



**Local forest-based enterprises:
Supporting the livelihoods of the poor?**

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Unit to process residual timber from export into furniture and parquet flooring. Community forest of the Maya reserve, El Petén, Guatemala. Photo: Jürgen Blaser, 2006.

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New livelihood opportunities

The development of local forest-based enterprises represents an opportunity for strengthening the livelihoods of poor, forest-dependent people, at the same time providing an economic incentive to conserve forests through sustainable management. Is this potential being put into practice?

Poverty focus

When the governments of the world signed up to the eight Millennium Development Goals (MDGs), they pledged – as the first of these goals – to reduce poverty by half by the year 2015, and – as the seventh – to ensure environmental sustainability. How forests can contribute to achieving the MDGs has been widely debated, yet hard evidence is surprisingly difficult to find. Broadly, however, forest resources offer poor households two types of opportunities: livelihood maintenance (including their function as a “buffer” in times of scarcity), and livelihood improvement – through increased income, assets, rights, and greater general engagement in society (decision-making, etc).

The understanding of poverty used in this paper is a multi-dimensional one, encompassing aspects of social and political exclusion as well as economic deprivation. Poverty can also be dynamic. Whilst some people are born into poverty and live with it throughout their lives, others have neither been poor in the past, nor expect to be so in the future. A distinction can therefore be made between the “always, usually”, or “transient poor”. There are many reasons for poverty, and different groups of people may have different vulnerabilities and different livelihood strategies. Such matters need to be understood when devising “pro-poor” interventions – setting them in the context of the overall rural livelihood system, and existing power structures.

Sustainable forest management

Sustainable management of a forest can be taken to mean the maintenance of its area and its species composition over a long period of time. This, however, is too simplistic: the concept of sustainability encompasses a variety of aspects. Whilst the Forest Stewardship Council (FSC), for example, has tended to avoid use of the term altogether, its definition of good forest management is helpful in understanding sustainability.

Promoting sustainable forest management is often linked to greater local people’s involvement in decision-making. Worldwide, local control over forests (in terms of rights and responsibilities for their management, even if not outright ownership) is certainly increasing. Data from 24 of the top 30 forested countries worldwide shows that some 380 million hectares of forest in these countries are now either legally owned by, or reserved for communities, including indigenous people. International forestry thinking has also shifted over the past 30 years as the role of local people has been highlighted (and, in some cases, the resources themselves have improved, as a result of better management). Whilst in the 1980s, the focus was generally on reforestation and forest management for subsistence products and conservation, this shifted in the 1990s to considering of productive, sustainable forest management and community organisation. Current thinking has moved on to issues of social inclusion and to maximising

Definitions

The term *local forest-based enterprise (LFE)* is used to describe enterprises established close to the forest, often by or with – and employing – local people.

Forest dependence

According to the World Bank, 25% of the entire world’s population are dependent on forest resources for their livelihoods. In:

Sustaining Forests (p.15)

<http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTARD/EXTFORESTS/0,,contentMDK:20458321~pagePK:210058~piPK:210062~theSitePK:985785,00.html>

Nevertheless, others have noted that “forest dependence” is “an unhelpful term that obscures issues of power, access and control”. In:

Where in the world is there pro-poor forest policy and tenure reform? (p. 16)

www.rightsandresources.org/library/publications/global/Hobley%202007%20Where%20in%20the%20World.pdf

Forests, livelihoods and the MDGs in Tanzania and Lao PDR (p. 13)

www.etfrn.org/etfrn/newsletter/news4748/nl47_oip_03.htm

Further information on **poverty**, see:

www.chronicpoverty.org
www.poverty-wellbeing.net

Good forest management is environmentally appropriate, socially beneficial and economically viable, see:

www.fsc.org/en/about/about_fsc/mission

Who owns the world’s forests? (p. 16)

www.cbnrm.net/pdf/white_a_001_foresttenure.pdf

Documents mentioned in the margin are annotated in the list of references.



"Forest preservation of Acre can only happen when we act with the forest, developing products which have an appropriate price, create jobs and with added-value."

Jorge Vania, Governor of Acre, Rio Branco, Brazil.
In: *Use it or Lose it (2004)*. DVD
(source not referred in the list of references).

Products processed by LFEs: examples

Raw product	Processed good
Timber	Sawn lumber, plywood, chipboard, veneer, furniture, flooring, shingles, wood chips
Wood pieces, burls	Specialist veneers, chopsticks, carved items
Biomass for energy	Fuelwood, charcoal, briquettes
Leaves	Leaf plates, bidis (local Indian cigarettes), medicines, floral displays, palm hearts
Fruits, nuts, seeds	Foods, medicines, oils
Exudates	Latex, gums, resins (eg. turpentine)
Bark	Tannins, cork
Fibres	Paper, string, rope, garments other woven items
Bamboo, Rattan	Furniture, flooring, baskets, woven items
Mushrooms	Foods
Wildlife	Bushmeat, honey, oils

commercial opportunities. In a world in which there is an ever-increasing pressure on forest areas for a variety of potentially conflicting uses, it is important to find not only ecological and social, but also economic incentives for managing forests in a sustainable manner.

Economic opportunities

The sheer variety of products that can be harvested from forests and sold raw or processed is huge (see box). At the same time, markets are complex, and heavily dominated by particular interest groups. Local and national markets are generally easier to enter but less remunerative than international ones.

A good understanding of the relevant markets is crucial for the development of LFEs and their successful positioning in supply chains. A number of international market trends currently act in their favour. Small-scale operators can benefit from innovations in production technologies, as well as communication and information systems. There is a growing world demand for many naturally derived products. Scarcities in some of them (e.g. particular tropical hardwoods, various non timber forest products [NTFPs]) mean that prices are higher than in the past. A growing international awareness of issues of product origin is also increasing the market for goods produced through fair trade, with ecological and or/social certification – although it is often difficult for small producers to enter these particular markets.

