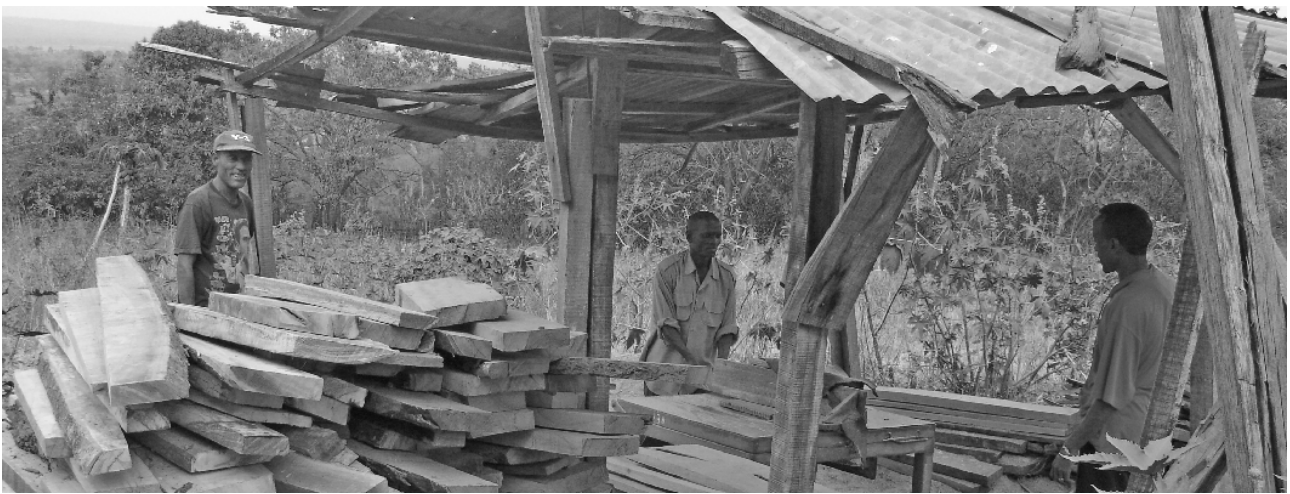


Making forest enterprise work for sustainable forest management and community development in Ethiopia



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Report of an advisory mission, 3-9 February 2008

to

The Oromia Regional State Forest Enterprises Supervising
Agency, Bale Forest Enterprise and the Bale Eco-Region
Sustainable Management Programme

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Executive summary

IIED was invited on an advisory mission to the Oromia Regional State Forest Enterprise Supervising Agency, Bale Forest Enterprise (BFE) and the Bale Eco-Region Sustainable Management Programme (BERSMP) from 3-9 February 2008. The aim was to review progress, share experiences and map possible development scenarios for the institutions involved.

IIED as a potential partner to Oromia's Forest Enterprises brings a number of strengths, not least its coordination of an international alliance on support to small and medium forest enterprises which goes under the name of Forest Connect. It was agreed that it would be useful for Ethiopia to become part of that international alliance.

Three days were spent in Addis Ababa and four days getting to and from and visiting the field operation of BFE in Goba and the surrounding region. A range of community and state forest enterprise activities were seen. Background presentations were given and received (including presentations on best practice for forest enterprise supervising agencies, how to identify useful products for further commercial development, and main lessons from IIED's experience of enterprise support internationally). A participatory value chain exercise was run to assess where BFE might best fit in different product value chains.

The new institutional structure that coaches Oromia state forestry in terms of Forest Enterprise is both an opportunity and a challenge. Commercial viability will depend ultimately on the degree to which social and ecological sustainability can be achieved. Community engagement will be key – not just in terms of the worthy social agenda of the Forest Enterprises, but more importantly the commercial viability of those Forest Enterprises and the community forest enterprises that they might ultimately add value to. It may be necessary to separate out the 'enterprise' functions from 'enforcement' functions within the current model to avoid possible conflicts of interest that undermine the potential of Forest Enterprises to achieve their goals.

The Oromia Regional State Forest Enterprise Supervising Agency could most usefully play a role of facilitation – identifying demand among Forest Enterprise staff for skills development in such areas as business planning, value chain analysis, accounting and cash flow analysis, marketing, market research etc and matching that demand with supply from existing business development services and financial service providers in country.

BFE faces significant challenges. It has a limited plantation timber resource base, and its natural forest activities will need some attention if they are to be sustainable in the long term. Yet it is with timber that BFE must most usefully start to develop its business activities. As these timber activities evolve, BFE will need to add credible business planning skills to the current short term financial projections to keep it afloat in the first year. It will also need sustainable forest management plans that add market value to its products and fully integrate the interests and roles of local communities in participatory forest management or joint forest management ventures.

In the longer term BFE will have to look beyond timber for additional revenue streams. It is recommended that BFE set up a product development position to accompany the ongoing work of BERMSP in developing markets for bamboo furniture, honey, forest coffee and natural pesticides. BFE needs to identify where in these new value chains it might be able to add value and then develop business plans to enter the market – giving due attention to existing competitors (many of who are the very communities that BFE is set up to help). In conventional value chains, value is often added higher up the chain (rather than at the production end), so it would make good sense for BFE to focus on aggregation activities such as assembly, processing, packaging, labeling and transport, leaving the production to the surrounding communities. This would be one way of developing useful business partnership that strengthen both BFE and the communities it is set up to help.

Ultimately it would be useful to orientate the Forest Enterprise development activities as a centre for enterprise advice and business skills training – rather than as a donor to development projects. Development works best when communities are given the capacity to solve their own development problems.

A series of follow up activities is proposed in the final section, some of which are already in hand, and some of which may require inputs from the Oromia Regional State Forest Enterprise Supervising Agency. The most important of these is probably a sustainable forest business planning workshop to turn the rather ad hoc harvesting and sales activities into a well planned and managed business.

Acknowledgements

I would like to thank all those who participated in this advisory visit. Special thanks go to Girma Amante (General Manager) of the Oromia Regional State Forest Enterprises Supervising Agency for introducing the history of the Oromia Forest Enterprises and discussing strategy and ways forward.

Thanks to Tsegaye Tadesse (Programme Manager) and Ben Irwin (Field Coordinator) of the Bale Eco-Region Sustainable Management Programme for sourcing background materials, participating in discussions, organising visits and providing accommodation. Thanks also to all the others in the Farm Africa office for sharing office space, useful discussion and good coffee!

Thanks to Husein Sndries (???) (Zonal Coordinator and Field Based Government Counterpart Manager) of the Bale Forest Enterprise for introducing Bale Forest Enterprise, helping with visits to Goba market and local forest enterprises and participating in discussion about where the Bale Forest Enterprise fits in different value chains.

Finally, thanks go to all the members of the Bale Eco-Region Sustainable Management Programme who participated either in the field visit to Dollo Mena / Harena Buluk or in the participatory discussion of value chain options for the Bale Forest Enterprise – Lulu Likassa (Programme Deputy Manager and Livelihood Specialist), Bereket Assefa, Seyoum Kidan and Sahlemariam Mepnur (???) (Participatory Natural Resource Management Advisors)

Acronyms

BERSMP	Bale Eco-Region Sustainable Management Programme
BFE	Bale Forest Enterprise
FAO	United Nations Food and Agriculture Organisation
IIED	International Institute for Environment and Development
JFM	Joint Forest Management
MA&D	Market analysis and development
NTFP	Non-Timber Forest Product
PES	Payments for Environmental Services
PFM	Participatory Forest Management
PROFOR	Programme on Forests (hosted by the World Bank).
SMFE	Small and medium forest enterprise
VCA	Value Chain Analysis

1. Introduction

The aim of this report is to provide a **practical framework and useful next steps** to build on the potential that exists through the farsighted initiative to shape Oromia forest activities around the model of Forest Enterprises. It does not attempt to provide an exhaustive blueprint for what activities to pursue and how. That level of detail must develop over time through a process of action learning (learning by doing) that builds on the steps identified here.

