates for those roles based on their capacity, interest and involvement. Such identification is for the facilitator's own purpose and should not be shared with community members - but s/he can facilitate a process that draws attention to them as potential candidates (especially if they are from marginalised sectors of the community);
 - The facilitator can then take the community through a process whereby they agree a firm set of criteria to select people for different roles and responsibilities – and agree a process (inclusive to all) for the selection of those roles;
 - The facilitator should try to 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 30. Criteria or desirable characteristics for different management roles as presented in a forest business training workshop in Goba, Ethiopia.

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 / respected / with rounded knowledge / and someone who can take decisions fast

Supply coordinator has to (i) negotiate deals with suppliers of raw material; (ii) make sure all necessary inputs (raw materials equipment, parts, transport etc) arrive on time, and (iii) check quantities and qualities of everything and so needs to be a: good negotiator / numerate / investigative

Production coordinator has to (i) get 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 / dedicated / willing to work long hours

Marketing coordinator has to (i) find out what customers want; (ii) ensure 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 need to be: lively and outgoing / full of ideas / enjoys the company of people

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 (iii) keep the members informed and so has to be: numerate / honest / well organised / disciplined / accurate)

- *Help to put in place good organisational governance and management systems* – Working with the enterprise management structure, the facilitator should develop an interventions strategy to strengthen the management system of the enterprise. Some ideas for what such an intervention strategy might involve are as follows:
 - *Develop a good enterprise constitution.* It is much easier to govern an enterprise if there is a clear agreed statement of the enterprise vision, constitution, operating systems and roles and responsibilities among its constituent member (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 a particular enterprise structure. Particular attention should be given 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 who consults all of the enterprise members and interest groups, ensure consent in finalising the draft from the various interest groups' meetings and general assembly.
 - *Develop an efficient operating policy.* An appropriate operating policy guides the day-to-day management of the enterprise and helps avoid any conflicts or contradictions in roles and responsibilities. The operating policy needs to be agreed by all the members of the organisation through the general assembly. The operating policy identifies those responsible persons within the enterprise whose role it is to procure raw materials, contract and train human resources, maintain equipment, and develop markets. The constitution drafting committee can take the responsibility to draft the operating policy or a new committee could be formed. The committee consults all its members and interest groups of the community. The draft of the operating policy is presented in the general assembly for approval.
 - *Create a positive working environment which 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 motivate all members to follow them. For example, salaries should be based so that they are 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 enterprise awareness program 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 xxx gives an example of a structure and good governance.

Box 31. Creating a positive business environment – the example of Dhadedungha sub group in Nepal

The Dhadedungha sub-group of the Community Forest User Group (CFUG) at Lakuridanda consists of 23 members managing around 100 ha 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.

Through the sale of their harvest, this sub-group distributes incomes fairly amongst themselves. In addition, they have also started a saving and credit scheme at the sub-group level to create a long-term source of financial support. To date NRs. 35,000 has been collected in the saving fund which is mobilized for different income generating activities with a focus on pro poor members of the CFUG. There exists a transparent accounting system of the sub group which encourages a stronger feeling of ownership and better motivation among the group members.

The sub-group undertakes community development activities and is planning to establish 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 landscape beauty and to poverty reduction through sustainable resource management.

- **Step 3. Capability building** - During the analysis process various capacity gaps will inevitably be identified. Those gaps can be addressed directly through training, hands on support, and through the simple practice of learning by doing. For each specific enterprise case, a capacity building program should be tailored to the existing capability and needs. The facilitator need not actually deliver all of the capacity building, but should endeavour to identify those who can. 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 necessary technical support) can help to smooth operation of enterprise, creating clear organization structures with clear understanding of roles and responsibilities. Such training should also cover regular processes of 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 designing and implement skill training for the particular areas in which an enterprise is working – so as to enhance work efficiency and the competitiveness of an enterprise.
 - *Communication.* An effective communication mechanism should be established between the enterprise members and other concerned stakeholder groups. The facilitators can assist enterprises to maintain updated information related to their enterprises environment, policies, markets etc. The facilitator can also give advice as to how to make such information more accessible to those concerned external groups.
 - *Record keeping.* A transparent record keeping system minimises conflict among enterprise members and stakeholders. All documents and records (e.g. of general assembly meetings and decision taken) should be well maintained so that any members from the enterprise or external concerned stakeholders can easily access them. Customized or hands-on- training is often needed to improve this aspect.
 - *Account keeping.* Transparent accounting is very important for an enterprises sustainable existence. Therefore, a knowledgeable person who can handle accounting system should be employed within the enterprise from amongst the local community. If unavailable, a person from nearby communities could be given preference – the priority being the keeping of accounts not the origin of the person! In many cases simple account keeping training is needed for such employees (see some of the guides referred to in Module 13¹³¹).