While this paper focuses on opportunities to generate income from the sale of tangible forest products, an increasing number of options exist to generate income from marketing ecosystem services provided by forests. These include

- locally based eco-tourism or community-based tourism;
- carbon trading (related to climate change): sale of Certified Emission Reductions (CER) from afforestation and reforestation activities (carbon sequestration);
- other payments for environmental services such as water (where important watershed catchments are maintained under forest cover), biodiversity, etc.

In future these may become significant sources of revenue for local people who are legally recognised as having forest management responsibility. However, at present, implementation tends to be at a relatively small-scale or pilot level.

Operating in a complex world

What are the conditions under which LFEs function effectively, what are the constraints they face and the opportunities they offer for development? In this tour of important issues, three field examples are used to illustrate particular aspects. They are taken from the Nepal Swiss Community Forestry Project (NSCFP), the Dary Lesa (Forest Products) in Kirghizistan and the Maseyu Eco-Charcoal Project in Tanzania. These projects are selected to give insights into the practicalities of field experiences – including difficulties as well as successes.

Market awareness – “market literacy”

Whatever good produced by a LFE – be it herbal extracts for a small local clientele or high-quality wooden furniture for an international market – effective operations require an understanding of the market. Producers need to know what buyers want and what price they are prepared to pay, in order to tailor production accordingly. As the link from producers to consumers is rarely direct, but follows (often complicated) value chains, market awareness is key to enhancing such chains and thus benefiting all actors, including the poor.

A particular tool that can be used in a participatory manner to foster understanding of markets is the market map. This consists of three main elements or levels. The middle level shows the **value chain actors**, including all economic actors owning and transacting a particular product as it moves from primary producers to final consumers. Ideally, an analysis should include information about product volumes, values and numbers of enterprises or households supported at each point. The upper level of the map represents the **value chain environment**, comprising the critical factors and trends shaping operating conditions, such as collection, transport, electricity supply, etc. The lower level shows **business development services** (both existing and required) that support the actors and transactions in the value chain, including services embedded within other commercial transactions.

The use of a market map in the Nepali handmade paper value chain

*Everest Gateway, a small LFE in Jiri, Dolakha district in the middle hills of Nepal, produces hand made lokta paper sheets. Lokta paper is made from the bark of a bush (*Daphne papyracea*) that grows in high-altitude areas. Most is sourced from community forests. After processing the bark to paper, the sheets are sold to manufacturers in Kathmandu who transform it into products such as photo albums, diaries, greetings cards, etc. for export to overseas markets. Since its start in 2004, Everest Gateway has had some difficulty in finding a market for its paper despite an overall growth of the paper sector. At the same time, manufacturers find it hard to source good quality paper and establish long-term business relationships with processors.*

Acting in an advisory capacity, staff from the NSCFP introduced the concept of a market map. Using this as an analytical framework, the main actors in the value chain, their relationships and the bottlenecks in the chain could be identified. In a participatory process, these elements were mapped out and shared with different actors along the value chain (graphic on next page). The market map helped the actors and the project to understand the processes, competences and relationships between them and to identify leverage points

Raising the profile of small forest enterprises

“Small forestry enterprises in reality dominate the forest sector in many countries – typically comprising the majority of enterprises in developing countries and most of the jobs. But in policy they are treated like the lunatic fringe...

If we are looking for poverty reduction and sustainable livelihoods from forests we need to turn many ideas about sustainable forest management on their head and think again.”

James Mayers, Programme Director, Forestry and Head, Natural Resources Group, IIED, pers. comm.

Income for identified poor households

“The Everest Gateway has directly and indirectly provided employment to about 350 of the poorest households belonging to seven Community Forest User Groups (CFUG). Aside from these extremely poor households, there are others... Altogether the LFE provides employment to about 1,500 people in a season. The earning for the poorest households has been a big source of livelihood support.”

Nurpa Sherpa, Ex-President, Kaloveer CFUG, Jiri, Dolakha.

for intervention. For example, it was realised that small improvements in the manner of drying the raw sheets of paper pulp (protection to avoid wind-born grit and dust) could substantially improve quality – and hence market price. A major buyer, Tibetan Handicrafts, who once returned a substantial order on the grounds of poor quality, is now satisfied with the improved paper quality. Furthermore, Tibetan Handicrafts has planned with another stakeholder to organise a workshop on paper quality and other value chain issues that Everest Gateway will also attend. The participatory process has in fact opened up potential for a variety of embedded services and new business relationships between processors and manufacturers.