1.1 Institutional context

In September 2007, the Ethiopian Government issued a new “Proclamation to provide for the development, conservation and utilization of forests”. This broadly dividing forests into two main types – state forests and private forests. In both types of forest provisions were made for the participation of communities in management plans for the use of forest resources (e.g. through Participatory Forest Management - PFM).

Oromia Region has approximately 70% of the remaining 13 million hectares of natural forest area in Ethiopia and a plantation resource of approximately 100,000 hectares of Eucalypt and Pine plantation (from a total of just over 255,000 ha). The Federal Proclamation above is backed up by the “Forest Proclamation of Oromia” which includes specific provision for state and private forests, but separates out from the latter the specific category of community forests. This latter category would fall outside designated state forests and under the management of organized local community cooperatives – the legal business form under which community institutions can be registered.

In 2007, Oromia Region passed a new regulation for the establishment of the Oromia Regional State Forest Enterprises Supervising Agency. This new forestry institution has been set up to coordinate the establishment of 8 Forest Enterprises across the Oromia region. Alongside commercial viability, **community development is a key aim** of these forest enterprises.

Bale Forest Enterprise was established by Oromia regulation 88/2007. Like the other seven Forest Enterprises, it has been conceived through the desire to capture and merge the strengths of two parallel forests practices that have emerged and co-existed in Ethiopia over the last 10-15 year period. These two forestry practices are one, the existing state owned commercial forest activities, and two, the community participatory forest management (PFM) areas.

The new Forest Enterprises aim to exploit forest resources in order to realize natural resource values in areas of rural remoteness and high poverty. Forest resource revenues and profits are ear marked for reinvestment in local level development promotion. The Forest Enterprises aim to be both profit making (maximizing revenue through value added products) and to contribute to the improvement of local livelihoods. They will achieve the latter both by providing technical support to adjacent communities and farmers as they develop their private forests, and by creating the conditions for job creation and the rational use of Non-timber Forest Products (NTFPs).

For many of the Forest Enterprises existing (and in most cases neglected) plantation forests are going to be the main initial revenue stream - put under sustainable forest management plans and harvested to maximize profits. But in Bale Forest Enterprise there are only 3000 ha of Eucalypt plantation, so there may be greater reliance on Natural Forest Areas which are also being assessed for selective timber extraction, again under sustainable forest management principles. **For BFE, additional potential forest revenues are needed** and are also being assessed through the development of NTFPs, payments for ecosystem services such as carbon and eco-tourism.

In terms of institutional identity each Forest Enterprise is set up on the basis and principles of private sector business, but remains a government agency. This is a new institutional model for Ethiopia.

At this early stage of organizational development the Oromia Regional State Forest Enterprises Supervising Agency has approached key actors who support PFM in Ethiopia, FARM-Africa, SOS Sahel Ethiopia, GTZ and JICA. The Bale Forest Enterprise and the Bale Eco-Region Sustainable Management Programme (BERSMP) have been asked to work together as development partners due to the fact that BERSMP has been set up in 2006 through Farm Africa and SOS Sahel as a six year initiative that aims to promote the sustainable management of natural resources (forests / water / grasslands) across the Bale eco-region (a mountain massif c 20,000sq kms.) landscape.

It was within this context that IIED was invited in February 2008 to review progress, share experiences and map possible development scenarios for the institutions involved.

1.2 The capacity and role of IIED

IIED has 36 years of experience of managing global partnerships many of which have focused on improving the sustainability of natural resources businesses (in economic, social and environmental terms). IIED has coordinated a programme of research on small forest enterprises since 2002. This emerged as a priority from previous multi-country programmes of research on 'Policy the Works for Forests and People' and 'Instruments for Sustainable Private Sector Forestry' – including a global review of 'Company Community Forestry Partnerships'. Early work was complemented by specific work to improve the sustainability of forest enterprises linked to international markets (e.g. in Brazil).

Programmatic work on small forest enterprises was built from national diagnostics in Brazil, China, Guyana, India, South Africa, Uganda – plus value chain work in Vietnam from 2002-2004. These studies indicated demand for a greater understanding of the factors underpinning small forest enterprise association formation, survival, equity and contribution to poverty eradication. Collaborative research on forest associations was coordinated in the same six countries from 2004-2006. From these findings IIED has now turned its attention to address three major problems:

- governance biases against small scale (being addressed by the IIED-led *Forest Governance Learning Group* (FGLG) that involves teams in 7 African and 3 Asian countries);
- inadequate market mechanisms to support small forest producers (being addressed by IIED-led work on options to 'distinguish community forest products in the market' in Brazil, Guatemala, Mexico and Papua New Guinea) and;
- lack of institutional mechanisms **connecting small forest enterprises to markets, financial and business development service providers and policy processes** that shape the business environment (being addressed through the *Forest Connect* project that was launched in April 2007 and is jointly managed by IIED and FAO in 2 Latin American, 2 Asian and 4 African countries).

1.3 The opportunity to link to the international Forest Connect alliance

IIED agreed to fund this first advisory mission out of its Forest Connect budget – as there was felt to be a close fit between that project and the needs expressed by Ethiopian partners. Ethiopia is positioned high up on the ladder of innovation in changing the forest sector. Linking Ethiopian experiences and sharing the outcomes of these new institutional roles will be both beneficial to other Forest Connect partners and a good opportunity to expose Forest Enterprise staff to ideas from other countries.

Forest Connect is an **international alliance of small forest enterprise practitioners**, coordinated jointly by IIED and the United Nations Food and Agriculture Organisation (FAO) with partner organizations in China, Burkina Faso, Ghana, Guatemala, Guyana, Lao PDR, Mozambique and Nepal. Following talks with Girma Amante of the Oromia Regional State Forest Enterprises Supervising Agency and the team at BERSMP it was agreed that Ethiopia would benefit from international participation in this alliance.

The Forest Connect alliance starting premise is that small and medium forest enterprises (SMFEs) are critical to the poor. They generate local wealth, help to secure local resources and environmental accountability, promote local creativity and help to preserve indigenous cultures and market niches. But while the number of SMFEs starting up in least developed countries is high, keeping them going sustainably is a major challenge. They face problems such as too much bureaucracy, unstable policies and regulations, insecure land rights, lack of bargaining power, insufficient business knowledge and difficulties accessing credit, market information and technology. Many SMFEs work together in associations to reduce transaction costs, adapt to new market opportunities and shape the policy environment in their favour. But in least developed countries, support structures for such forest associations either do not exist or fail to reach those who need help most.

Bearing in mind these problems, the central aim of Forest Connect is to connect SMFEs to:

- national forest programmes (empowering SMFEs to be heard by policy makers)
- emerging markets (by supporting existing SMFE associations) and;
- service providers (strengthening their capacity to provide training and finance).

The main project outputs will include:

- Support for the development of functional and stable information services and support networks for SMFEs in at least six countries – testing and adapting models for connecting SMFEs to national forest programmes, markets and service providers.
- The development of a ‘toolkit’ based on practical experience that guides national forest programmes on how to set up an SMFE information service / support network to support the economic, social and environmental sustainability of SMFEs.
- Testing, applying and revising the toolkit in partner countries and national forest programme facility countries to maximise the worldwide potential of such information services and support networks for SMFEs.

With new funding confirmed from the Programme on Forests (PROFOR) at the World Bank, it will be possible to invite Forest Connect partners to international meetings over the next two years to share ideas and approaches to improving forest enterprises.

