CHAPTER 4

DRIVING THE SCALING PROCESS

SUCCESSFULLY SCALING UP ECOSYSTEM ENTERPRISES requires a confluence of community-level and national-level actions. As Chapter 2 points out, community stakeholders in ecosystem enterprises must find a compelling rationale for working together and an effective process for learning and applying new skills as a group. For scaling up to occur, this rationale and process must be effectively communicated to other groups in similar circumstances and supported by intermediary organizations. At the same time, national governments, donors, and the private sector must provide an environment that nurtures small rural enterprises and removes some of the political, financial, and physical barriers they face as they struggle to break out of the confines of rural markets.

This chapter looks at both these levels of action—community and national. It first examines the case studies from Chapter 3 to extract cross-cutting lessons on how successful enterprises are founded, sustained, and expanded. It then looks beyond the community level to probe challenges and enabling conditions at the macro level—larger governance, financing, and infrastructure considerations that if left unaddressed will stymie the scaling up process.

THIS CHAPTER

In this chapter, we build on the basis of the case studies in Chapter 3, first deriving cross-cutting lessons from the cases, and then looking beyond the community level to examine several national-level actions necessary to create an enabling environment for scaling up nature-based enterprises. The chapter:

- Derives seven cross-cutting lessons from the case studies in Chapter 3.
- Looks at the need to make rural markets more amenable to small nature-based enterprises by confronting elite capture, encouraging competition, and rectifying tax and regulatory regimes that discriminate against these enterprises.
- Examines the rationale for providing technical, research, and marketing assistance to rural enterprises.
- Argues that representation of rural concerns in national legislatures must improve markedly if the current marginalization of rural producers in national policy is to change.
- Argues that government line agencies must reorient their missions to emphasize service and to embrace community participation in resource management decisions.
- Presents the case for a different approach to rural infrastructure development—a community-driven approach specifically attuned to local needs.
- Examines current trends in rural finance and the government's role in making sure adequate financing and insurance are available for small and medium-size enterprises.

Extracting Insights from the Cases

The cases in Chapter 3 give a tangible expression to the power of giving communities a stake in managing their ecosystem assets, of providing for long-term and comprehensive capacity development of ecosystem enterprises, and of creating political linkages and commercial networks to nurture these enterprises. The cases also contain a number of more nuanced insights into the success of nature-based enterprises and the factors that allow them to scale up.

1. Resource Tenure Need Not Be Perfect to be Useful

One of the biggest catalysts for new and scalable ecosystem enterprises is a change in the resource tenure situation. The prospect of gaining new or more secure resource rights is often more important than the precise form that tenure takes. That said, the details of the tenure situation do affect the ultimate sustainability of an ecosystem enterprise. In addition, the ability to initiate a change in tenure can be a powerful act of community empowerment.

Access to resources is the bedrock of nature-based enterprises, and tenure enshrines this access in law and practice. The case studies make it clear that a variety of different tenure modes can underpin scaling up, though each mode has strengths and weaknesses. In Namibia, for example, conservancies did not offer an unlimited set of resource rights, yet the rights they did offer connected well with opportunities for viable enterprises and with traditional livelihoods. But the more important factor was that conservancies offered a ready vehicle for indigenous communities to use their new tenure rights to their advantage—something they had never had a chance to do before. They offered a new and powerful set of incentives for land use and enterprise.

Likewise, in Bangladesh the chief building block of the Management of Aquatic Ecosystems through Community Husbandry (MACH) program was the opportunity it gave communities to gain new resource rights in the form of 10-year leases—leases they had formerly been shut out of because of cost. In Guatemala, the 25-year forest concessions offered the only real possibility for forest communities to gain enforceable rights to what was until then a de facto open access forest. In Fiji, communities that adopted the locally managed marine area (LMMA) model were essentially voting to adopt a traditional tenure regime that offered a social compact restricting open fishing access.

In all these cases, communities had to understand and act upon the opportunity for a change in tenure made possible by a change in government policy. In Namibia, for instance, communities had to self-organize and formally apply to become a conservancy. The opportunity for tenure change then became an organizing principle and catalyst for action.

One lesson is that if communities themselves can take advantage of a new tenure opportunity, scaling up may be more likely. That is because favorable tenure is the root of local demand, and the opportunity to change tenure is rare. Communities know this. In the case of state-owned resources like common pool forests or fisheries, this implies that governments should establish clear guidelines for how communities may enter into substantive co-management arrangements that devolve real resource authority to them. Then governments must make it clear that communities themselves have the choice to adopt this new regime—a choice that was unavailable before and that rewards community initiative.

At the same time, although many forms of tenure can be acceptable as a basis for ecosystem enterprises, the precise form that tenure takes does have implications for the future. Not all tenure regimes embody the same level of resource rights or the same tenure security. For example, there is no guarantee that the 10-year leases the fishing communities in Bangladesh now hold will be renewed when they expire. In Niger, the government still holds primary ownership of many tree species, and there is no guarantee that government forest policy will not change the incentives once again for forest management. In Fiji, the government has been very supportive of LMMAs but has not granted communities undisputed control of their nearshore waters. In other words, the precise form that local resource tenure takes does matter, insofar as it affects tenure security and benefits sharing arrangements. The details of tenure will therefore be a principal factor in the eventual sustainability of community ecosystem enterprises. Ultimately there is no substitute for strong, formal tenure arrangements with resource rights well defined in duration and geographic extent.