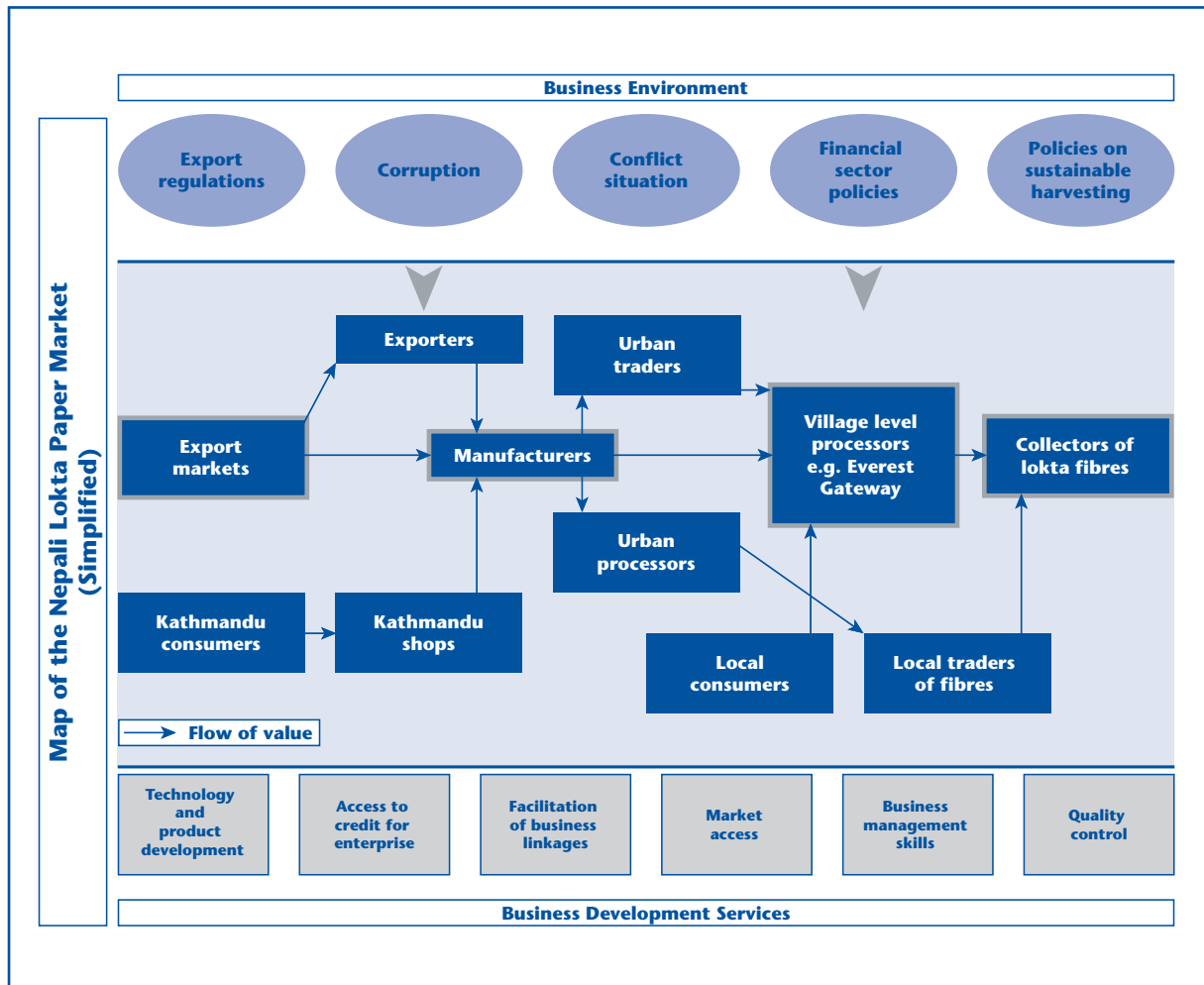
Aiming for a local or for an international market?

Broadly, international markets tend to

- offer higher market prices/premiums compared to national markets
- involve considerable entry costs, such as investments establishing links, contacting traders, fulfilling export/import regulations, etc.

As a general rule an enterprise should establish itself successfully at national level before international markets are envisaged, although there are exceptions. The facilitating role of “match-making” services provided by export/import promotion programmes (such as the Swiss Import Promotion Programme, SIPPO, www.sippo.ch) may be important.

A lack of quality **business development services (BDS)** is a common problem limiting the effective functioning of value chains, especially when enterprises are located in remote rural areas. Agencies facilitating LFE establishment may therefore play a valuable role in BDS market development, so that providers can offer quality services – facilitating access to markets and technical information. Building local capacities to provide BDS is obviously a more sustainable option than providing them directly through temporary projects. DARY LESA (see next page) provides an example of a local, financially independent service provider that has developed from project support. BDS tend to become increasingly important to producers with increasing remoteness of the final consumer. Where products are targeted at national



or international markets, binding (quality) standards and grades may be important for product acceptance on the market. In business terms, standards and grades are a type of information that minimises transaction costs and facilitates marketing. For the small producer, however, they may represent a major hurdle. Small enterprises may also face challenges in complying with quantity and time demands of markets (especially at the export level). For instance, there is a high demand from Kazakhstan for Kyrgyz walnut oil and other walnut products but local processors and exporters are generally unable to supply the required quantities.

A potentially attractive aspect of international exports is product positioning in niche markets, gained through certification. The standards of the FSC are among the most widely used for forest product certification, and include ecological, social and economic criteria (see first section). Labels such as FairWild or Max Havelaar may also be used, especially for some NTFPs. The experiences gained with FSC certification during the 1990s showed that certification is often too complex and costly for small-scale producers. FSC has thus recently started the Small and Low Intensity Managed Forests (SLIMF) initiative. This has provisions for group certification for small producers, for forests that are used only extensively, and for certification of natural forests managed exclusively for NTFPs; for these, certification bodies can apply streamlined certification.

Financial services

The absence of financial services can be a major hindrance to the successful establishment of LFEs. Where enterprises are at the micro or household scale, they tend to operate on extremely narrow margins, and thus usually require savings services as well as credits. Where credit is provided in support of LFE development, it is generally recommended that the amount is linked to the amount of household savings. Credit may also be given in kind (this is less frequent – but see the Kyrgyz example below). Assisting LFEs to elaborate sound business proposals is a common means for NGOs and donors to enhance LFE's ability to access credit. Another effective incentive for rural banks to lend to small enterprises is the provision of guarantee funds to these banks by facilitating agencies, thus reducing risk.

Occasionally, facilitating agencies may consider the provision of direct "seed money" as grants to small enterprises. However, this is not generally a desirable practice, as it risks fostering unfair competition and market distortion.

DARY LESA: Business services and financial support to LFEs in Kyrgyzstan

DARY LESA was established in 2001 to provide services in support of the processing and marketing of non-timber forest products from the walnut fruit forests of Southern Kyrgyzstan. During its first five years, it received funds from the Kyrgyz-Swiss Forestry Support Programme (KIRFOR), and provided training, marketing, advertising and mediator services to rural processors running small-scale units. It also conducted local and regional market assessments, and provided its affiliates with useful data. Gradually, it built up a reputation for high quality goods traded under the label of the same name; products include juices, jams and oils derived from walnuts, forest fruits and berries, medicinal herbs, and honey.