1.4 The aims and summary activities of this advisory visit

The aim of the first advisory mission was to introduce some ideas and methodologies that could be worked through in early 2008 such that the second advisory mission and field visit would be more useful. The main activities which were undertaken by IIED were as follows – based on the initial ToRs:

- Review past studies by BERSMP and any background documentation (Carried out both prior to the mission and from 3-5 February in the Farm Africa Offices - supplied by BERSMP).
- Interview key staff of the Forest Enterprises Supervising Agency, BERSMP and BFE to gain a better understanding of the vision, objectives and outcomes of the proposed enterprises (Carried out with the Forest Enterprises Supervising Agency on 5 February, BERSMP and BFE on 4 and 7 February)
- Lead a discussion / dialogue concerning the Oromia forest proclamation, Forest Enterprises Supervising Agency proclamation, and set up and its implications commercial success, sustainable and participatory forest management and social justice (Carried out with Forest Enterprises Supervising Agency on 5 February and with BERSMP / BFE on 7-8 February).
- Share IIED ideas and experience for overarching frameworks such as the Forest Enterprises Supervision Agency including best practice for business support in general; leading to the development of scenario maps for Forest Enterprises Supervising Agency organizational development and also FARM-Africa – SOS Sahel Ethiopia BERSMP organizational partnership development. (Carried out through a series of powerpoint presentations on 5 and 7 February)
- Introduce methods for identifying useful products / services with potential in the market – for example, introducing Market Analysis and Development tools and sub-sector value chain analysis to identify key opportunities and constraints for those products / services (Carried out through the introduction and distribution of tools to key staff in Addis Ababa and Goba)
- Discuss certification options and prospects and share ideas on types of business model which stand the best chance of delivery commercial success, environmental sustainability and social justice (Carried out with Ben Irwin of BERSMP but deemed secondary to more fundamental issues at this stage)
- Present some background on the prospects for Payments for Environmental Services (PES) and carbon in particular. (Carried out with Ben Irwin of BERSMP but deemed secondary to more fundamental issues at this stage – especially in the light of the recent consultancy on carbon payments)
- Discuss options for joining the Forest Connect alliance – what this is and what it could offer. (Carried out with Girma Amante of the Oromia Regional State Forest Enterprises Supervising Agency and Tsegaye Tadesse (Programme Manager) and Ben Irwin (Field Coordinator) of BERSMP and draft contract discussed for a possible IIED funded study).

From the various activities it was possible to identify a number of issues that need serious consideration both by the Oromia Regional State Forest Enterprises Supervising Agency and by the collaborative partnership of BFE/BERSMP. I have structured these points into the four sections that follow.

2. Institutional issues

2.1 The nature of the opportunity and challenge

The Oromia Regional State Forest Enterprises Supervising Agency and the 8 Forest Enterprises (BFE included) represent a substantial opportunity to improve both the sustainability of forest management in Oromia, and its livelihood benefits. The reason is simple - **a forest enterprise structure can only remain economically viable if it is ecologically and socially sustainable** – which will require it to build meaningful partnerships with the communities who ultimately determine whether the forest stays or goes.

Rates of deforestation and forest degradation in Ethiopia in general and Oromia in particular are high – with national figures of natural forest loss running at 62,000 ha per year. This **erosion of the forest resource base** is leading to subsidiary problems such as soil erosion and loss of fertility, threats to biodiversity and potential eco-tourism revenues and a negative contribution to climate change. Rainfall patterns in the Southern Bale Mountains are reported as showing greater variability and overall reduction and it is important that forest resource management adapts to this reality and contribute positively to the more precarious livelihoods that might result. Population growth currently stands at 2.49% (estimates suggest the population will rise to 102 million by 2020) and continuing widespread poverty (with an estimated change in GDP per capita of -2.6%) presents significant challenges. For example the wood energy gap between supply and demand is growing with an estimated deficit per year in 202 of 92.3 million m³. The gap is typically met by using dung and agricultural residues at the expense of soil fertility. It is within this context that the new Forest Enterprises must find sustainable long term solutions.

2.2 Clarifying enterprise partnership and enforcement roles



The transition from 'Regional forest authority' to 'Forest Enterprise' inevitably requires a **major institutional shift towards a business mindset** – rather than an outlook based on being the custodian of the forest resource. The new business mindset must be able to identify and take advantage of business opportunities as they present themselves. Some of these opportunities will require business partnerships with community producer groups (for example, buying in timber grown on farms) and these business partnerships will require trust. Yet, at the same time the Forest Enterprises are still expected to play the role of state enforcer of the forest laws. This is a poor foundation on which to build trust towards effective business partnerships.

Put simply, there is currently an **unnecessary tension because of confused roles** within the new Forest Enterprises. The roles of 'enterprise' and 'enforcement agency' have not been separated out. This might hamper the possibilities for business partnerships with communities or worse, lead to the Forest Enterprise using its enforcement capacity to close down commercial competitors amongst the communities.

In countries such as the UK, protracted conflicts of interests led in 2003 to a separation of the enforcement elements of the 'Forestry Commission' and the commercial activities, now separately managed by 'Forest Enterprise'. The new Forest Enterprise is still managed by the regional governments of England and Scotland and have to deliver both commercial, social and environmental activities as part of their remit. It is suggested that greater clarity is introduced into the new Ethiopian model.

2.2 Acknowledging the sea of forest enterprises to harness and legitimise it

Even a cursory advisory mission such as this is sufficient to identify how current (and historical) resource shortages have led to a lack of control of forest resource use. The prevailing situation is one of very limited management. There are clear signs of encroachment in almost all forest areas (including National Forest Priority Areas and National Parks) and a **widespread entrepreneurial forest activity** in wood fuel, timber, furniture and NTFPs – most of it informal and much of it originating from prime natural forest areas. In short, commercial activities or 'forest enterprises' are flourishing at a considerable scale. Further, it is would be a significant challenge for current forest staff to survey the extent of such activities, let alone control them. Acknowledging this reality is the first step in turning the situation around.



The new Forest Enterprises such as BFE need to manage profitable forest businesses – and yet the find themselves in a sea of forest businesses with functioning value chains to get products such as timber, fuelwood, honey, herbs etc from the forests to the market (albeit in rather informal and disorganised ways). This presents an opportunity. BFE must **identify how to add value** to what is already taking place while also helping producers to **shift to sustainability** in their forest practices. For example, BFE could help local carpenters to improve designs and negotiate national business deals, encourage them to source their timber from sustainably managed forests, and charge a certification fee that would raise revenue and simultaneously help those carpenters to market their products more effectively. Or BFE might act as a reliable broker/buyer, packaging specialist, transport agency and guarantor for the quality of NTFP products such as honey (in which Ethiopia is a global leader with a huge domestic market), oils, and medicines coming from well-managed PFM areas. Or BFE might issue fuel wood licences on the basis of monitored areas of trees planted on farm and thus offset forest degradation and ultimately

create a sustainable forest resource. Any of a number of possibilities might be possible. The key will be firstly, to identify which are likely to be profitable (requiring careful business planning discussed in section 3 below), and secondly, which can be used as a lever to move existing informal activities into more legitimate and sustainable paths.

In order to benefit from this sea of enterprise it will be necessary for the formal Forest Enterprises such as BFE to develop innovative business partnerships with communities. This will require skills in participatory forest work. It will also require efforts to help **organise existing entrepreneurship into workable groups** such as cooperatives with whom business dealings can be established.

There is a need to recognise that neither Forest Enterprise, nor community enterprises have a monopoly on business insight – both sides need to bring in and take advantage of new business training and skills development opportunities. There is no obvious reason why state institutions such as BFE should be any better at business than local community entrepreneurs. BFE could **take a lead in bringing in business trainers**, both with its own commercial needs in view, and with its strong focus on community development. Areas that spring out immediately include: basic business planning skills, value chain analysis, accounting and cash flow analysis and marketing.