2. High-Profile Demonstrations and Communication Help Scale Up Demand

As a catalyst for local demand and commitment and as a way of generating government and donor support, the power of a high-profile pilot project or demonstration that shows obvious and quantifiable benefits cannot be overestimated. Scaling up will not occur without good communication of success stories.

One of the clearest roles that central governments and donors can play in the scaling up process is creating channels to spread the successes of local enterprises and intermediary support organizations (ISOs). Time and again, demonstration has been shown to be crucial to both quantitative and political scaling up. Exchange visits that allow residents of outside villages to inspect successful community-led ecosystem enterprises are one of the most effective ways to inspire demand. Seeing results on the ground and meeting the people behind these results helps potential adopters to orient themselves and relate their own situations to the social and geographic situation of the demonstration project. This allows them to build a vision of their own, to address pertinent questions, and to argue convincingly to others back in their home villages.

For those who cannot physically visit demonstration sites, such as donors, international NGOs, or government officials, communication of these successful cases in a variety of different formats and depths can be nearly as effective. Today, websites are one of the simplest and most cost-efficient means for communities—often with the help of ISOs—to spread the experiences of their pilot efforts to an international audience. ISOs such as Winrock International, the Watershed Organisation Trust, and the Rainforest Alliance all have articles and pictures on their websites documenting their work with exemplary community enterprises.

International prizes and awards also play a useful role in spreading information and building enthusiasm for new community-based approaches, especially for donors. For example, many of the best examples of enterprises that have successfully scaled up have received recognition—and prize money—from the United Nations Development Programme's Equator Initiative. *(See Box 2.1 in Chapter 2.)* This has greatly increased the profile of these programs both internationally and in-country, raising their prestige and opening new channels for interaction and influence.

More-formal research and documentation of benefits, methods, and challenges faced by these enterprises are also a critical part of building their credibility and extending their influence. Indeed, in-depth ecosystem studies and economic analyses have proved to be highly influential among government decision-makers and funders pondering whether their investments have been worthwhile and whether they should continue to fund this model of rural enterprise. In other words, these are often the foundation of high-level "demand"—manifest in political commitment and funding—for scaling up a successful community-led project. For example, in-depth and candid reports on the conservancies in Namibia, the MACH program in Bangladesh, and the forest enterprises in Guatemala have stimulated great interest in the governance and enterprise innovations in these projects and have influenced subsequent funding commitments and natural resource management approaches by the U.S. Agency for International Development and other donors.

3. Capacity Follows Power

Capacity-building for nature-based enterprise is pointless without real devolution of resource authority to local stakeholders. In fact, the devolution itself induces capacity, as those involved in the enterprise find a compelling interest in gaining new competencies and the opportunity to put these into practice in real time.

Even when central governments accept the idea that devolving authority over resources can stimulate the prospects for rural development and poverty reduction, they are often reluctant to relinquish substantive management, regulatory, or budgetary powers to local communities. One reason they put forward is that local organizations lack the technical knowledge and experience to manage forests or fisheries properly without degrading them. Experience from the cases suggests otherwise and drives home the point that success at community-based natural resource management (CBNRM)—at least in the beginning—has more to do with putting proper incentives in place for local action than with technical proficiency. When wildlife management power was granted to Namibian conservancies, they had little trouble reducing poaching because communities had a reason to protect their now-valuable wildlife populations. Similarly, illegal logging and unsustainable fishing practices plunged in Guatemala and Bangladesh, respectively, when communities had the incentive and powers to police their local resources. While there is little doubt that technical training should be a priority early on in the formation of ecosystem enterprises, there is no reason to use it as a reason to slow the devolution process or to put restrictive oversight policies in place.

Earlier and more complete transmission of resource authority to local governments and other local organizations can achieve two ends. First, it can increase commitment to the new ecosystem management regime by eliminating lingering fears about tenure security and management authority. In other words, it can increase local compliance with management rules in the short term as local empowerment is validated. Second, it can provide the conditions necessary to more rapidly gain both technical and social capacities needed to manage over the longer term. Experience is truly the most powerful teacher, and central governments can help maximize this learning environment by mentoring rather than micromanaging.

As mentioned in Chapter 1, institutional choice—which local institution the central government devolves resource authority to—is an important concern, with the need to reconcile the roles of local government and local resource user groups. But there is little dispute that substantial devolution to the local level must occur or the prime incentive for responsible nature-based enterprise will be absent.

By the same token, local institutions to which management powers are devolved must be bound by their new responsibilities as well as their new rights. In Guatemala, the initial rules governing concession management were lax and ill enforced, which created problems of poor governance, exclusion of some community members, and poor business management that took years to set right.

4. Local Resource Management Institutions Require Time to Mature

The local institution responsible for managing a natural resource, whether it is a forest user group, watershed committee, or village council, usually requires a maturation period during which the structure and processes of the institution become more representative and inclusive as well as better able to distribute benefits and costs equitably and resolve disputes fairly.

The development of a capable local resource management institution is essential to the success of ecosystem enterprises. This development includes establishing local legitimacy, setting procedures for decision-making and consultation with community members, and designing processes for enforcing rules and resolving disputes. These are all competencies that build and change over time as the practice of participation deepens and experience with the resource grows. If the institution that is given management power over the resource is a new creation, this maturation process may be lengthy. In Namibia, the general outlines of the conservancy councils were set by the conservancy charter, but there had been no experience with such groups prior to the legal designation of the first conservancy, and little experience with participation. The same was true in Bangladesh with the novel Resource Management Organizations (RMOs). In some Namibian communities, dissatisfactions have surfaced with how and what benefits are distributed among the group. In Guatemala, the actual resource management scheme was not an issue, even though only a minority of the communities had previously made a living from the forest. Instead, it was a lack of business skills that held them back.