Now operating independently of KIRFOR, DARY LESA focuses on providing credit (in kind) to producers, and on marketing. As there are no financial services available to small-scale enterprises in remote rural areas, DARY LESA purchases

Challenges in aiming for the international market

"Exporting DARY LESA products to neighbouring Kazakhstan, we face a number of challenges.

Our local small-scale suppliers lack technical processing facilities, which limits the production capacity and it is difficult for us to make sure that we can provide on time the quantities that are required. As each producer is using his/her own production technology, guaranteeing provision of homogenous products for the buyer entails laborious testing and quality control. Export beyond the national border further requires legal documents that are cumbersome to obtain."

Gulmira Ismailova, Director DARY LESA, Jalalabad, Kyrgyzstan.

For details on SLIMF, see: www.fsc.org/slimf

A high risk?

"Providers of financial services have been reluctant to offer services because of the real (or perceived) high risks involved in Small and Medium Forest Enterprise (SMFE) development." In:

The business side of sustainable forest management (p. 13)

www.fao.org/forestry/webview/media?mediaId=12250&langId=1

A satisfied client

"I have been working with DARY LESA for more than two years and we are trading the majority of our products through them. At the beginning of each season, we sign an agreement with them specifying purchaser quantity and price, and they provide us with raw materials and wrapping (sugar, jars, lids and product labels). Our family specialises in the production of various fruit jams; currently we process hawthorn, rosehip and walnut. During the peak season from May to October, all members of the family are involved in the business. For the collection of the wild forest products, we further subcontract some local families."

Aisha Tolonova, Head of small-scale enterprise, Kara Alma village, Kyrgyzstan.

inputs in bulk and provides them to its affiliates. The cost of these inputs is deducted, with interest, from the proceeds after sale – which DARY LESA arranges through its market contacts and outlets. Currently, DARY LESA is working with 17 small-scale family-based processing enterprises.

Legal issues

Forest management laws have generally been designed for large-scale forest management and enterprises, and are not necessarily very conducive to small-scale, local operations. Laws designed with national conservation objectives in mind can force local people into acting illegally, and to establish LFEs that are both environmentally damaging and poorly remunerative. The huge charcoal industry in many parts of Africa is just one example in this regard.

Maseyu Eco-Charcoal, Tanzania

It is the rural poor who produce the charcoal on which Tanzania's urban population relies for cooking fuel. Its demand is unquenchable – estimated at almost 1.5 million tons per year (equivalent to clear-felling 175,000 ha of the indigenous Miombo woodland per year). Many villagers produce charcoal as a contingency to buffer against poor harvests or to meet sudden requirements for cash. Usually, this is done without the necessary permits. They go to the bush for two weeks, cut down the trees they need, and eventually come back with a few bags of charcoal. Charcoal fetches high prices in the towns that are far away – but the producers get only a tiny fraction.

Charcoal thus represents both a great threat to the forests of Tanzania and an enormous potential for the rural poor. The recently established Maseyu Eco-Charcoal project seeks to empower local charcoal producers to improve their livelihoods and manage the forests on a sustainable basis. Organised in groups, they receive training in forest management, and are assisted in tree-planting, the use of more efficient kilns, and – equally importantly – the marketing of their product. A key issue is land tenure: through the legal mechanism of Participative Forest Management (PFM), authority over the woodland is transferred from the district to the village. As a result, the village is freed from national taxes on forest products and is able to constitute and implement its own bylaws. Although PFM is reported to have mixed success in supporting the livelihoods of the poor in Tanzania, here it is seen positively as basis for the legal development of a remunerative LFE.

No longer illegal

"Making charcoal is hard work – but it brings cash when there is nothing else left."

"In groups the work is easier than alone, and we have control over the woodland now. If somebody grazes his cows or produces charcoal in our woodland we can take him to the village council and he has to pay a penalty to us."

"We don't have problems with police and other authorities now. The new system makes our charcoal legal."

Charcoal producers Mama Kaoshi and Bwana Kidamane, Maseyu village, Tanzania.

What contribution does participatory forest management (PFM) make to the achievement of the MDGs? (p. 15)

www.etfrn.org/etfrn/newsletter/news4748/nl47_oip_20.htm

As the Tanzania example illustrates, legal rights to the forest must be compatible with commercial harvesting by local people – whether or not they have full legal tenure of the forest. Often, harvesting and selling timber is reserved by the State. Harvesting may also only be permitted once professional foresters (who may have to be hired by the community for the purpose) have conducted a thorough inventory and drawn up a management plan (e.g. Bolivia, Honduras, Guatemala). Further restrictions may concern transport of forest products – particularly of timber: thus in some countries, even if a tree has been legally harvested and is being legally transported to a sawmill, an additional permit is required for it to make the journey (eg. India, Nepal, Pakistan). An other consideration is the charge of royalties, which may be levied by the State on high-value forest products such as hardwood species, medicinal plants, etc., regardless of their origin. Many legal issues pertain to forest enterprises themselves, designed both to prevent over-exploitation of the resource and to ensure worker and

environmental protection. Laws protecting workers in activities that are often dangerous (particularly sawmills) tend to be poorly conceived and/or enforced in many situations, leading to injuries or deaths among workers. Similarly, pollution controls may require more thought than prescribed by law. A further aspect to consider is laws concerning product quality, especially where this relates to foodstuffs. Legal issues linked to marketing of goods produced through LFEs include business registration procedures, business licences and taxes and (where applicable) export regulations. All in all, legislation surrounding LFEs can be highly complicated and is often subject to corruption, especially in countries where State officials are poorly paid, tempting them to supplement their income with informal payments. This can represent a serious obstacle to LFE establishment and growth.

Social organisation

LFEs can take many social forms, from single-family-based, to groups, to cooperatives. These may further organise themselves into associations or federations – but commonly they are rather diverse and scattered. Recent studies on forest-based enterprises indicate that there are many advantages in linking them together in associations, including a reduction in transaction costs, greater adaptability to new opportunities, and more influence on policy-makers.