2.3 Putting facilitation at the heart of the Forest Enterprises Supervising Agency

Existing within Ethiopia are a range of business development and financial service providers – some run by the Federal or Regional Governments and others within the private sector or donor projects. There is rarely a need to develop or offer such services directly – it is much simpler to link such services with those that need it (in this case the 8 Forest Enterprises). Facilitation requires gaining an understanding of the types of business or financial skill demands of those Forest Enterprises and then matching that demand with suitable local service providers. It might be useful to think of the regional Forest Enterprises as trainers of local community enterprise groups – so this exercise could constitute a training-the-trainers approach. A first step might once the recruitment for the different Forest Enterprises has taken place might be to introduce **a rolling schedule of business training events** that cover business planning, value chain analysis, accounting and cash flow analysis and marketing as indicated above.

3. Enterprise issues relating to Bale Forest Enterprise (BFE)

BFE has only been active since late 2007 and recruitment is still ongoing. It is therefore understandable that many of the components of an ideal business structure might not have evolved yet. The management team have been under pressure to deliver short term cash flow to keep the business afloat in this first year and have developed a simple set of financial projections to do that.

3.1 Converting initial projections into credible business plans

As the business evolves it will quickly become necessary to replace these initial rough projections with a **credible business plan** (to ensure economic viability). A business plan is not a forest management plan. A business plan would constitute a written statement of the BFE business; what it wants to achieve with it and



how it will do that. It should outline the structure of the business, the product(s) or service(s), the customers, the growth potential and the financial details including a thorough cash flow analysis. But as well as giving information about the business it should also inspire its members for the future. A credible business plan allows managers to work out how to make the business a success and can help you avoid failure by plotting the pitfalls (e.g. cash flow crises) along the way. It should outline a realistic target for how that can happen while remaining flexible enough to make changes along the way. By setting out a plan and some targets, BFE staff can also monitor their progress and get the business back on track fairly quickly if anything goes wrong. A

generic template for such a plan is included in Annex 1.

3.2 Anchoring commercial activities to a sustainable forest management plan

Linked to this business plan the BFE will also need a robust **sustainable forest management plan**. This second type of plan (to ensure ecological sustainability) will be absolutely essential if revenue streams are to remain stable over the long term. It will also be absolutely essential to capture additional revenue streams for avoided deforestation or carbon sequestration, conservation funding etc. Long term revenue potentials exist but only if short term financial needs are managed within a framework that makes that possible. A sustainable forest management plan would map out forest areas, management types, institutional rights and responsibilities for each type, product demand, sustainable product supply, development approach.

3.3 Building value adding partnerships with existing community forest enterprises

BFE has **solid but potentially unsustainable short term options** for making money, namely through harvesting of eucalyptus and natural forest timber. This is where BFE should focus its immediate attention and get these business options working well. Yet, current harvesting and timber processing was observed to be unsustainable, certainly in natural forests (and would be unsustainable in eucalypt forests if this was the major revenue earner). For example harvesting rates approached 80m³ per ha in the natural forests around Dollo Mena. Processing is also rather inefficient – using outdated technology and running the Federal sawmill well below full capacity. Furthermore these operations are potentially open to conflict (with reports of community complaints about the harvesting of trees without adequate prior consultation). If left untreated, these facts will lead to communities viewing the BFE in a negative light – with resources being overexploited and revenues not shared. Critically, this may impair an essential opportunity that BFE requires in order to become commercially viable – business partnerships with those same communities.

It is a position of strength to know BFEs capabilities and address its weaknesses. There is clearly a need to develop **new Forest Enterprise-community benefit sharing mechanisms** that will harness the potential of the many community forest enterprises in the area – but these benefit sharing mechanisms needs to be proposed, discussed and agreed. If BFE treats communities like business partners they will be a source of strength. If BFE dictates to them there is a real risk of conflict. A recent SOS-Sahel / University of Frankfurt / Farm Africa rapid rural appraisal showed that 74% of community members agreed that park and surrounding areas need improved management systems in place. Moreover, 86% felt that the way to do that was through high levels of community involvement and partnership.

New skills may be needed in order to do business planning, sustainable forest management planning and to develop new institutional arrangements with communities. Some of these skills (particularl participatory methods) are already available in BERSMP. Others **planning skills need to be brought in and fast**. The development of these skills by BFE will enable it to be a driver of entrepreneurship in the region.

The collaborative arrangement with BERSMP will prove critical in helping to identify where business partnerships with community forest enterprise might evolve. During the advisory mission a tool for screening best-bet options for new forest product development was introduced – Market Analysis and Development (MA&D). This could be used to confirm and refine the existing BERSMP screening process which has identified four product groups that can be further developed by community forest enterprises:

- Bamboo furniture (building market advantage by introducing a new programme of training)
- Honey (building a market advantage by using and branding products as Hypericum honey with medical benefits)

- Forest Coffee (building market advantage by drawing attention to the genetic origin of this wild coffee from Ethiopia)
- Walbergia natural pesticide (building market advantage by addressing environmental concerns over cut flower production)

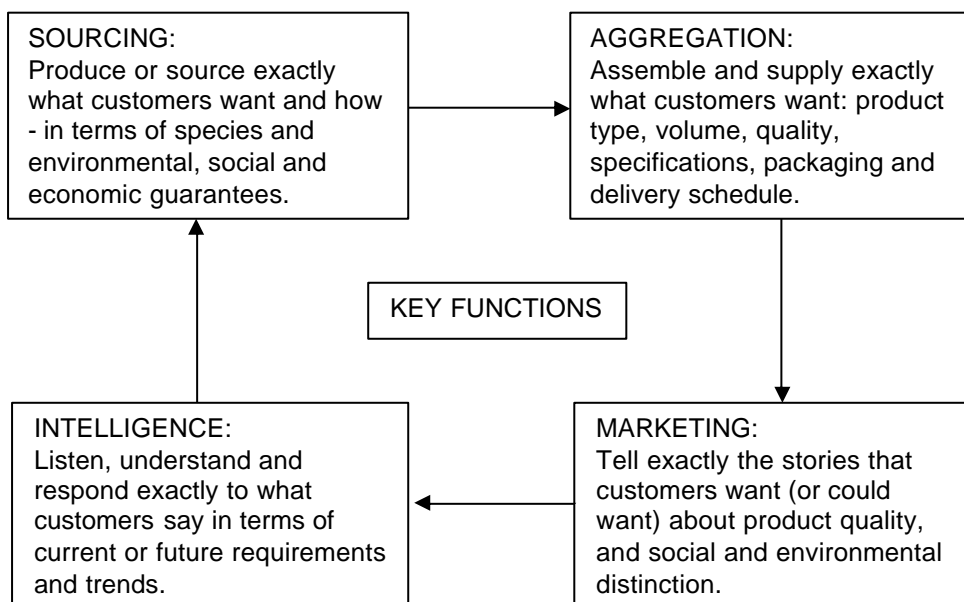


Value addition tends to occur higher up the value chain in any case – so there is every reason for Forest Enterprises such as BFE to try to engage with community forest enterprises and add value to their products. Not all of these products have value chains into which BFE would easily fit – so a starting point would be to map out the value chain functions – as BFE and BERSMP members started to do in Goba on 7 February. At this stage it is recommended that BFE treat these additional potential revenue streams as **product development**. It would be highly useful if BFE assigned at least one staff more or less permanently towards product development and ensured that they worked closely with BERSMP staff as these four products are taken forward.

3.4 Identifying which business functions BFE is best placed to perform at which place in the value chain

Any successful enterprise, including BFE, needs to pay attention to four main functions: production, aggregation, marketing, intelligence (plus gaining inputs from external Financial Service and Business Development Service providers) – see Figure 1. But it is not necessary for a single enterprise to manage all those functions – it is quite possible to enter into business partnerships in order to ensure that each function is achieved. Critical decisions need to be taken about where BFE can best add value within these four functions for different value chains.

