2.5 Business as unusual: a pioneering forest enterprise

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The challenge

Petén is a region of Guatemala where almost 87% of the population experiences some level of food insecurity and 34% of schoolchildren have delayed physical development due to chronic malnutrition. Considering the region’s abundant natural resources (50% of Petén is covered by rich tropical forests) the high level of poverty is something of a paradox. The continued isolation of communities from marketplaces — and their limited business capacities in access to forest investments — partly helps to explain why local populations have so far been unable to reap the significant social, economic and environmental benefits that well-managed forests undoubtedly bring.

Since 1998, the Government of Guatemala has sought to address this challenge. It provides incentives for sustainable forest management (SFM) through an incentive programme known as PINFOR, which is financed using one percent of state operating expenses. In 2009, it provided about US$ 134 million to the forest sector and helped establish roughly 100,000 hectares (ha) of plantations. Activities supported by the programme include aiding the natural regeneration of forests, improving forest management, promoting forest protection, and reforestation. Local communities, municipalities, private land-owners and interested organizations are all eligible for funding from the programme.

Another forest incentive programme, known as PINPEP, was also created in Guatemala to cater to the financial needs of small forest holders, specifically those with areas of less than 15 ha. It is expected that over 400,000 people will directly benefit from this publicly supported incentive scheme. Its establishment was a direct result of the successful policy advocacy of the National Alliance of Community Forest Organizations. This forum for 11 umbrella organizations and 400 grassroots organizations was formed with the specific goal of recognizing the challenges facing smallholders.

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Although these programmes have helped stimulate considerable progress, tree planters in Guatemala still face some key challenges. These include how to identify suitable local and external markets for wood products from forest plantations, and how to effectively strengthen the business capacities of local actors to overcome their isolation from markets.

In the municipalities of San Francisco, San Benito and La Libertad in Petén, the challenges faced by tree planters were no different than those of other tree planters in Guatemala who have received forest incentives. All the individuals in this group could be defined as poor, isolated and lacking a voice and a coordinated network. They were isolated in four key ways:

- from each other;
- from consumers/markets;
- from financial and business development service providers; and
- from policy-makers — they had no contact with the formal market or with the forest industry.

**A new enterprise**

In April 2011, the National Forest Programme (NFP) Facility and Growing Forest Partnerships (GFP) Guatemala began providing support to a group of 189 *reforestadores* (tree planters) in San Francisco, Petén, Guatemala. The goal was to help them enhance their leverage in the marketplace and boost community incomes. The result of this support was the creation of a wood product enterprise called Red Forestando Chachaklum, S.A, which was formed by six forest communities in San Francisco, Petén. These communities — Municipio de San Francisco, Propietarios Privados, Santa Rita, Santa Teresa, Municipio de San Benito and nueva concepción — collectively own and manage 1,084 ha of planted forest. The establishment of this new enterprise has helped transform the way in which local communities conduct their day-to-day business operations, breaking the cycle of isolation they once experienced. The communities planted a variety of wood species, including *Melina, Pino Caribe, Tabebuia* and *Teca; Melina* represents 70% of the total.

In the past, community tree planters made most of their sales to intermediaries, who had their own purchasing rules and conditions, including those for prices and volumes. This left no room for the sellers to negotiate prices. Pruning and thinning were carried out mostly to benefit these intermediaries and were previously done by intermediaries and their contractors. Moreover, the potential for marketing wood products was limited, due to the low levels of output each isolated tree planter could produce, and to the difficulties faced by medium and large companies in negotiating with a diverse and geographically dispersed group of sellers.

However, with the establishment of the forest enterprise, all this has changed. Tree planters are now able to interact directly as a collective with larger companies, notably those in Guatemala City that produce particle board and who are interested in establishing fair and longstanding business relations. Within the space of a year the enterprise has already entered into its first business negotiations.
As a result of their new business operations, the six communities have significantly enhanced the income generation from their plantations. This was achieved through the provision of a service which pays for the members to carry out activities such as harvesting, skidding and loading of timber in trucks. By consolidating their individual supplies of wood products into a much larger collective supply, the communities have dramatically expanded their marketing opportunities and stimulated sales to local companies. These companies are generally far more interested in buying larger volumes of wood products from one seller than smaller volumes from many individuals.