Where LFEs have developed from community-based forest management, they are more likely to be organised as a form of collective action. Good social organisation can lead to the promotion of social responsibility. Important issues in this regard include employment conditions, labour insurances, fair salaries, fair prices, working time, restrictions on child labour, health and security provisions, etc. As already seen, these aspects can be important in gaining fair/sustainable trade certification.

Production from natural forest resources

Following the logic of linking forest management to enterprise promotion, this section focuses on some of the particular aspects to be considered when harvesting natural forests. LFEs can of course be based on production from plantations (a good example is the out-growers' scheme in South Africa), in which case product supply is generally less complex. A general feature in the production of many (though not all) forest resources is the long production periods involved.

Type of product – timber vs non-timber: Commercial timber exploitation and processing by local communities, especially when organised into cooperatives, has been successfully demonstrated in a variety of countries, particularly Latin America (eg. Mexico, Bolivia). However, in many countries, forests containing valuable timber reserves are neither handed over to communities to manage, nor are rights of commercial exploitation granted to “small players”. Governments prefer to keep control of such resources and do business with large (often foreign) companies. It is thus frequently argued that NTFPs are more suited for exploitation through LFEs as a livelihood option for the poor. Often-cited reasons include that

- There are often fewer legal restrictions on NTFP harvesting than on timber harvesting;
- Many NTFPs may require less financial capital to start commercialisation than timber, which often requires major investments (machinery, transport, much capital bound in stocks of roundwood, etc);

The hurdles of taxes and permits

“The case of brooms is a good example of problems caused by bureaucratic procedures. A local farmer started a broom grass business in the project area. He collected all products locally, paid revenue at the District Forest Office and obtained a permit letter. He paid different taxes and revenues on the way to Kathmandu, by which time the total cost of one broom came up to NRs. 12. In Kathmandu, he was only able to sell the brooms at the rate of NRs. 7 – entailing a loss of NRs. 5 per broom.”

Hem Tembe, District Program Coordinator, Ramechhap NSCFP.

[US \$ 1 = approx. NRs 65]

Working together (p.16)

www.iied.org/pubs/pdf/full/1452IIED.pdf

Linking social and environmental sustainability

“There can be a tendency to treat social and environmental sustainability separately in the NTFP sector, when they are essentially the same issue. Social sustainability is concerned primarily with the livelihoods of those involved in the sector. The security, sustainability and standard of those livelihoods is to a large degree dependant upon the sustainable utilisation of plant resources ... SIPPO therefore developed a new standard FairWild in order to respond to the major social and ecological challenges due to the increasing demand for wild collected products.”

(see www.fairwild.org).

Franziska Staubli Asobayire, Project Manager, SIPPO, Switzerland, pers. comm.

“Timber for the rich, NTFPs for the poor”?

Mayers argues against this automatic assumption, and that “a major push to scale up pro-poor commercial forestry is feasible”. Apart from this, do high labour, low-investment options really favour the poor, or do they serve to reinforce poverty traps? Careful assessment in each situation is generally needed. See:

Poverty reduction through commercial forestry

(p. 15)

http://research.yale.edu/gist/tfd/poverty_pub.pdf

Techniques for sustainable NTFP harvesting In Nepal, detailed guidelines for sustainable harvesting of timber, bamboo and a variety of NTFPs have been devised for use by local people managing community forests. In:

Non-Timber Forest Products (p. 15)

*For further general information on sustainable NTFP harvesting, see: **Applied Ethnobotany** (p. 13)*

The communal forest enterprise of San Juan Nuevo Parangaricutiro, Mexico, began its activities in 1970 and now offers 900 direct jobs. See: www.fsc.org/en/about/case_studies/success_stories/6

- many NTFPs can be readily “cornered” by poorer households (difficulties of harvest due to physical characteristics or location, etc. mean that richer households are not interested);
- NTFPs often have a good potential for high value addition in rural areas without major investment in technology (e.g. drying herbs, extracting essential oils);

Characteristics of a natural resource: The challenges of harvesting a natural resource as opposed to a cultivated one are often underestimated. Issues for which LFEs need to make provision include:

- Major fluctuations in annual harvests, and/or a very short harvesting period;
- Quality variations, which may have a major influence on processing. For example, wild fruits (apples, plums, cherries etc.) have a far greater variation in size, shape and chemical content than cultivated varieties;
- Scattered resources. The spatial distribution of the resource and the time required to harvest on a commercial scale should be carefully assessed and considered. Wrong assumptions about the density of species that will be used can put the economic viability of their use into question;
- Natural forests offer a broad diversity of products of which usually only a fraction is marketable. Less-used timber species and not-yet marketed NTFPs have the potential to contribute to a higher diversification of products. However, the promotion of such species, especially on high-price foreign markets, usually involves considerable costs.

Sustainable harvesting: Much is known about the sustainable harvesting of timber – even if this knowledge is not always put into practice. The sustainable harvesting of NTFPs has received considerable scientific attention in recent years, although knowledge remains partial. Nevertheless, certain general rules have been developed – such as a vulnerability index, by which the likely sustainability of harvesting a plant can be estimated based on aspects such as form, life cycle and the part required. More detailed guides on sustainable harvesting practices have been developed for a variety of commercially important NTFPs. Local people may have considerable knowledge in this regard, although their knowledge alone may be insufficient when enterprises require far larger quantities than would be harvested otherwise. The dangers of over-exploitation are very real unless adequate attention is paid to determining, and adhering to, sustainable harvesting limits.

Processing: technological requirements

Access to processing capacities and technology is often a limiting factor in LFE development. The example of Mexico, where communities own 80 percent of forests, but less than five percent of processing capacities, illustrates this point. More subtly, LFEs often face a dilemma between available technology and product quality, the latter being limited by the former. Despite advances in many places in rural services (electrification, better roads) and technologies (portable sawmills, solar-powered drying units, etc.), rural areas tend to be at a disadvantage compared with urban areas. Major rural assets are proximity to the resource (thus low transport costs and potential speed in processing), and (potentially) plentiful supplies of fresh water, fuelwood and sunshine.