Such growing pains are common, and they point to the importance of an initial institutional structure that is adaptable and responsive enough to accommodate this maturation period. In Bangladesh, the structure of the Resource Management Organizations fostered responsiveness by limiting executive committee members to two-year terms and mandating that a majority of the RMO members come from the ranks of the poorest—those with less than 0.2 hectares of land.

Investing in group visioning and trust-building exercises in the formative stages of community enterprise development can also help by increasing the cohesiveness of the group and its capacity to participate and resolve problems without a rupture. In Bangladesh, communities went through two years of intensive consultation before the RMOs were formed. Experiences of the Watershed Organisation Trust in India emphasize that this initial capacity-building is a singularly effective route to institution-building. In Guatemala, by contrast, the first concessions were hastily demarcated and granted amid political pressure to protect the Maya Biosphere Reserve, with little consultation among local communities or forest management experts.

The effectiveness, legitimacy, and ability of the resource management institution to weather problems also depend on its relationship with other local organizations and levels of government. Care must be taken, for example, that newly empowered resource management organizations do not undermine the role of local representative governments in land use and business development. In Bangladesh, this was avoided by establishing Local Government Committees that brought together government administrators, elected local councilors, RMO members, and local wetland users groups to approve the RMO management plans. The interaction of the RMOs with these other institutions conferred legitimacy on the RMOs, making their role clear without introducing competition among the various groups. This kind of harmony helps give new resource management organizations the space and support they need to mature. In Guatemala, on the other hand, municipal governments were given no role or involvement with the new concessions, and the stumpage taxes they had previously collected were redistributed to the new national park authority, creating resentment.

It is important to note that the necessity for patience as local institutions mature into their role of natural resource managers is frequently at odds with the desire by government or funders for these institutions to move quickly to assume their new duties. One of the challenges in scaling up nature-based enterprises is reconciling this pressure with the reality that institutional growth usually occurs by modest increments. Experience shows that expecting too much from new institutions often undermines progress rather than encouraging it.

BOX 4.1 REDD AND COMMUNITY FOREST MANAGEMENT: REDUCING POVERTY, REDUCING CARBON EMISSIONS

THE BENEFITS OF LOCAL NATURAL RESOURCE management and nature-based enterprises reach far beyond the local or even national level: they can also help mitigate climate change.

As we have seen in Guatemala and elsewhere, sustainable management plans that provide local populations with economic alternatives to converting forestlands for agriculture can be highly effective at protecting valuable forest resources, increasing forest cover, and providing a host of other ecosystem services to the surrounding region.

The case study in Chapter 3 describes in detail efforts to establish community enterprises in the Petén region of Guatemala, based on sustainable management of designated forest concessions in the Maya Biosphere Reserve. The program was designed to help alleviate poverty in local communities as well as to combat illegal logging and forest conversion in one of the last unspoiled forest tracts in Latin America.

The environmental benefits were realized within a few years of the program's start, with significant reduction in illegal logging and other forest degradation. Ironically, in the nearby national park, which is a designated "no-harvest" zone, cutting for agriculture and timber poaching have increased. An added dividend is the potential for climate benefits resulting from the improved stewardship of these forest resources.

Climate change now dominates environmental discussions because of the profound effects it is predicted to have on ecosystems around the world. In response, policymakers are seeking fast, effective, and inexpensive ways to mitigate carbon releases. One strategy that has surfaced in international climate change negotiations is referred to as Reducing Emissions from Deforestation in Developing Countries, or REDD.

REDD would function as a global payment for ecosystems services (PES) arrangement, wherein forest owners—either states, communities, companies, or individuals—would be compensated to lower the rate of carbon emissions from their forests below a given reference scenario by reducing forest cover loss. An effective REDD program could become one potentially important option within a menu of global carbon reduction tools, since land use changes account for at least 20 percent of annual carbon emissions worldwide (Myers 2007:19; Huberman 2007: 6-7; IPCC 2007:543). It is unlikely, though, that REDD will ever become a major source of revenue to countries or communities.

There are certain technical issues that REDD must satisfy, however, prior to being accepted by the UN Framework Convention on Climate Change—the broad-based treaty that acts as a forum for international climate negotiations. Carbon emission reference scenarios must be established. Monitoring tools must be created and implemented. Payment mechanisms need to be developed. A robust and accepted carbon trading market has to be in place (Myers 2007:18–19, 26–37).

REDD Flag for the Poor

But even settling these and other technical issues does not guarantee REDD's adoption or success. Experience shows that without careful attention to issues of equity and respect for community rights and rural livelihoods, actions taken under PES programs can backfire, working against the interests of the poor and failing to achieve their environmental objectives. A recent example in Uganda illustrates the potential hurdles for REDD-associated projects that ignore community concerns.

In Mount Elgon National Park, a reforestation program negotiated in the 1990s between a Dutch nonprofit and the national government was designed to offset carbon releases by Dutch power companies. From the government's point of view, the tree planting would improve the landscape of the national park at no cost to the government, attracting more tourists. But the local people who had been evicted from their lands in preparation for reforestation were unwilling to accept the new circumstances imposed upon them by the government. In 2006, after years of fighting to regain their livelihoods, three communities were granted a court injunction that overturned the evictions. After moving back onto their lands, the farmers chopped down the new trees. The Dutch nonprofit that managed the reforestation project was helpless to secure its 12-year, US$4 million investment, and the carbon benefits were lost as well (Faris 2007).