¹³¹ Bonitatibus and Cook, 1995

- *Practical experience sharing.* A facilitator can organise cross visits/study tours for the members of one 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 program of monitoring and evaluation will help enterprise members to become familiar with the different functions of their existing organisation, how effective these bits are and what needs to be prioritised to improve future business prospects.
- **Step 4. Explore collective action** - 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 enterprises¹³². Clustering enterprises into say 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. Depending on the country, clustering can be done through forms such as associations or cooperatives or simply by informal networks. Clustering can help to attract the interest of other business support programmes at local and regional level such as government training programs and seed money support from government or development agencies and loan provisions from development banks. The facilitator can help to make links with these other support programmes, visiting and briefing them about the enterprises, providing a regular communication channel and inviting them in special events. Regular interactions and sharing on enterprise approaches and on-going activities minimise the communication gap between the enterprises and concerned stakeholders who might wish to help them. As a facilitator there are a number of important pointers that should be born in mind when facilitating greater collective action:
 - Associations work best when they have already started without external control – so 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 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 in its sphere of activity (e.g. module 11).
- **Step 5. Provide a one-stop-shop for information on financial and business development services** – Information is perhaps the best way to strengthen the governance capacity and structures of SMFEs. Until SMFEs are capable of running smoothly and independently there may be a degree of hand holding that is inevitable. As noted above, financial and business development services such as business planning, auditing, skill development, account keeping training, marketing are crucial for the sustainable operation of an enterprise. The facilitator 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. Exactly how this one-stop-shop is organised is covered in more detail in Module 9. Once any enterprise has started their business, their activities would be closely monitored. If any gaps are found, immediate hands-on support can be given or the enterprise can be pointed in the direction of a suitable service provider. Observing the regular meetings of an enterprise, attending assemblies, and reviewing records can help to pinpoint such needs. This hands-on involvement can help to develop a good working relationship with the enterprises and also enable a facilitator to judge when is an appropriate time to exit.
- **Step 6. Catalyse a marketing information systems (MIS).** Market is the fundamental requirement for a business. An enterprise should have a clear understanding on the current buyers, price offered for the products, quantity and quality requirements. Facilitator should assist enterprises in developing a mechanism to access the marketing information. The MIS centre established at local

¹³² Macqueen et al. 2006

level in Nepal with the support of ANSAB has good impact. This can be replicated in other areas too. Mechanism has to be developed so that the MIS centre and district level networks work together. POs' networks can be used in channelling information from the national level. The national level network could develop a mechanism to collect marketing information regularly.

Box 32. Rainforest Alliance experiences of strengthening producer organizations 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 Milpillas Chico, in Southern Durango, has 159,925 hectares, 77% of which is productive pine forest under sustainable management certified to FSC standards. Milpillas 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: directional felling; bucking; extraction; cutting to length;
 - Sawmilling practices;
 - Classification of sawn wood into quality grades;
 - Production: daily production control; inventory management; tracking production costs;
 - Administration and finance systems.
- Accompaniment / Facilitation
 - Identifying and capturing government resources for community forestry enterprises;
 - Restructuring community enterprise management – recommending smaller decision making groups, more frequent meeting schedules, and installing professional forest manager;
 - Integrating electronic administrative control systems;
 - Identifying market opportunities and new products

The community forest enterprise is now processing 100% 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 to 2008 show a dramatic improvement from losses of US\$ 561,646 in 2005 to net gains of US\$ 1,785,025 by the close of 2008. This is due to the willingness of the community to invest \$US 1.1 million of their own fund during the three year period (2006-2008) and the willingness to change production and management processes together with RA's technical assistance.