LFEs are generally advised to work with existing known technologies, perhaps with small improvements, rather than introducing new ones. This limits the need for specialist skills training. It is also wise to keep early investment in technology to a minimum.

How to maximise pro-poor opportunities

Many challenges lie in simply establishing LFEs successfully. How can this be done in a manner that is not only sensitive to livelihood issues in rural areas, but actively enhances opportunities for the poor?

Becoming market literate

Poor people are often poorly informed. Yet awareness of the market system and linkages among the actors is crucial for successful LFEs. Thus particular intervention is often required to facilitate market literacy amongst poor people. Another important aspect is identifying synergies and potential for embedded services among all the stakeholders in any given value chain – as this can also create benefits for the poorer entrepreneurs amongst them.

Enabling the environment

Legal issues are generally complex, and need to be thoroughly investigated. The poor are more likely to benefit where legal rights are clear and widely respected (no illegal activities, minimal bureaucracy and no rent-seeking), and business registration rules are simple. Ideally, legislation should be specifically pro-poor (though devising it to be so may require considerable skill). Governments have a crucial role to play in establishing such a policy and legislative environment.

Financial services, being often weak or absent in remote areas, may necessitate particular intervention – with particular attention to household-based enterprises established by the poor. Since the poor lack physical assets to use as collateral against loans, savings and credit cooperatives that accept social collateral (peer pressure) are likely to be the most “poor-friendly”. Through capacity building, facilitating agencies can help to strengthen financial institutions such as these cooperatives, as well as rural banks. They can also provide other forms of incentives (e.g. guarantees, favourable framework conditions) that increase interest amongst financial institutions in serving micro and small enterprises.

Social organisation needs to incorporate a concept of social responsibility, without putting this ahead of commercial interests. From an economic viewpoint, collective action can provide a critical mass with regard to finance, economies of scale and negotiation power. This may be most effective through the formation of associations. The organisational set-up of social businesses (cooperatives etc.) can be quite heavy, with an emphasis on participation resulting in slower reaction times to changes in the external environment (raw product availability, new investment opportunities, development of competing enterprises, etc.). Other challenges for social enterprises are the clear definition of roles and competences, and building the capacities of different actors. The adoption of specific pro-poor principles and mechanisms by enterprises can make a big difference to poor people; this may include child care for working mothers, preferential employment options for identified poor or even specific allocation of shares (something tried in Nepal through NSCFP, although it has not yet shown convincing results). The bottom line for business support should always be commercial viability – of enterprises that create pro-poor outcomes.

Gaining dignity

“The way people look at me has changed after I started working in Everest Gateway. I was trained in paper processing, and I now put my skills into practice and am comfortable [in this work]... On average I am earning NRs. 3,000 per month. This skill and employment has changed the way I am perceived. Now people have started to provide me loans if necessary, shop-keepers are ready to give products in credit, and people talk to me with respect. Remembering earlier times, I am surprised to see things can change so much in two years. Now I can educate my children and pay for household expenses.”

Mintu Jirel, woman paper producer, Jiri, Nepal
(in discussions with Anju Upadhaya, Forest Development Officer, NSCFP).

For information on involving the poor in value chains in Bangladesh, see:

Marketing Extension: A powerful process in 6 steps
www.intercooperation-bd.org/PDF/cap%20doc%20-%20marketing%20extension%20-%202006.pdf

For a recent comprehensive overview of pro-poor forest policy, see: **Where in the world is there pro-poor forest policy and tenure reform?** (p. 16)
www.rightsandresources.org/library/publications/global/Hobley%202007%20Where%20in%20the%20World.pdf

For a description of pro-poor forest enterprises in Nepal, see: **Reconstructing the Concept of Forest-Based Enterprise Development in Nepal** (p. 15)
https://www2.cla.umn.edu/faculty/download_attachment.php?binary_or_peg=binary&id=282559

From non-timber to timber harvesting?

There are cases of communities expanding their range of products processed from an initial focus on NTFPs to include timber – for example, in the Brazilian municipality of Xapuri, Acre. Further information, see:

www.fsc.org/en/about/case_studies/success_stories/2

Choice of enterprise

The best options for pro-poor LFEs depends greatly on the type of forest in question, and the context of market demand. Timber-based enterprises can be highly remunerative and generate many employment opportunities; their potential for being pro-poor should be fully explored. Nevertheless, in a good number of situations, NTFP-based enterprises may provide greater opportunities for the poor.

Processing: Keeping it simple

Whilst it is difficult to generalise, at least in the early development of LFEs, keeping processing technology simple and labour intensive is likely to be the most pro-poor option – limiting risk and any need for high capital investment, and generating employment. The more locally familiar a technology, the easier its maintenance is likely to be (access to spare parts, knowledge of functioning, etc.). In areas where out-migration is common, processing techniques that require a labour input throughout the year are likely to be poor-friendly in terms of providing an alternative to migration. A range of LFEs offering employment at different times of the year might also be considered, but may be complicated in practice (especially in temperate forests, where productivity in winter months is limited).

Conclusion

Establishing or supporting LFEs requires an understanding of many different aspects, from sustainable harvesting techniques to an awareness of legal regulations to skills in business and market analysis. It is undoubtedly easiest for those who have substantial financial and social assets to set up LFEs. Opportunities for the poor are often assumed to lie more at the level of manual labour than participation in enterprise management. This, however, belies the reality of a variety of LFEs and associations of LFEs that are today run by poor people – or rather people who were originally poor, but who have improved their livelihoods through the LFEs. Among the poor, opportunities are still likely to be greatest for those who are fit and able-bodied – those who may be categorised as “transient”, or “usually poor”. For those who fall into the category of always poor, options are generally more limited, but may exist where specific social provision is made through schemes based on social responsibility. Whilst it is clear that LFEs do not provide “the” answer to eradicating poverty in forested areas, they can make a difference to the lives of many. There remains further potential for their development in a manner that provides poor people with an opportunity to gain a local livelihood with dignity – at the same time as providing an incentive for good forest management.