Figure 1. Key functions of any successful forest product enterprise



A standard way to assess how to improve a business performance is to use value chain analysis (VCA). A range of VCA methodologies were brought and given to the Oromia Regional State Forest Enterprises Supervising Agency (and can be downloaded from the Forest Connect networking site: <http://forestconnect.ning.com>). Participatory sessions were run using a value chain methodology to explore where BFE fits in different value chains (see Figures 2-4) – but more information will be needed if BFE are to be able to enter the chain profitably and without negative impacts on existing value chain operators who the value chain is ostensibly set up to benefit.

Figure 2. Eucalyptus timber value chain

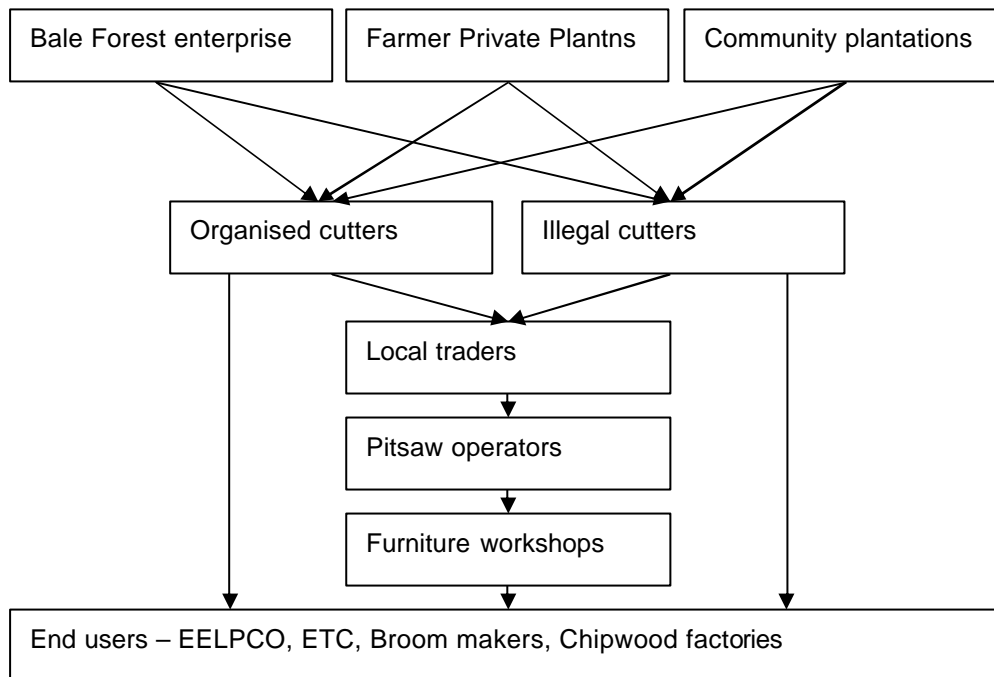
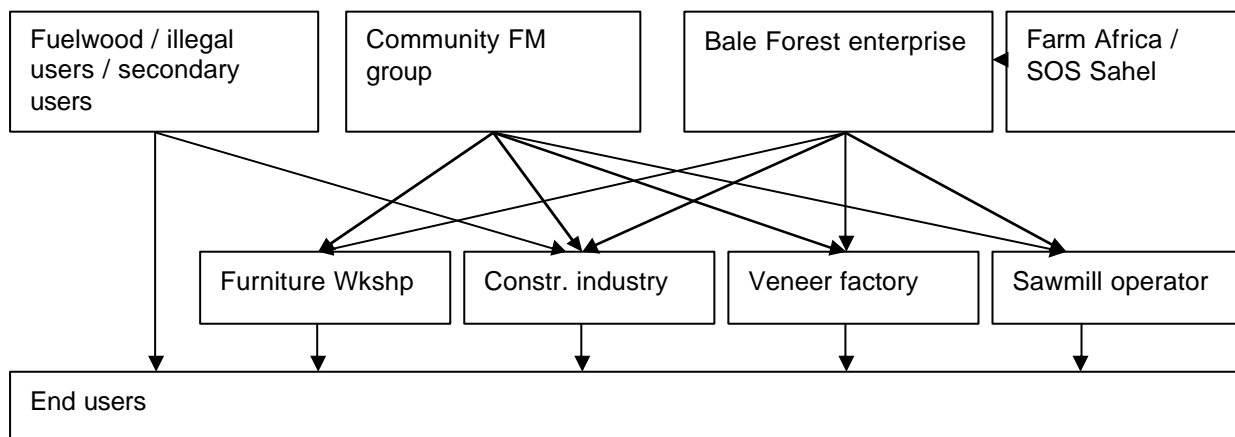


Figure 3 Natural forest timber value chain



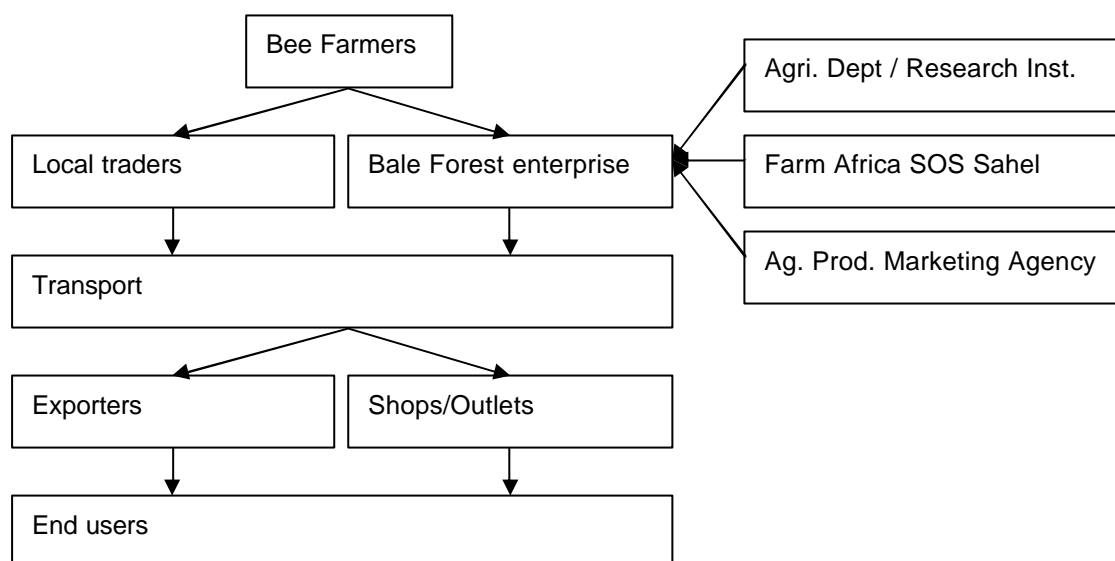
It is immediately apparent from these two preliminary value chain analyses that BFE has taken on the production function in the value chain. This production function is highly competitive with several other actors also involved and BFE therefore needs to give serious consideration as to how to gain competitive advantage (see below). BFE has only a limited aggregation function (compiling stock, grading, processing, packaging etc) – but this may improve once the Dollo Mena sawmill passes into preparing and spreading information about their products and improving the prospects for sales. It also does not have a market intelligence function where staff research and gather information on prospective buyers, what they want, design trends etc.

Operating in a competitive market which is easy-entry should lead BFE to address issues of competition. Competition theory suggests a number of practical ways forward:

- Better designed products (BFE might study how to improve the quality of its telegraph poles, treating them with chemicals, grading for uniformity etc, or it might improve the quality of its sawn timber, or it might bring in furniture designers to help improve any furniture prospects etc)
- Cheaper prices (BFE needs to look at each stage of its production from the forest to the buyer to see where costs can be cut and processes streamlined)
- More effective promotion (BFE needs urgently to develop a marketing plan with the necessary staff and promotion budget to make sure its products stand out from competitors).