What went wrong? This was a project dictated by the national government, with no involvement by local communities. The traditional tenure rights and livelihoods of local residents were ignored. None of the benefits generated by the project flowed to the local communities.

The outcome could have been different if the program was poor-friendly and created community self-interest by recognizing the rights and needs of the local residents. If the local farmers had been given the opportunity to earn their livelihoods through sustainable management of the new forests or by combining tree planting with their traditional agriculture in an agroforestry scheme, both the economic needs of local residents and the environmental goals of the government and investors would have been served.

The Lessons of PES

There are important lessons from this and other PES experiences, as well as from the community-based natural resource management enterprises described in this report, that could help orient REDD so it can better achieve its goals. By framing REDD initiatives as both pro-poor and pro-environment projects, unintended consequences that could undermine the project in the future have a better chance of being avoided. The Uganda example makes it clear, for instance, that tenure and governance issues cannot be ignored. Creating a community "stake" in a project nurtures the self-interest that inspires community involvement and responsibility.

Another lesson is that payments to communities under a REDD compensation scheme must be substantial enough to make a difference in the household incomes of community members, who otherwise are unlikely to participate in the program or follow through on their commitments. This compensation may come as monetary payments, but it can also be complemented by capacity training or support to develop alternative enterprises.

One way to make REDD's goal of reducing deforestation more amenable to low-income families is to allow them to pursue complementary land uses such as agroforestry, the collection of non-timber forest products, and perhaps even limited timber harvesting. This recognizes the fact that poor families are unlikely to be able to live on PES payments alone and must pursue other activities to round out their livelihoods. The goal should be to make these activities as compatible with carbon storage as possible.

A third lesson is that entry costs to participate in REDD programs—such as licensing and certification costs—must be low if poor people are to participate. Otherwise, only large landowners will be able to join. Prohibitively high entry costs pose a particular problem in cases of contested tenure. Large landowners who can afford the certification costs may stake claims over contested lands, thereby turning REDD into a tool to solidify land claims where tenure has been unclear.

Community-Based Forestry: A REDD Primer

The international development community has a central role to play in assuring that REDD is carried out in an effective and pro-poor manner, first by supporting community-based forestry. Providing this support can bring economic and social benefits to communities while reducing carbon emissions. Community forestry projects can also help build the capacities and resilience of forest communities, making them more capable of handling a REDD project down the line. And such efforts need not wait for REDD's complicated technical questions to be sorted out.

NGOs might also work to establish performance metrics for carbon mitigation that do not rely entirely on precise calculations of emissions created by deforestation. Such metrics could help developing countries to receive international funding outside of the global carbon market—whether through bilateral or multilateral support, or through a global funding mechanism—by reducing their emissions, but without the stringent technical requirements imposed by REDD (Daviet et al. 2007: 5-8). Agroforestry and sustainable harvesting within community forests would likely fit more easily into such performance metrics.

Finally, NGOs and donors can assist in developing social and environmental standards for REDD, using established community-based forestry programs to design social protocols and to test carbon release monitoring techniques. Doing so will mean that if REDD becomes part of global carbon mitigation, communities, donors, governments, and NGOs will already have experience with effectively reducing carbon emissions while improving local economies and increasing social resilience.

Building enterprises through community management of natural resources will certainly not solve all the challenges that REDD faces as a global PES system. Nor will it quickly result in the large-scale projects that climate experts claim are required to make a significant reduction in carbon emissions. Yet these enterprises can be encouraged right now – and they can help meet REDD's major environmental aim while simultaneously serving as a training ground to work out some of the program's technical issues. In this way, community management of natural resources effectively stands at the intersection of climate adaptation, carbon mitigation, and rural development. A well-designed REDD program may serve as one of a number of financial incentives to promote these management efforts in the future.

5. ISOs Provide Focus and Credibility

Intermediary support organizations are often the most efficient way to focus local demand, help communities create an appropriate local institution for resource management, and bring the attention and credibility to the local effort that is needed to engage government and donor interest.

As discussed in Chapter 2, ISOs have capabilities that are especially suited to helping communities organize themselves. ISOs typically have a very strong vision of the advantages of community-led resource management and, based on their deep experience with similar interventions, can articulate the possible benefits of working together to villagers who may lack this vision. They can also be straightforward about costs and potential problems and therefore can act as an honest broker. In addition, they have an understanding of the importance of process and participation to building a firm foundation for group action and can intervene when obstacles arise within the group. In Bangladesh, Caritas and the Center for Natural Resource Studies were instrumental in setting up the initial consultation process within communities to identify local priorities and develop a consensus on how to restore wetland productivity. These consultations were notable for their inclusiveness and political savvy, which paid dividends later on when actual work began. Meanwhile, another ISO, Winrock International, helped design the innovative institutional arrangement that included Resource Management Organizations and Local Government Committees. The strength of these institutions and their applicability on a broad scale has been a key element in scaling up the MACH program.

ISOs have an ability to intervene with government, funders, and even the private sector to clear obstacles that otherwise might stop a community effort in its tracks. In Niger, for example, it was intervention by Serving in Mission (SIM) that first led the Forest Service to relax its insistence on state ownership of trees, giving farmers the incentive to allow native trees to return to their fields. Without the credibility of SIM, based on its earlier work in Niger, farmer-led regeneration would not have gotten off the ground.