Recommended reading

The following list features a documented and targeted selection of print documents and internet sites of relevance to "Local forest-based enterprises: Supporting the livelihoods of the poor?". For easier reading they have been allocated to four rubrics: **Overview, Policy, Instruments, Case studies.**

The documents are listed by title in alphabetic order. Most of them are available online (accessed on 10th July 2007).

Instruments

Case studies

Cunningham, Anthony B. 2001.

Applied Ethnobotany: People, Wild Plant Use & Conservation

London: Earthscan. 300 p.

The primary aim of the People and Plants (P&P) programme is to enhance the capacity of scientists, managers and local people to sustainably utilise plants in wild habitats under their control. In Applied Ethnobotany, Cunningham gives a broad overview of techniques and approaches for understanding and managing plant extraction from the wild.

Overview

Case studies

Food and Agriculture Organization of the United Nations (FAO). 2006.

Better forestry, less poverty: A practitioner's guide

www.fao.org/docrep/009/a0645e/a0645e00.htm

This document highlights the importance of tailoring activities to local circumstances and using participatory approaches to design and implement interventions. For example, foresters and other professionals working with communities can assist poor people in increasing their benefits from forest resources by helping them to access markets, acquire processing skills, obtain improved varieties of trees, combine trees and crops on their land, and form associations to jointly manage resources, strengthen negotiation power and market products more effectively.

Overview

Policy

Donovan, Jason; Stoian, Dietmar; Macqueen, Duncan; Grouwels, Sophie. 2006.

The business side of sustainable forest management:

Small and medium forest enterprise development for poverty reduction

www.fao.org/forestry/webview/media?mediaId=12250&langId=1

Indigenous peoples and peasant communities have only recently started to form small and medium forest enterprises (SMFEs) to add value to their timber and non-timber forest products. This paper argues that there are still significant challenges to the development of viable SMFEs and that government and non-governmental agencies, as well as the SMFEs themselves and their business partners, have important roles to play in the process.

Case studies

Barrow, Edmund; Fisher, R. J.; Emerton, Lucy; Ingles, Andrew. 2007.

Forests, livelihoods and the MDGs in Tanzania and Lao PDR.

ETFRN News No. 47-48: 17-20.

www.etfrn.org/etfrn/newsletter/news4748/nl47_oip_03.htm

In Shinyanga, Tanzania, and in the Nam Et-Phou Loei Protected Area, Lao PDR, forests have made a significant contribution to the MDG indicators. Restored woodland provides resources that can sustain livelihoods, adds variety to otherwise bland diets, and serves as a basis for risk mitigation and provision of contingent needs. Forest assets represent important livelihood opportunities for many rural people, providing cash income, fuel and timber for building, valuable medicines, and an improved ground water supply.

Instruments

Policy

Albu, Mike and Griffith, Alison. 2005.

Mapping the market: A framework for rural enterprise development policy and practice

practicalactionconsulting.org/docs/ia2/mapping_the_market.pdf

Market literacy can be defined as the awareness, understanding and capacity to build the processes, institutions, competencies and relationships that enable markets to work for poor producers. The market map presented in this article serves two purposes: for the policy maker and rural development planner, it is a conceptual framework for thinking about the commercial and institutional environment in which small-scale producers operate. For the practitioner, it is a practical and potentially participatory tool to facilitate pro-poor growth in rural areas by directly improving linkages and relationships between market-chain actors, and preparing the ground for generating innovation in products, processes and market access.

Instruments

Case studies

Food and Agriculture Organization of the United Nations (FAO). 2005.

Microfinance and forest-based small-scale enterprises

www.fao.org/docrep/008/a0226e/a0226e00.htm

Small-scale enterprises plant, purchase and process inputs, innovate, improve their productivity and modernize constantly. Their financial needs involve various microfinance services: short-term loans to finance inputs such as fertilizers, storage and processing of products; medium and long-term loans, leasing for equipment and seedlings; savings to smoothen uneven cash flows; insurance to protect their crops. Government interventions can help microfinance services reach small-scale enterprises. These include establishing a policy framework and financial infrastructure conducive to microfinance, providing business development and market infrastructure in support production, strengthening the economic potential of small enterprises and enhancing the capacity of microfinance institutions to serve them.

Policy

Scherr, Sara J.; White, Andy; Kaimowitz, David. 2004.

A new agenda for forest conservation and poverty reduction: Making markets work for low-income producers

www.cifor.cgiar.org/publications/pdf_files/Books/A%20New%20Agenda.pdf

The authors fully recognise the critical importance of the "safety net" functions that forests have for the poor. However, they also point out specific market niches where large numbers of low-income producers have developed, or could develop, a competitive market advantage. They identify important commercial opportunities for the private forest industry, forest enterprises and business services providers to partner with low-income forest producers, and explore alternative strategies to recognise, encourage and reward forest conservation by local forest owners and users.

Instruments

Paudel, Dinesh; Aus der Beek, Robin; Bhujel, Jaya Bahadur. 2002.

Non-Timber Forest Products: Training Manual for Field Facilitators, vol. 1

This manual was prepared for foresters working in the middle hills of Nepal who are seeking to provide training to Community Forest User Groups about NTFP management and commercialisation. The manual concentrates on the description of inventory methodologies and management prescriptions for four major products: Chirato (*Swertia chirayita*), Argeli (*Edgeworthia gardneri*), Lokta (*Daphne* spp.) and Macchino (*Gaultheria fragrantissima*). Although written specifically for Nepal, the manual can provide ideas for preparing similar documents elsewhere.

Policy

Overview

Mayers, James. 2006.