To help market its products, the new enterprise has developed technical fact sheets and informative brochures on the individual and collective wood products it sells. Furthermore, the communities have been trained to participate actively in business negotiations; this has helped give them direct contact as an enterprise with the market.

Another key step taken by the enterprise was to identify potential forest products from the various different stages of managing forest plantations and to match each product with a suitable market. The tree planters were trained to carry out some activities themselves, such as pruning and thinning of trees. Such practices are important in obtaining good-quality raw material, which in turn generates higher prices for logs as the end product. This has generated income for the members of the enterprise who provide services for logging, transport of logs from the forest to the trucks and loading of trucks. The quality of the final product means increased income for the present and future.

Achievements

The total sales of the enterprise for 2012 so far amount to approximately US$ 2,400. A net profit of 15% was recorded for the enterprise, after taking into account labour (36 days), transport and all other costs. For the remainder of 2012, the enterprise may be able to sell at least two pilot harvests per month, which would generate US$ 6,300 per month. This is feasible through purchase commitments with buyer companies.

As a result of the establishment of this enterprise, the communities have been able to undertake successful negotiations for the sale of four containers per month for the next eight months of chip (very small pieces of wood) and trocillo (small and thin wood logs). In addition, business negotiations have taken place with bigger enterprises in Guatemala, including Maderas El Alto and Ferreteria El Chino, which are interested in establishing fair and long-term business partnerships.

The enterprise has also signed a long-term contract with Tableros y Aglomerados S.A to deliver two trucks per week of logs and trocillo. This came into effect in June 2012, and will mean additional income of about US$ 77,000 per year.
The total cost of the support — including hiring of consultants, organization of meetings, legal fees to establish the enterprise, and all other activities — amounted to US$ 80,000.

**Lessons learned**

*For farmers and the enterprise*

The most important resource that the farmers have is themselves. The real value added of this initiative is not so much the fact that farmers can now engage in physical activities such as pruning and thinning (which was previously done by intermediaries and their contractors), but rather their enhanced organization, planning and skills.

It is important to help the tree planters understand the principle of moving ahead step by step in trying to generate added value. The goal should be gradual growth. This growth starts with good pruning and thinning, careful logging or harvesting, and efficient loading and transport of products. It needs time for learning and mastering the effective implementation of all these activities.

It is not always possible to achieve revenue from product sales derived from pruning and thinning, but these activities may generate enough income to pay for the labour. It is important to train the tree planters to provide services for the harvesting, skidding and loading of timber in the trucks.

The creation of the company is just one step in the process of generating income and adding value. The organization of the business structure and the mechanisms of social control are ongoing activities and require both external facilitation and the commitment of forest enterprise members.

As stated by Carlos Cambranes, a member of the enterprise: “In this short time with the enterprise we have created jobs for 36 members for pruning and thinning, generating income for our people which were formerly in the hands of the coyotes.”

*For development partners*

It is important for partners to provide information to the forest smallholders about the advantages and disadvantages of the establishment of a forest enterprise. They should decide whether to establish an enterprise and if so, what form this enterprise should take. The members of the enterprise and the commercial partners need to foster trust, transparency and patience in order to build relationships.

*Scaling up*

The success of the work in Petén in transforming the ways in which local groups do business has inspired a commitment from Guatemala to replicate this work in other areas of the country within a comprehensive national-level programme. Based on the
success of the pilot work, the national forestry administration (Instituto Nacional de Bosques, or INAB), has created an Industrial and Commercial Department (Unidad de Industria y Comercio) to support the formation of new producer organizations in other parts of the country. This signals a hugely positive move in replicating the experiences, promoting sustainability in the use of natural resources, and institutionalizing good practices.

Following the creation of this new department, a new producer organization is already being formed in Alta Verapaz, with more than 900 families who collectively manage and own more than 1,700 ha. The department is also exploring the inclusion of other families with forests (covering an area of 1,500 ha) in this enterprise. The value of wood sales over the next 20 years is estimated at around US$ 50 million.

The NFP Facility and GFP provided the initial support for the work in Petén. They recruited local and national consultants to facilitate and oversee the creation of the enterprise, with the support of an international expert. Building on the work in Petén, all subsequent activities are being fully funded and supported by INAB.