The cases also show that ISOs can usefully work in consortia to increase their effect. In both Namibia and Bangladesh, groups of NGOs and other support organizations coordinated their activities under a single umbrella group, bringing their many different specialties together so that communities could find a range of interlocking services. In Namibia, the 11 members of the Namibian Association of CBNRM Support Organizations even included the Ministry of Environment and Tourism and a trade association, giving conservancies significant access to the government bureau-

cracy and the business community. Working in tandem in this fashion may be an especially effective model to support scaling up across culturally or geographically diverse communities. In Guatemala, rivalries between the various international and local NGOs working with the communities created the opposite effect, with the fledgling enterprises failing to work together and share best practices in the early years.

6. Accountability Remains Important

Part of the maturation process for local institutions and enterprises is developing appropriate accountability mechanisms so that community interest in maintaining collective action persists.

One of the consistent lessons of successful nature-based enterprises that scale up is that they maintain significant involvement and trust of community stakeholders over time. Stakeholder interest is influenced by many things, such as the value of the resources being managed (the greater the potential benefits, the greater the interest). But trust in community institutions is fostered by transparency of processes and regular accounting for decisions taken. In Bangladesh, all meetings of the Resource Management Organizations are public, and most RMOs have established a separate subcommittee to conduct financial audits and discourage corruption. Biological and socioeconomic data are routinely collected and released so that the community, the government, and funders can measure progress and assess benefits and costs. In addition, the two-year terms for executive committee members mean that elections—the most basic of accountability mechanisms—are held frequently.

Sometimes, accountability mechanisms can be as simple as a public billboard. In some state-funded watershed restoration projects in India, local NGOs have used billboards with great effect to let community members know what kinds of public investments have been promised, how much they have cost so far, and what benefits have accrued.

Such accountability mechanisms may seem like just the rudiments of responsible public action, but they are not trivial, and they are not always easy for inexperienced community institutions to apply consistently. Training in applying such transparent practices as regular audits and public reporting of decisions is one aspect of capacity-building that should not be neglected.

7. High-Level Government and Donor Commitment Is Necessary

No matter how well local demand is marshaled and local capacity expanded, community-driven enterprises still require active acceptance and participation of governments and donors in order to scale up effectively.

It may seem axiomatic, but without a clear, public, and ongoing commitment by government, no strategy to foster nature-based enterprises for poverty reduction can succeed. Government is entwined in nearly every aspect of natural resource management—from granting resource tenure to regulating the transport and sale of ecosystem products. Government's planning, permitting, and oversight roles mean its involvement is nearly always required, even when control over resources has been devolved to the local level. Government's potential to be an obstacle thus looms large as community-based organizations struggle to learn how to manage local ecosystems sustainably and profitably.

But government as potential partner also beckons. Government backing can support pilot projects, ease access to credit, make technical assistance available, and provide capacity development programs that train people in crucial resource management skills. Government also brings a unique synoptic view. It can look broadly at ecosystems regionwide to identify resource trends and assess where there may be conflicts between resource users. It can also look broadly at community-driven enterprises, and when it sees a promising model it can help bring that to scale, bringing the state's planning, budget, and communication powers to bear.

As we see in the cases, the role of a committed government, working in partnership with other key actors, evolves from that of an institution that dictates to communities to one that ensures that conditions are right at every stage for enterprises to grow and prosper. In Bangladesh, the government worked hand in hand with ISOs and communities to analyze the fisheries problems these communities faced, identify alternatives to current practices, design and fund new government and community institutions, and make skill-building programs available for low-income families. In Namibia, the Ministry of Environment and Tourism worked in tandem with conservancies and ISOs to improve wildlife management, create tourist infrastructure, and build tourism demand so that conservancies could capitalize on their wildlife resource. In all these efforts, government involvement extended over years and was at a depth that allowed promising programs to mature naturally.

Donors play a similar and complementary role. One key insight from the cases is the importance of determination, patience, and long-term commitment on the part of both governments and donors. The involvement of the US Agency for International Development in the Namibia, Bangladesh, Guatemala, and Niger cases provides a good example, spanning at least a decade in each instance. Other bilateral donors like the UK Department for International Development and international NGOs such as the World Wildlife Fund have shown similar persistence in these cases. Their mode of extended participation and financial support speaks forcefully to the point that effecting a permanent change in the expectations and livelihoods of the poor requires a long-term approach.

Beyond the Community Level: Addressing Challenges at the Macro Level

Earlier chapters adopt a village-level perspective to nature-based income, concentrating on the capacities that communities must develop and the actions they must take in order to create viable enterprises that reduce poverty. But for such a community-centered model to succeed, a supporting environment of functional national governance, accessible markets, and improved physical and financial infrastructure is required. Scaling up depends critically on actions that governments take to remove obstacles and provide support in matters beyond the local sphere. In the following sections we probe some of the macro-level changes needed to provide the necessary enabling environment to allow community-based enterprises to realize their full potential and scale up their impact. The changes needed to create that environment range from reducing the influence of elites and implementing fair tax and regulatory schemes to improving rural representation in national governments, making ministers more responsive to rural needs, and improving rural infrastructure.