Despite a registered 9% reduction in volume (m³) of wood harvested between 2005 and 2008, there was a 16% increase in board foot (bf) production over the same time period due to greater efficiencies. Production costs reduced by an average of 43% through: (i) 60% Increase in production yield of bf/person/day (as above), 5% increase in production of wood grade 2 and higher (from 10% to 15%), 9% reduction of wood produced in grade 5 (from 41% to 32%) and 6% reduction in short pieces (from 11% to 5%). The average sales price increased by 19%, from \$USD 0.59/bf to \$USD 0.70/bf, through increasing production of grade 2 and higher and decreasing production of grade 5. Reduced sale of round wood by 10% and, as mentioned above, increasing total production by 16% and reducing costs by 43%.

14.3 Useful tips – practical advice based on experience

- Practical experience of Participatory Rural Appraisal (PRA) and community based enterprise development are important skills for a facilitator in using this tool. These interventions should not be rushed – 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 level. 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 – where to get further advice

A good introduction to transformation of local communities into functional enterprises is given in the following text¹³³:

A good basic guide to developing collective rural enterprises or producer organisations has been produced by Oxfam.¹³⁴: http://publications.oxfam.org.uk/oxfam/add_info_044.asp

Further examples and insights on strengthening producer organisations and value chains can be found in these reports¹³⁵: <http://www.capri.cgiar.org/pdf/capriwp60.pdf> and <http://www.wageningenacademic.com/pomc>

A number of practical examples of capacity building amongst producer organisations in Nepal are listed below¹³⁶: http://www.ansab.org/test/Image/natural_products_manual.pdf; http://www.ansab.org/research_reports/EOCF_paper_IDRC_ws_0402.pdf http://pdf.usaid.gov/pdf_docs/PNADK581.pdf

¹³³ ANSAB, 2008

¹³⁴ Penrose-Buckley, 2007

¹³⁵ Shiferaw et al., 2006; Bijman and Oorthuizen, 2008

¹³⁶ Subedi et al., 2000; Subedi et al., 2004; Subedi, 2006; Subedi et al., 2007.

Module 15. Building in ecological sustainability¹³⁷

15.1 Purpose – what the tools is for

This tool describes the various approaches that can be used 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 – the main steps you need to try it out

- **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 enterprise 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 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 SMFEs members** - In order 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 shares 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 of 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 social-economic goals (i.e. if group intends to function equal to a private company and maximize profit OR to maintain smaller scale, maximize 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' etc are important in communicating both with community members, and to potential customers in the market place.
 - Develop *an internal code of conduct for SMFE members* (including a suppliers code for SMFEs to apply when purchasing from external suppliers). Codes of conduct will include adoption of measures for sustainability – 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 well being – 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 diagnostic** - In order 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

¹³⁷ Developed by Daphne Hewitt

“checklist” to get a general understanding of current practices and identify areas for improvement in the form of an action plan. Later in the development process it may be appropriate to bring an outside expert in to conduct a third-party assessment or “gap analysis”. But as a starting point a 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: (i) does the SMFE know where their forest products are coming from and how the forest from which they originate are managed? As above, forest products should be sourced from areas under long-term sustainable management plans in order 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: (i) does the SMFE have hazardous material handling protocols, including safe disposal of waste?
 - Identify activities in common among groups of SMFEs which can be done together to cut costs and increase the economic sustainability of operations under a joint operating plan.
- **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. 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 code of conducts and ultimately help an SMFE gain recognition in the marketplace for achievements through certification. 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 (PEFC) are the best known and most widely recognized 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 which 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 specialized 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 selection of environmentally sound finishes and standards for safe handling and use of chemicals include 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)