- More receptive market places (BFE needs to research new potential outlets and customers where it might be able to place its products at better prices)

Figure 4. Honey value chain



BFE has not yet entered the honey value chain – but interviews suggest an interest in doing so. In this case BFE is adopting an aggregation function such as purchasing, purifying, packaging and branding (which has higher prospects for adding value). But once again, there is likely to be stiff competition from local traders. BFE therefore needs to identify how it can persuade bee farmers to sell to it rather than local traders. It could either arrange training linked to a sales contract or perhaps identify a high value market niche such that it could pay bee farmers higher prices for honey than local traders are willing to pay and so secure market access. Either way, BFE needs to assign someone under the rubric of product development, to answer the basic questions of how it is going to add value in a way that does not crush local competitors that it is ostensibly set up to benefit.

4. Community development issues

4.1 Best practice in community development

Community development is a key element in the regulations that establish both the Oromia Regional State Forest Enterprise Supervising Agency and the BFE. **Best practice in community development focuses on equipping people to make resilient commercial livelihoods** – not encouraging reliance on state authority hand outs. There is of course scope for some state infrastructure development e.g. roads, mobile telephones networks etc – the basic for business. But more important are the entrepreneurial skills that can be applied to a wide variety of different income-generating options. Supporting community forest enterprises – especially at the production end of the value chain is a good strategy. It will reduce the potential competition between community enterprises and the state Forest Enterprises.

One key problem faced by BFE in comparison with other Forest Enterprises is its shortage of plantation timber stocks. This means that BFE will need both to manage natural forest sustainably – which will involve working with communities through **PFM or joint forest management (JFM)** – and find a way to expand its plantation base – again potentially involving communities. In many countries (and especially South Africa) forest industries use **outgrower schemes** to increase their resource base. This involves agreeing a contract with local farmers that receive free seedlings, technical advice and perhaps a loan, in exchange for a guaranteed sale of the timber in x years to the Forest Enterprise at an agreed price. The trick is to get the deal right. Too generous and the landscape will be filled with Eucalyptus which BFE has to buy at a price that earns too little profit to be viable. Too miserly and nobody will plant the resource that BFE needs. Someone needs to assess within BFE whether such outgrower schemes might work and what the terms of a reasonable deal might be.

4.2 Becoming a enterprise support unit in support of community forest enterprises

As noted above, BFE will almost certainly need to develop a wider portfolio of products and services if it is to become economically viable in the long term. As noted above BERSMP is looking at various product development options for community forest enterprises. In time BFE might be able to add value to these in different ways. Getting necessary understanding of these product options and the necessary business skills needed to develop value adding options will require new skills and will take time given staff background. But this re-skilling is an excellent future investment if BFE is serious about community development. Rather than focusing purely on the redistribution of profits to worthy development projects, BFE could be much more useful as a centre for enterprise advice and business skills training – helping communities to develop their own development solutions. Conflict and competition (not to mention economic failure) are real risks if the entry into the value chains and associated community development activities are not well thought out.

Additional development options such as ecotourism also exist for BFE but will require careful negotiation with players such as National Parks Authority, tour providers, hoteliers and not to forget communities. Once again, initial training in pro-poor tourism would be a major advantage, both to BFE itself and for its role in community development. Several training institutions could give such training (not least IIED).

5. Follow-up activities

Following discussion with the Oromia Regional State Forest Enterprise Supervising Agency, BFE and BERSMP a number of follow up activities seem worthwhile:

- IIED has agreed to finance a market analysis consultancy under Forest Connect that would seek to highlight the scale and prospects of the multiple different existing small and medium forest enterprises in Ethiopia – including timber and bamboo and NTFPs such as honey, oils and resins, medicinal extracts etc. This will arm Forest Enterprises with up-to-date information and a checklist of the potential areas in which Forest Enterprises could seek to add value.
- A sustainable forest business planning workshop would be a useful early input that looked at some of the basic steps to turn rather ad hoc harvesting and sales activities into a well planned and managed business.
- A process of participatory community engagement in key forest areas could be undertaken with BFE staff to negotiate more clearly the types of business partnerships and benefit sharing arrangements that might work profitable for both sides (initially in the supply of timber from farm and natural forests where BFE have initial competitive advantages).
- Market research and marketing training is urgently needed within BFE to make sure that staff begin to think strategically about how to respond to consumer demand – rather than limiting sales to what can easily be produced right now.
- Membership of the Forest Connect alliance could help to expose key Ethiopian staff to wider discussions on how best to support small and medium forest enterprises in different contexts.

It was agreed prior to this advisory mission that (pending a successful outcome) IIED would be invited back in April to take this process of collaboration and partnership further in one or more of the areas identified above. It would be useful to have a formal decision on this possibility relatively early to ensure adequate time for planning and preparation.

Annex 1 – Generic template for a business plan

Source: Inovateur website

1. Executive Summary

The executive summary is the most important part of the business plan. Many people will only read this. The summary in itself will not secure an investor, however, it can lose them.

Quality - the quality of the summary must therefore be outstanding and you should pay particular attention to it. Obtain critical feedback from others on your drafts.

Stand-alone - it is also used as a stand-alone document when introducing the project to others so it must be able to capture interest and entice the reader to take the next step and request more information - and secure a meeting.

Style – cogent and terse. It should be direct and organized as a series of bulleted paragraphs, each deals with one key area. No waffle.

Length - ideally one page, and certainly not more than two pages.

Content - it needs to:

- Introduce the project in terms of what area it is concerned with, what it is trying to do, and list the key individuals and advisors involved
- Describe the stage the project reached particularly in terms of the "readiness for market" of its products, or product concepts, and outline any intellectual property, such as patents, that may support the products
- Highlight the main market characteristics, including size and growth, and specify the market opportunity that you are addressing
- State the central competitive advantages of your products and/or processes, how distinct they are from the competition and in what way, and how these are important to customers
- Summarize the objectives of the company in the short and long term, and quantify these with specific numbers. Outline the key strategies you will use to achieve them
- Include any "evidence of success" - this may be trade reviews, analyst comments, sales or partnership agreements, working prototypes, market testing, etc. which help to make the project more tangible to the reader and raises confidence in the project
- Highlight any other key issues that should be noted
- State your finance requirements and what stake in the company is available for this (see Financial Structure), and the planned exit strategy for the investor - i.e. how the investor will realize their return from the project.

2. Introduction to the Business and its Management

Introduce the business and what it does / will do.

Describe concisely how the project came about and progressed to the present situation.

Explain who is involved, what are their positions, what relevant experience and qualifications do they have. Include a one-paragraph biography on each (full CV in the Appendix).

State what stage the business is at now. Highlight briefly the most salient features of the company's products and services – their competitive advantage.

Explain any "evidence of success" you may have – from customer orders, market testing, working prototypes, expressions of interest, industry recognition, etc. Outline any other factors that have increased the likelihood of success.

Do you have any Non-Executive Directors or Mentors who add value to the Board, and will give potential investors more confidence through their expertise, be they sector experts or generally experienced business people? List them with a brief biography highlighting achievements and relevant experience.

Outline any skill gaps you still need to fill, and how you intend to do so. If you do not recognize the skills gaps the investors will do and may feel your plans are unrealistic.

List your business advisors, if necessary with a brief description highlighting relevance.

Do you have any major alliances with other organizations, if so how do they add value / contribute to the business in outline terms. What is the basic nature of the relationship?

What is your organizational structure? (Include an organization chart if appropriate).