It is an impressive and even daunting list, although it is by no means exhaustive. Behind these recommendations is the understanding, however, that many of the reforms called for have been lacking for decades and that change requires new incentives to alter policy and motivate conduct that is pro-poor. This is not easy. Resistance to the kind of changes that would create such an enabling environment is every bit as persistent as rural poverty itself. This emphasizes the importance of consistent and prolonged commitment by national governments to the goal of pro-poor development and the policy reforms that this requires. With genuine commitment from national leaders to alleviate rural poverty, real change is possible.

Rectifying and Expanding Rural Markets

Rural markets often possess a number of distortions that disadvantage rural smallholders and communities that seek to market nature-based products. Competition is often minimal, and villagers who produce nature-based commodities like charcoal or coffee usually do not capture much of the eventual retail value of their products. Governments have a vital role to play in making markets fairer and thereby able to yield greater income. The right policies can boost employment, helping to ensure viable livelihoods for the poorest.

The willingness of governments to confront the dysfunctions of rural markets must proceed from a genuine belief in the potential for rural small-scale enterprises to contribute to national economic growth. For decades, government policies in every natural resource sector—from agriculture to forestry to fisheries to mining—have favored large-scale producers at the expense of rural small-scale producers. This is in spite of the fact that small-scale rural enterprises are responsible for significant production and most of the employment in these sectors. In India, small forest enterprises account for 87–98 percent of all forest-related businesses and generate more than 80 percent of all revenues. Indeed, small and medium-size forest enterprises frequently account for 80–90 percent of all forest businesses in developing countries (Mayers and Macqueen 2007:1–2; Molnar et al. 2007:1–10). Likewise, smallholders are responsible for 90 percent of all agricultural production in Africa (WRI et al. 2005:35). In the burgeoning palm oil business, smallholders account for up to 90 percent of total production in West African countries and as much as one third of production in Indonesia and Malaysia, the world's two biggest producers (Vermeulen and Goad 2006:4).

The rationale for states to favor large-scale over small-scale operations has been predicated on the belief that the bigger outfits are more efficient and productive. Yet much research points to the fact that small enterprises, when they have the same level of technical help and financing as large ones, can be both efficient and profitable. For example, smallholder palm oil farmers with access to the latest technology have shown they can be as efficient as large-scale plantations and can achieve high net profits (Vermeulen and Goad 2006:6, 26, 28). Similarly, some small forest enterprises in Central America produce high-quality hard woods that are competitive and profitable in a global timber market dominated by larger producers (Molnar et al. 2007:43–46). Extending this productive potential beyond a few successful rural enterprises requires state action to challenge elite capture of resources and reform the regulatory and incentive structures that often determine whether a small business can get off the ground or instead withers quickly. It also requires targeted assistance with technology adoption, product improvement, business planning, and market development.

SMALL FORESTRY ENTERPRISES (SFES) PREDOMINATE

	Brazil	China	Guyana	India	S. Africa	Uganda
Number of SFEs (% of all forestry enterprises)	>98%	87%	93%	87-98%	33-95%	–
SFE Employees (% of all forestry employees)	49-70%	50%	75%	97%	25%	60%
SFE Revenues (% of all forestry revenues)	75%	43%	50%	82%	3%	60%

Source: Mayers and Macqueen 2007:1–2

Confronting Elite Capture, Encouraging Competition

Elite capture of local resources often proceeds with the government's tacit or explicit help. The more valuable the resource, the more prone it is to being used for political patronage, resulting in distortions in how resource concessions or access are granted. Subsidies may be targeted to a privileged few who qualify. Wealthy landowners or those with political influence have been very adept at using their power to exert control in the countryside and squelch competition. In Indonesia, the businessman Bob Hassan dominated the Indonesian plywood export market from the mid-1980s to the mid-1990s due to his close personal ties to President Suharto. As head of the plywood trade association Apkindo, Hassan—with government compliance —controlled plywood trade quotas and commanded shipping and insurance monopolies that left little room for small forest operators to negotiate (Gellert 2003:55–56, 64–68).

Although Hassan's level of dominance may not be typical, the use of political influence and wealth to gain resource access and discourage competition is still pervasive. Indeed, the rural economy is often beset with anticompetitive practices that end up concentrating profits in the hands of a few who dominate the commodity chain. Collusion among leading businesses in an area often leads to price-fixing in rural commodity markets or the formation of cartels that control trade in natural resources (Molnar et al. 2007:64; Gautam 2005:1–2). These make it hard for smallholders to receive a fair price for their production or labor and for small-scale enterprises to survive. In Senegal's charcoal trade, a handful of high-level traders and brokers capture most of the industry's profit, while woodcutters and low-level transporters and retailers work for subsistence wages. In many instances, the capture of rural commodity chains is enabled by manipulation of government regulations, often with the complicity of officials. Senegal's charcoal barons, for example, have used their dominance of state forest licenses—required of all who harvest, transport, or market forest products—to concentrate their power and control the charcoal market (Ribot 2008:2, 6). *(See Box 4.2.)*

Confronting anticompetitive behaviors such as these is a prerequisite for enabling rural nature-based enterprises to grow. While the necessity of creating a "level playing field" for businesses has long been preached by development banks and donors, many developing nations still lack basic competition laws and have yet to act aggressively to police the marketplace (Gautam 2005:6). Doing so means not only adopting progressive laws and oversight practices; it also requires that governments acknowledge the part their own regulations play in facilitating many anticompetitive behaviors and corrupt practices. Government has an obligation to ensure that regulatory instruments such as production quotas, transport licenses, and user fees are not abused through bribery or patronage and are applied in a manner that widens access rather than restricts it. Greater transparency in the application of such instruments is a necessary first step.