- **Step 5. Help 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 Forest Stewardship Council (FSC) provides probably 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 etc) 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 facilitators 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 need to be incorporated in order to meet the standards. These could be minor changes which can be implemented relatively quickly, such as layout for a sawmill to physically separate non-certified material from certified input, or significant changes which 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 comprises 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 an initial analysis; agreeing 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 relationship as early as possible to gain information and ask questions.
- 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 who 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 market place but they can be valuable and well-known steps towards achieving sustainability. Pursuing them will strengthen the capacity 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 which identifies major strengths and weaknesses of the operation with regards to the certification standards. This analysis will enable service providers 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 in order to participate in a group, but organization 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
 - Rainforest Alliance FSC Group Certification Handbook (<http://www.rainforest-alliance.org/resources/documents/groupcertificationoptions-waltersmith.pdf>)

The FSC has developed a stream-lined assessment process for Small and Low-Intensity Managed Forests (SLIMFs) which is intended to help non-industrial forest owners, frequently privately owned or community managed lands, to reduce the costs associated with assessments:

- SLIMF Initiative <http://www.old.fsc.org/slimf/>

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:

- Assessing environmental risk in a forest management operation to determine level of detail required to meet FSC monitoring requirements
<http://www.oneworldstandards.com/ERA.html>

- **Step 6. Maximize market benefit 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.

- 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 which rely on purchasing input from outside sources – need to know the species available as certified, regularly available volumes and quality of raw material in order to assess 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 – 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 and 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 – for technical exchanges, lessons learnt and 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, minimizing 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. It seeks to verify a material's legal origin, replace toxic glues and finishes with non-toxic alternatives, and identify where there are inefficiencies and unnecessary waste. Key components in ecologically sustainable production include:

Box 33. Maximizing the market benefit of sustainability – the example of ICOFOSA, a communal forest plant for Oaxaca, Mexico

Growing out of collaboration between three indigenous communities in Oaxaca which started 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 have been created. Community capacity is around 77,000 cubic meters 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 organization is still determining optimal size and administrative structure for effective production while keeping the goal of improved social well being for the communities.

- Sustainability begins with the design of the product from the outset – determining the raw material to be used and source of material. Sustainability will be affected by the species chosen, availability and management of species – as discussed above when identifying options for certified forest product management and processing through implementing third-party certification systems;
 - Product design is also important to maximize the efficiency of material use and minimize waste – implement re-cycling of forest product waste from primary production system into alternative use such as composting when possible;
 - Selection of 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 etc, 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 maximize 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.
- **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 impact on SMFEs – financial and environmental losses, de-motivating influence on SMFE members, possible attraction for quick returns, undermining community efforts of sustainability;

- Lack of incentives for sustainability – no recognition by authorities or regulatory relief for sustainable practices versus “business as usual”, lack of consensus among SMFE members or SMFE group, no clear market benefits;
- Lack of capital – difficult access to traditional lending institutes for communities engaged in forest resource-based for activities, reduced financial support hinders implementation of sustainable management regimes such as engaging in FSC certification;
- Existing legislation and regulations – difficulty of SMFEs to meet requirements and advocate for their needs, often have no voice without effective facilitation by supporting groups.

Box 34. Preparing for adoption of sustainability standards and 3rd 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 ha of forestland benefiting over 35,000 community members.

8 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 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 – practical advice based on experience

- 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 national and international level when possible;
- Technical service providers provide essential support for developing management plans and achieving forest certification in most efficient timeframe;
- Partnerships and relationships with other groups who have tackled similar challenges provides valuable opportunities for technical exchange visits and 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 – where to get further advice and read examples

A good general overview to sustainable production and consumption has been produced by the OECD¹³⁸: 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 handbook¹³⁹: Available to buy from <http://www.earthscan.co.uk/?tabid=1060>

An independent assessment of forest certification schemes was carried out by FERN¹⁴⁰ (<http://www.fern.org/pubs/reports/behind/btlrep.pdf>) and an assessment of wood products legality verification

¹³⁸ OECD, 2008

¹³⁹ Higman et al., 2005

systems can be found on the Greenpeace website¹⁴¹:

<http://www.greenpeace.org/raw/content/international/press/reports/lvs-assessment.pdf>