Outline where you want to go from here - what you want to achieve. What are the company's main aims and objectives? Quantify these. What are the next key stages and milestones?

3. Products and Services

- Describe your products / services in clear and simple terms
- What consumer need is being satisfied by these products that is not being satisfied at present?
- Explain any performance advantages / value advantages over rival products
- List any other unique features
- Intellectual property – are any patents or trademarks involved or required?
- Price and pricing strategy – what price will your products sell at and what is the pricing strategy behind this decision. How does this compare with rivals?
- State the costs of production and distribution, and so the resulting margins on sale
- Describe any wholesaler or retailer margins involved and how this compares with rivals
- Communicate any further planned products / development and when you expect them to reach market / bear fruit.

Include any background information relevant to the products or services.

Example of production costs and gross margins

	Cost	% of Sales Price
Circuit board	35.00	
Plastic Mouldings	5.00	
CD with software	2.00	
Packaging Materials	2.50	
Assembly & Packing	1.00	
Total Unit Production Cost	45.50	1%
Selling Price (ex VAT)	4,500.00	100%
Gross Margin per Unit	4,454.50	99%
Reseller Commission	45.00	1%
Margin after Sales & Dist.	4,409.50	98%

4. The Market

This section should describe the market you will be operating in – generally and specifically in terms of which sectors you will be targeting, what is the size of each sector, and what are the main current products being offered to that sector.

- Market Overview.
- Market size and segmentation. What is the size of the market and how can this be segmented or grouped into sectors? Which segments, or sectors, will you specifically be targeting?
- Market growth trends.
- Other key market characteristics.
- Main competitors / products currently targeting these segments.

This section overlaps with the next section on Competitive Business Strategy and you may choose to amalgamate them.

5. Competitive Business Strategy

Competitive Market Strategy

How is the company going to compete in the market? Will it compete on price, service, quality, convenience, new features and benefits, by targeting a very specific area of the market (niche), etc? Is this difference really important to the target customer / buyer?

To demonstrate that you have analysed your competitive environment, you should show a summary analysis using the Five Forces model and then a SWOT matrix:

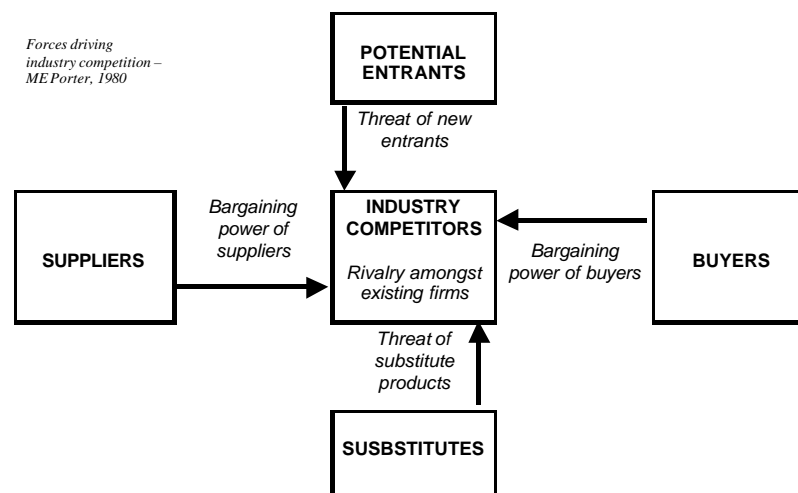
1. Analysis of Industry Structure (Porter's Five Forces)

- Threat of New Entrants to the Market - what do we believe is the threat of new players entering the market, are there any barriers to entry or exit such as large investment etc.
- Threat of Substitute Products - the threat of different products filling the same need
- Power of Buyers - are the buyers of products very powerful and able to depress prices
- Power of suppliers - what is the bargaining power of the suppliers to the business
- Rivalry Amongst Existing Players - how intense is this and how strong are they - for example in some markets rivals are willing to sacrifice profitability to gain market share. How profitable are the companies in the market - do they make good margins, good turnover, etc?

2. SWOT Analysis – This is a summary of your company's internal strengths and weaknesses, and the external opportunities and threats it faces in the market and its competitive environment.

Include any background information relevant to the products or services.

Example analysis of industry structure – industry forces (External)



Power of Suppliers: The power of our suppliers is weak as there are large numbers of suppliers and intense competition amongst them

Threat of new entrants: The barriers to entry into this sector are high and we have overcome them through our higher technologies. Because of the modest profits characteristic in the industry using old technologies, the threat of new entrants is low.

Power of buyers: The power of buyers in this industry is very high. A relatively small number of customers control the market. However, because of our superior technology, we will be able to mitigate against this power.

Threat of substitute products: At present there is no known or likely prospect of products that can substitute for existing products in this market sector. The threat of substitutes is low.

Rivalry amongst existing firms: The market is characterised by seven major players and rivalry amongst them is strong. This has in recent times led to heavy price competition.

Example of a SWOT analysis (Internal & External)

The Internal Strengths & Weaknesses of the company, and the External Opportunities & Threats it faces, can be summarized as follows:

STRENGTHS <ul style="list-style-type: none">• Superior technology• Professional management• Low cost base• Ability to expand production swiftly• Low production lead times• Low capital consumption as contract producer funds production	OPPORTUNITIES <ul style="list-style-type: none">• Growing market sector• Undifferentiated rival products• Consumer dissatisfaction• New consumers entering the market
WEAKNESSES <ul style="list-style-type: none">• Low resources• Lack of market experience• Dependence on contractors	THREATS <ul style="list-style-type: none">• Sustained price competition would erode margins• Contract producer could change terms• Potential war could impact on spending

Our strengths will allow us to exploit the opportunities in the market: our new technology is better placed than that of rivals to take advantage of the existing dissatisfaction amongst consumers and to attract the new customers entering the market. Our low cost base allows us to sustain price-promotional activity, and our ability to meet swift demand growth will ensure we will not squander created demand.

We are mitigating against weaknesses and threats: through our low fixed cost base, our partnerships with expert organizations, and our retention of all intellectual property rights and know-how that can if necessary be transferred to new contractors. We are also less vulnerable to price competition because of the lower costs involved in the production of our technologically different products.

6. Marketing Plan

This section should explain the major marketing activities that the company plans to undertake.

The document may well be directed towards broader strategy but even so should include major budgets.

- What is the core strategy for marketing your products?
- How are your target customers going to be made aware of your products? What mediums of communication will be used to reach your target consumer?
- Will there be any marketing effort aimed at any intermediaries you may have – such a wholesalers?
- Will you make substantial use of PR (public/press relations) in your marketing effort – are the products newsworthy or is another news story being created to support the products? (For example your company launching an educational website offering free advice to consumers on matters that have a relationship with your product)
- State how much this will cost and break down the costs between categories
- Introduce any agencies that will be used to assist you and confirm that they have been able to produce a practical action plan with the budget
- Explain what you expect the marketing effort to achieve and how you plan to monitor and control the effort to ensure it is effective

7. Sales and Distribution

This section explains the strategy, structures and processes you will use to sell your product to customers, and intermediaries, and how you will physically deliver the product to them.

- State to whom you are you selling the products, state specific segments of the market
- Explain how are you going to make the product available to customers sell the product to each of these segments – how are you going to make it convenient and accessible for your customers to buy your products
- Describe the retailer and intermediary margin structures for each sales channel you use through to the final consumer – and compare this to rivals
- If you need a sales force, will you develop this in-house or have you identified a sales organization you can contract / partner with?
- Where will your products be warehoused? How will your products physically reach your customers? Will you employ a warehousing and distribution company, or will you contract with the Sales & Distribution outfit that offer the entire package?
- If you do enter a contract arrangement with sales & distribution, what are the terms of the agreement? Who will own the stock? Who will invoice and receive the funds?
- When and how will customer invoicing be done?
- What settlement terms are offered?