Adjusting Regulatory and Tax Regimes

Unfair capture of natural resource opportunities is not the only hurdle that small businesses face. Over-regulation by government and unfair tax policies also constitute significant burdens

for many nature-based enterprises. The state has a clear role in defining, encouraging, and enforcing sustainable natural resource management. Based on its synoptic view of the nation's ecosystems, the state must make sure that local resource exploitation patterns are compatible with the national vision for resource management and, when summed together, do not degrade the resource base. However, governments have a tendency toward heavy-handed regulation of community groups who manage natural resources. This often manifests as strict prescriptions for "best practices" that communities are required to follow or complex management plans that they must formulate before being granted the necessary permits to harvest or carry out management activities. In many cases these prescriptions are unnecessarily complex, do not respect local institutions or capacities, and impose a severe financial burden (Ribot 2004:54–59; Molnar et al. 2007:64–70). Thus, regulations that may be appropriate for industrial-scale enterprises managing large tracts of forest or significant fishing fleets can be overkill for small community-based enterprises, resulting in a competitive disadvantage.

Under Cameroon's 1994 Forestry Law, for example, the requirements for establishing a community forest include creating a management committee with a constitution, mapping the forest areas at issue and comparing them to the government's overall forest plan, and submitting a forest management plan. These steps have proved too complex and expensive for most communities (Ribot 2004:55). Similar planning and permit obstacles plague forest users in many other countries, including India, Nepal, Tanzania, Bolivia, Guatemala, Senegal, and the Philippines. In Guatemala's community forest concessions in the Petén region, the overlapping inspection requirements of donors, international certifiers (the Forest Stewardship Council), and government agencies burdened fledgling enterprises with high costs and hindered their transition to financial independence. In 2007, a survey of community forestry enterprises worldwide found that artificial and overdemanding rules for management plans and other required permits and procedures—and the high costs associated with them—were major obstacles to the success of community-based businesses (Molnar et al. 2007:66–70).

Overzealous government oversight and micromanagement of community enterprises amounts to resistance to true devolution of resource rights to local communities. It often stems from fear by government bureaucrats that rural communities lack the capacity—and therefore cannot be trusted—to manage resources responsibly and efficiently. This lack of "capacity" is used as an excuse to delay granting the necessary government permission, often without offering any avenue or resources for gaining the required capacities or meeting the required standards. The net result is that the government retains its accustomed role at the center of resource management (Ribot 2004:59–65).

An alternative to the over-regulation of community-based natural resource enterprises would be to adopt a "minimum standards" approach. The national government would establish a minimum set of rules or standards that community members must follow in their management but would grant communities flexibility in how they meet this standard. For instance, environmental standards could be set for how much of a forest can be cut in a single year, what rare or endangered species are not to be harvested, or what seasons are off-limits for fishing in order to encourage spawning and stock replenishment. On the other hand, all activities not specified in the environmental rules or not at odds with the environmental standard would be allowed without the need for a permit or management plan. This would reverse the current regulatory structure in which only activities specified in the management plan are allowed (Ribot 2004:56–59).

Minimum environmental standards or targets could provide the flexibility that local groups need to adapt and innovate in their management without compromising sustainability. Of course, this would only be possible if reasonable sanctions were in place for breaching the standards, such as fines or temporary loss of harvest rights. As in any regulatory scheme, credible monitoring and enforcement would be crucial. Simplicity and clarity of the standards and the consequences of failure to meet them would also be a key factor in the success of this approach (Ribot 2004:56–59).

In addition to their substantial regulatory burden, small nature-based enterprises also commonly suffer from inappro-

FORMAL AND INFORMAL TAXES ON FOREST PRODUCTS, QUANG NINH PROVINCE, VIETNAM, 2004

Tax	Assessed On	Assessed By	Receipt	Amount
Commune road fee	Truck owner	Guard station	No	10,000-50,000 Dong per truck
Village fee	Trader and truck owner	Village	No	20,000 Dong per truck
Commune resource tax	Trader	Commune	Yes	50,000 Dong per truck
Forestry inspection fee	Trader	Forestry inspectors	No	20,000 (for trucks) / 250,000 Dong (for boats at port)
Police fee	Trader	Police	No	20,000 – 250,000 Dong per trader or truck
State forest enterprise	Trader	State	Yes	Variable
Value added tax	Trader	District	Yes	5%
Resource tax	Trader	District	Yes	Up to 13%
Buy-from-afar tax	Trader	District	Yes	10%

Source: Thi Phi et al. 2004:13, 16–17

priate tax policies. In the upland areas of Vietnam, farmers and traders of forest products are subject to as many as nine formal and informal taxes when they market their products, including road fees, village taxes, resource taxes, inspection fees, a value added tax, and a tax on forest enterprises. Road taxes and the expected bribes at inspection stations alone can add as much as 30 percent to the original farmgate price when transporting goods to Hanoi, posing a serious threat to business and suppressing profits. So high was the accumulated tax burden in Vietnam's Ba Che district that cinnamon traders finally abandoned the area (Thi Phi et al. 2004:13, 16–17).

Even established businesses are impeded by such burdens. In the Compostela Valley in the Philippines, one prominent community forestry cooperative in business since 1996 has been consistently hindered by a combination of high regulatory costs and a high tax rate on forest activities (Molnar et al. 2007:69). If small nature-based businesses are to be encouraged, the aggregate burden of taxes, fees, and permit charges must be lowered. In addition, certain kinds of taxes hit small producers particularly hard, such as those applied at the point of resource extraction. Reconfiguring the tax burden so that it falls more heavily at points higher in the value chain could benefit enterprise formation without unduly reducing total tax receipts (Molnar et al. 2007:64, 74).