There are a number of good examples of sustainable SMFE production using mainstream certification systems¹⁴² from:

Guatemala: http://cecoeco.catie.ac.cr/descargas/Carmelita_Case_Study_ITTO-FT.pdf or <http://www.grida.no/res/site/file/news/WRR%20Guide%20III.pdf>

Honduras: http://www.fsc.org/fileadmin/web-data/public/document_center/publications/case_studies/Honduras_Case_Study_high_res.pdf or http://www.rightsandresources.org/documents/files/doc_225.pdf

Indonesia: http://www.fsc.org/fileadmin/web-data/public/document_center/publications/case_studies/Indonesia_Case_Study_high_res.pdf or http://www.itpcl.org/docs/SENADA_Fact_Sheet_June_08.pdf

Mexico: http://www.rightsandresources.org/documents/files/doc_281.pdf or <http://www.oneworldstandards.com/documents%20for%20download/ERA-SelvaMaya-Engl-Final.pdf>

Nepal: http://www.fsc.org/fileadmin/web-data/public/document_center/publications/case_studies/Nepal_Case_Study_high_res.pdf

Portugal: http://www.fsc.org/fileadmin/web-data/public/document_center/publications/case_studies/Portugal_Case_Study_high_res.pdf

USA: http://www.fsc.org/fileadmin/web-data/public/document_center/publications/case_studies/US_Case_Study_high_res.pdf

A good overview of the status and potential of community forest enterprises for sustainability has been published by ITTO¹⁴³: http://www.rightsandresources.org/documents/files/doc_109.pdf with the details of case studies underlying the report available at: <http://www.rightsandresources.org/pages.php?id=149>

¹⁴⁰ FERN, 2001

¹⁴¹ Greenpeace, 2008

¹⁴² Del Gatto, 2007; Stoian et al., 2007; Wilhusen, 2007; USAID, 2005; 2008; 2009c USAID, 2008; WRI, 2008; Synott and Wenban-Smith, 2009 and FSC, 2009a, b, c, d

¹⁴³ ITTO, 2007

Module 16. Policy research for change¹⁴⁴

16.1 Purpose – what the tools is for

This tool describes how to analyse policy bottlenecks that affect small forest enterprises and facilitate a process of change in-country. It pays particular attention to useful strategies to engage policy makers from the outset in work to support small forest enterprises

16.2 Outline – the main steps you need to try it out

- **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 allies can be brought on board and plans made 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 getting change. A number of simple tactics can help to make this work:
 - Arranging 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.
 - The establishment of 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 (ii) the government key policy audience is included as part of the steering committee.
 - Clearance through the main government agency on the steering committee that the research is welcomed by those higher up in government.
 - 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 its influence.** At least five factors increase the degree to which decision-makers listen – research findings must be: credible; simply striking; with an emotive story; that offers a solution; 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 are finance dependent, so it is worth being realistic about what you hope to achieve with the money you have available:
 - *Make it credible.* The evidence behind the ideas - often comes down to the sampling size and analytical interpretation that follows. 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 decision 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 is the issue at hand, the more pressing the need

¹⁴⁴ Developed by Duncan Macqueen

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, a contrastive approach can be used to compare how different policy options stack up against the data you have collected. But just because you have credible figures in hand, does not make outcomes 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 xxx) collected a huge amount of data on the volumes of charcoal, from where, and by whom. But the final report made much simply of the fact that charcoal was the country's third largest industry after tobacco and tea (much more memorable than detailed figures of the tons of charcoal produced by x categories of enterprises). Similarly it made much of the failure to legalise this trade costing the Malawi government Kwacha 1 billion per year in VAT receipts alone (pushing this striking figure, in favour 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 mind. 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 (Box x) 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 lives 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. Much better is 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. But 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 with 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 – but with a strong social and environmental mandate. The new State Forest Enterprises' familiarity with eucalyptus timber plantation was not matched by their understanding of community based forest products trade (e.g. in fuelwood, medicinal plants, rainforest coffee, honey etc. 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.