8. Production Strategy and Structures

This section will explain what strategy you have adopted for production and describe the structures that will be involved and their state of readiness. The level of detail will depend on the stage of your business.

- Explain what your production strategy will be – will you build a production plant, contract a production plant, contract entire production out, or license the technology?
- Describe where production will take place and if contracting out, who will undertake this.
- Describe the physical production process.
- Explain all the costs of production, stating the costs of each major component, to arrive at total production costs per product unit.
- If you are using your own production facility, describe what the fixed costs of the facility will be and differentiate these from the variable costs of production (e.g. materials).
- If you are building a plant state how much capital investment is required.
- Describe any quality assurance procedures you have in place.
- State the production 'lead-time': how long it takes to make a product from scratch – including the time taken from ordering of any components, etc.
- Explain what policies you have towards stock holding and component reordering – this is important to ensure continuity of supply but also to ensure that stock does not consume too much working capital – and that sufficient capital to fund stock has been planned for.
- State what your production capacity will be: how many products can you make, per month or year.

9. Financing Requirements and Deal Structure

This section should explain to investors:

- How much money you need to execute the plan?
- What do you expect the sources of this money to be, e.g. Business Angels, Venture Capitalists, Bank Finance, or a mixture?
- Specifically how will that money be used?
- What is on offer, in terms of ownership (shares) in the company, for the money? Is 20% or 40% of the company's equity available for this investment?
- Details behind any banking facility or other forms of finance you expect (if any).
- What do you expect investors to receive in return for them risking their money?
- How do you expect investors to get their investment and return and when. Will this be through a trade sale, a flotation, or a management buy-out?

Example of financial requirements

There is financing requirement of £650,000, which will be sought from Business Angel Investors. The equity offered will be 20%. The company has no loans or overdrafts and at this stage does not plan any.

In terms financial structure, the shareholding structure of the company will be as follows:

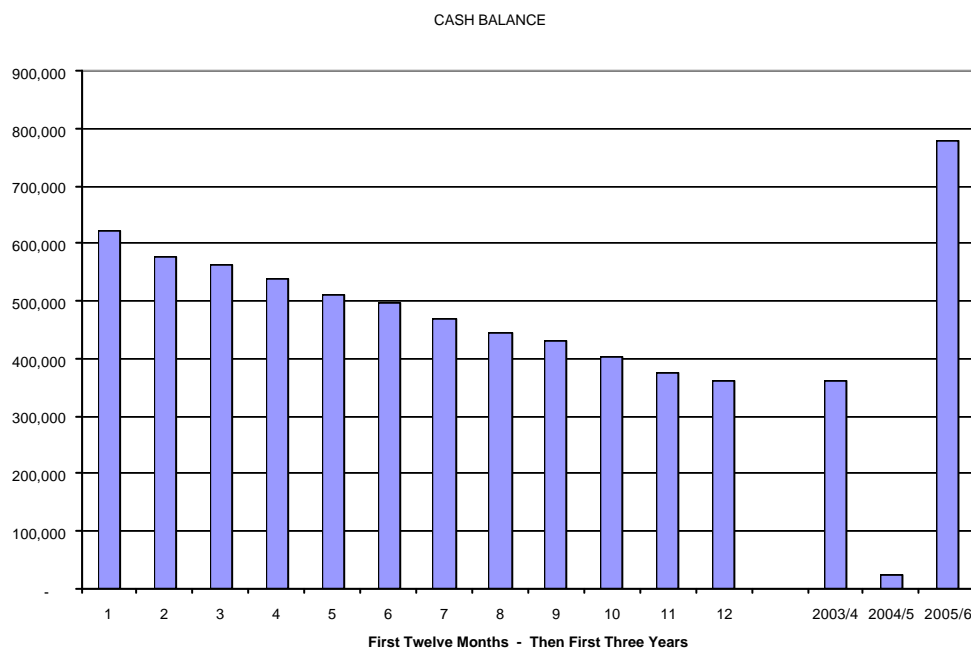
Shareholders	Pre – Financing Stake	Post – Financing Stake
CEO (Founder)	50%	40%
Other Managers	30%	24%
Current Investors	20%	16%
New Investors		20%
Total	100%	100%

The investment will be used as follows:

Investment Area	Proportion	Amount
Marketing	30%	£ 200,000
Working Capital (inc. contingency)	55%	£ 350,000
Development	15%	£ 100,000
Total	100%	£ 650,000

Cash Projections

As we stated previously, the company anticipates its first sales to be achieved in 18 months time – though this could be sooner.



Forecast Cash Balance for the next three years (first year by month):

The company will have a basic monthly cash-burn of £23,000 per month, equivalent to £280,000 per year. The average cash burn before sales in year two is expected to rise to £35,000 per month – provided our milestones are achieved, otherwise cash consumption will be contained at year 1 levels.

Though we expect to achieve sales in 18 months, through controlling the cash burn in an event of a delay the company could support a further 9 month delay without having to return for more funding.

Overleaf are illustrative projections for the three years following financing.

Exit Route

These funds will be used to take the product to market, at which stage we could continue to supply at lower levels without further funding or may decide to undertake a second round of financing to expand more aggressively.

Our planned exit route available through an AIM flotation in the 4th or 5th year.

It is expected that within five years the company will achieve sales in excess of £20,000,000 and to be on a fast rising sales curve with the potential substantially higher sales growth as other catalysts in our product portfolio gradually reaches the market.

10. Key Financial Data and Financial Projections

All potential investors / auditors will expect to see a set of financial statements and illustrative projections for the project.

- Cash Flow projection – This is a statement of your cash position and the sources and uses of cash going forward. Cash management is probably the most important aspect of financial management as the company becomes established and grows. Certain growth policies consume more cash than they generate, so detailed cash projections are vital.
- Profit & Loss projection – this is a statement of the company's trading activities.
- Balance Sheet projection – this is a statement of the company's assets and liabilities, starting with the current position.

We have found that investors like to see a graph of the cash balance, with the first year or eighteen months on a monthly basis, to illustrate to them that cash management has been carefully thought out and the rate at which the business consumes cash.

The projections should be in the way of full statements for the next three years, and then for high potential businesses an indication should be given of the headline figures for revenues and profit up to a further two years out – five years in total. This will provide investors with information on the potential upside of the business, which may not be clear from the three-year projection.

The statements should be accompanied by **Notes to the Accounts** covering the assumptions under which the statements have been constructed, including:

- The assumptions behind the sales forecasts, perhaps related to market share or sales per store, etc. What logic has been used to arrive at this figure, as it was clearly not pulled out of the air?
- Assumptions behind costs, including the costs of production, offices, staffing, etc., and how these are constructed.
- Any policies adopted, such as on the depreciation of assets, the number of days credit given to customers, the period of time taken to pay your creditors, etc.
- The detail behind any loan or other overdraft facilities and expected interest rates.
- Other major budgets, including marketing, legal fees, accounting fees, etc.

The figures should demonstrate to the investor that you understand the major financial implications of your business plan, that the assumptions are reasonable, and that you have not been over optimistic.

It is important to highlight what contingency plans you have in the event of things not happening exactly as planned. Will the business fail if there is a month's delay in the timetable, or can it tolerate a year's delay through careful adjustment and control?

11. Appendix

We suggest it should include:

- Full director and key management CV's
- Full list of business advisors, including accountants
- Copies of any intellectual property – trademarks, patents, designs
- Copies of relevant letters / agreements indicating success – including any orders pending
- Copies of any commissioned market research or other reports not published
- Full illustrative financial projections
- Audited accounts if business has been going for some time
- Copy of the shareholder agreement
- Copies of any loan or other material agreements, including director loans
- Sample sales & marketing material, including brochures and product diagrams