Poverty reduction through commercial forestry: What evidence? What prospects?

http://research.yale.edu/gisf/tfd/poverty_pub.pdf

Born from a dialogue among experts, this paper identifies key areas for potential collaboration among stakeholders to catalyse progress towards improving the contribution of commercial forestry to poverty reduction and towards truly sustainable pro-poor initiatives. The dialogue brought together representatives from international forestry and development agencies, corporations, NGOs, labour organisations and community groups, all interested in working towards this common purpose.

Overview

Vandenberg, Paul. 2006.

Poverty reduction through small enterprises: Emerging consensus, unresolved issues and ILO activities

www.ilo.org/dyn/empent/docs/F1339520187/WP75-2006.pdf

Small enterprise development contributes to poverty reduction when it creates employment either through the start up of new enterprises or the expansion of existing ones. This publication identifies key areas to be taken into account: The policy, regulatory and legal environment must be simple, fast, inexpensive and free from corruption; finance has to be accessible at low cost and without requiring the poor to provide physical collateral; access to affordable business development services is needed; workers have to be trained in appropriate skills; basic health and education are preconditions, as well as a culture of entrepreneurship, access to markets and a reliable infrastructure.

Case studies

Pokharel, Bharat; Paudel, Dinesh; Branney, Peter; Nurse, Mike. 2006.

Reconstructing the Concept of Forest-Based Enterprise Development in Nepal: Towards a Pro-Poor Approach

https://www2.cla.umn.edu/faculty/download_attachment.php?binary_or_jpeg=binary&id=282559

This paper highlights a practical experience of the pro-poor entrepreneurship approach, its process, steps and outcomes by examining a recently-developed enterprise in Jiri, Dolakha district of the middle hills region of Nepal. The paper concludes that five key aspects require particular attention in a successful pro-poor enterprise: the scale of the enterprise; pro-poor governance of community groups; necessary skills and capacity to empower poor producers, both socially and economically; partnership building among private people, community groups and poor households; as well as specialised services to tap competitive markets and a conducive policy environment.

Instruments

Kozak, Robert. 2007.

Small and Medium Forest Enterprises: Instruments of Change in the Developing World

www.rightsandresources.org/library/publications/global/Small%20and%20Medium%20Forest%20Enterprises%20-%20Instruments%20of%20Change%20in%20the%20Developing%20World%20-%20Robert%20Kozak.pdf

This report attempts to address the gap in information on small and medium forest enterprises (SMFEs) by synthesising much of the relevant literature on this topic. The report considers various interventionist strategies and policy reforms, and provides recommendations for research priorities aimed at generating a better understanding of SMFEs operating in developing countries.

Policy

The World Bank. 2004.

Sustaining Forests: A Development Strategy

<http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTARD/EXTFORESTS/0,,contentMDK:20458321~pagePK:210058~piPK:210062~theSitePK:985785,00.html>

Recognising the key role that forests play in the livelihoods of people living in extreme poverty, this strategy emphasises ownership of forest policies and interventions by governments and locals, as well as the development of appropriate institutions to ensure good governance and the mainstreaming of forests into national development planning.

Policy

Schreckenberg, Kathrin and Luttrell, Cecilia. 2007.

What contribution does participatory forest management (PFM) make to the achievement of the MDGs?

ETFRN News No. 47–48: 60–62.

www.etfrn.org/etfrn/newsletter/news4748/nl47_oip_20.htm

Newly established and more mature PFM programmes clearly differ in terms of the returns they provide to local people. In Nepal, community forests have become very valuable community-based enterprises. By contrast, communities in Kenya and Tanzania are expected to invest a great deal of unpaid labour in protection and in cutting paths – work they might previously have been paid for by forest departments. Income generating activities are available only for a few people in the community, with no preference for the poorest.

Policy

Hobley, Mary. 2007.

Where in the world is there pro-poor forest policy and tenure reform?

www.rightsandresources.org/library/publications/global/Hobley%202007%20Where%20in%20the%20World.pdf

Based on a reappraisal of what “pro-poor forest policy” means, the author first identifies the challenges faced at international, national and local levels. Using country studies, she then re-examines these challenges with a view to the future of the forest sector over the next ten years.

Policy

White, Andy and Martin, Alejandra. 2002.

Who owns the world's forests?

www.cbnrm.net/pdf/white_a_001_foresttenure.pdf

The growing global recognition of the importance of property rights is mirrored by longstanding preoccupation with rights issues at local levels. The questions of who owns the forests, who claims them, who has access to them, and who should own them, are hotly contested in many forest regions of the world. They are often the primary concerns of local people who directly depend on forest resources. While secure property rights cannot ensure sustained protection and investments in an asset, they are often a necessary precondition.

Overview

Macqueen, Duncan; Bose, Sharmistha; Bukula, Septi; Kazoora, Cornelius; Ousman, Sharon; Porro, Noemi and Weyerhaeuser, Horst. 2006.

Working together: Forest-linked Small and Medium Enterprise Associations and Collective Action

www.iied.org/pubs/pdf/full/14521IIED.pdf

This paper provides some lessons about forest-based associations – about how and why they work, and how they can work better. Like many other natural resources, forest products and services can offer development opportunities to the rural poor. Small and medium forest enterprises (SMFEs) make up a significant proportion of these opportunities. In their attempts to make a living from the forest, SMFEs face many obstacles, such as insecure natural resource ownership and access rights, weak social cohesion, and little access to capital.

InfoResources Focus provides a general overview of pertinent and topical subjects to guide one through the information jungle. Each issue focuses on a current theme relative to forests, agriculture, natural resources and the environment, in the context of international development cooperation. Each theme is viewed from several angles:

- *Policies and strategies*
- *Implementation and practical experiences*

*The first section of InfoResources Focus proposes a brief introduction to each subject, highlights specific problems, compares theoretical approaches and opinions, and reports past experiences. The second section presents a selective and commented choice of documents, books, CD-ROMs and Internet sites. The range of documents presented reaches from basic introductions, through instruments, methods and case studies, to conceptual texts. **Back issues of InfoResources Focus** can be ordered from the address given on page 2 or downloaded from www.inforesources.ch.*