- **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. But the composition and capability of the team are also critical. 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 it is 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 sex).
- **Step 5. Anchor write up to enlightened parts of the legislation.** Often desirable policy change is 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 interpretation 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.

Box 35. Credible research of charcoal production and use in Malawi (FGLG, 2009).

In order to build an indisputable picture of the charcoal trade, a multi-disciplinary team covered the whole charcoal trade, working back from end use (urban household energy survey) through the value chain (value chain analysis) to the primary producers (charcoal production survey).

Urban Household Energy Survey

Led by the statistician, research was conducted with the help of a team of 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 3,945 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	11	112	23
Unplanned area	402	28	526	38	244	41	127	26
Shanty area	244	17	253	18	122	20	81	17
Total no. of households	1,456	100%	1,401	100%	599	100%	489	100%

A detailed questionnaire was used to collect data from individual households. The data were analysed in various ways to enable comparisons to be made between sites and location types. Projected population figures were also used 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 this research was conducted with one selected research assistant per site. Information gathered in the urban energy survey was used to identify the main charcoal markets in the four urban centres. These markets were visited and charcoal traders there were interviewed to trace where the charcoal on sale was produced and how value was added along the entire chain. The research team visited retail and wholesale markets and production sites. They also looked at how charcoal is transported. At each place, questions focused on prices, value-adding activities at that level, and costs incurred. The data were then analyzed 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% of the charcoal estimated from the urban consumption survey. To determine the scale of charcoal production, the sizes of all observed active kilns were measured. Active kilns were those where wood was stacked ready to cover with earth, or where carbonization was in process. The numbers of old kiln sites were also recorded. The survey 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 of area was also recorded using GIS.

Publicity

With an 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 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.

- **Step 6. Make an informed choice along the spectrum from 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. But for many governments 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 antagonisms 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.

- **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. Breakfast, lunch or dinner invites to key decision-makers have proven very useful in articulating findings and helping decision-makers to 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 a media pressure 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 etc) 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 paper on environment / forest issues can also be effective - specifically 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 – practical advice based on experience

- Remember that the impact of research depends not on a written document, but on the degree to which key points are understood by key individuals. An investment in relationships to draw in decision-makers into the research process and so explain findings to them is important.
- 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 up these solutions 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 – leaving the nuance to be worked out once the key decisions have been changed.
- 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 – where to get further advice

IIED has produced material analysing the links between research and policy change – both more generally¹⁴⁵ and for the forest sector in particular.¹⁴⁶ <http://www.iied.org/pubs/pdfs/9276IIED.pdf>

¹⁴⁵ Mayers and Bass, 1998

¹⁴⁶ Mayers and Bass, 2004

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 change¹⁴⁷:
<http://www.gsdr.org/docs/open/AI5.pdf>

The Overseas Development Institute have managed a DFID programme of work linking research and policy – summarised in a useful synthesis of case studies¹⁴⁸: <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 have recently produced a 'Knowledge Translation' toolkit which covers similar ground¹⁴⁹: http://www.idrc.ca/research-matters/ev-128908-201-1-DO_TOPIC.html

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 use¹⁵⁰:
http://www.researchintouse.com/downloads/RIU_Component_Overview.pdf

¹⁴⁷ Eyben, 2004

¹⁴⁸ Court and Young, 2003; Young, 2008

¹⁴⁹ IDRC, 2009

¹⁵⁰ NRInternational, 2009

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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 – 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 in order to make sure that there will be enough cash to cover expenses when needed

Certification – a formal procedure by which an authorized agent assesses and verifies (and attests in writing by issuing a certificate) the quality or status of people, organizations, 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 etc).

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.

Financial Services - Facilities such as saving accounts, checking accounts, credit checks, leasing, and money transfer, provided generally by banks, credit unions, and other finance companies.

Hub institutions – any organisation at national level that is trying to be a 'one-stop-shop' for information and advice on small and medium forest enterprises.

Market opportunity groups - small groups (usually around 10) of small enterprises who are selected by the other enterprises in their communities to explore new or better market opportunities.

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 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. But 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 4P's: (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', is 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 competitions.

Upgrading – Making changes in order 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.