Other distortions of the rural marketplace also affect small ecosystem enterprises and may likewise need adjustment. For example, governments frequently intervene in agricultural and forest markets by creating state monopolies to control the sale or trade of nature-based products. In Vietnam's Ba Che Province, all producers of bamboo, pine resin, cinnamon, and sandalwood must sell their product to the State Forest Enterprise for processing and trade (Thi Phi 2004:28). Until recently, all coffee producers in Ethiopia had to sell their product through the national coffee auction (Dempsey and Campbell 2006:2). While these entities can offer some stability of prices and an unambiguous outlet for products, they can also stifle local initiative, suppress market prices, and impede the maturation of local enterprises. They constitute another level of state control that is not beneficial to rural entrepreneurs.

Providing Technical, Research, and Marketing Assistance

In addition to correcting market distortions, the government must offer positive encouragement and support to expand rural markets. Governments have a legitimate role in a number of areas, such as helping to set product quality standards and undertaking product research—tasks that small enterprises are ill prepared to perform. In the early 1990s, the government of the Indian state of Andhra Pradesh sponsored research on karaya gum—an exudate collected from gum trees by poor indigenous families in the state and used in the food and pharmaceutical industries. The state knew that karaya gum collection provided an important income source for many rural indigenous families, but poor gum quality suppressed the demand for the product, and poor harvesting techniques injured the trees, decreasing output and shrinking income potential.

Through a state-run corporation, Andhra Pradesh interviewed karaya gum users and conducted lab and field tests on different harvesting, processing, grading, and storing techniques to determine appropriate product standards and pinpoint the optimum methods to harvest and prepare the product. The state corporation then organized training programs to communicate these new methods and distribute better harvesting tools. Due to these initiatives, the quality of the gum has increased considerably, the market has stabilized, and the market price per kilogram has risen two- to threefold, depending on the grade of gum. Gum-related income has risen in step with the higher prices. In essence, a relatively small investment by the state revolutionized the traditional karaya gum trade and made it a more reliable and profitable business (IRG 2005:1–18). Supporting similar research efforts focused on production and quality concerns surrounding medicinals or the many other natural products that form the basis of many rural enterprises could presumably achieve similar increases in market potential and family incomes.

The government also has an important role to play in introducing new technologies, improved seed and plant varieties, and more effective resource management methods that rural producers would have trouble developing on their own. In Indonesia,

BOX 4.2 THE DIFFICULTY OF DEVOLUTION: SENEGAL'S STRUGGLE TO SHIFT FOREST MANAGE

EMPOWERING LOCAL COMMUNITIES WITH resource rights seems straightforward, in theory. But transferring meaningful power over local resources to rural communities is often difficult in practice. Forest management in Senegal is a prime example. Senegal's legislature enacted substantive legal reforms in 1996 and 1998 that were intended to shift management and control over local forests from the Forest Department to elected local councils. But a series of obstacles has frustrated the intent of these laws and thwarted real decentralization of forest authority (Ribot 2008a:1).

Since the decentralization reforms, most rural communities have seen little increase in their ability to earn forest income, which was one of the intended benefits of the reforms. Charcoal—made by the partial burning of trees—is the dominant cooking fuel in Senegal's large cities and the principal commercial output of Senegal's forests. Despite supplying lucrative markets with charcoal, the forest villages still cannot profit outside of project areas that are under the protection of donors (Ribot 2008a:3).

Since colonial times, forestry in West Africa has been marked by a top-down approach that has excluded rural communities from forestry decisions and economic gains. In Senegal, authority over forests was exercised by the state Forest Department to serve the commercial sector and meet urban fuel needs. Forests were not managed to develop village economies. Over the past 15 years, Senegalese lawmakers have tried to address this imbalance through successive revisions of the forestry laws. In 1993, they blessed the idea of community forest management by allowing rural councils—the elected bodies that represent the smallest unit of local government—to participate in managing local forests. Under this plan, the country's Forest Department retained total control over the forest resources—allowing villagers to "participate" in the labor of management (Ribot 2008a:4–5).

In 1996 the nation enacted a major decentralization law that required the transfer of direct control over community forests to rural councils. The 1998 Forest Code acted on this directive, granting rural councils the sole right to exploit community forests commercially but also requiring them to develop management plans for their forests so that exploitation would follow good forestry practice (Ribot 2008a:4–6).

In spite of these legal reforms, the old top-down forestry model has by no means died away. For one, professional foresters in Senegal's Forest Department are not convinced that rural communities can manage forests adequately on their own yet—or at least that they will manage them in the best interest of the nation (Ribot 2008a: 1-2). But a more fundamental reason for resistance to the new community forest orientation is its potential to change the dynamics of the nation's charcoal market. The Forest Department has been a key player in a well-established system of forest exploitation that is dominated by urban charcoal merchants. The charcoal market is well oiled with money and political influence, and the current set of vested interests is not anxious to see this situation change (Ribot 2008a:iv).

Under today's system, urban charcoal merchants and distributors have near-monopoly control over the market, allowing them to reap the bulk of the profits. The charcoal process begins when a city-based charcoal merchant hires a team of migrant workers to harvest timber from a forest and convert it to charcoal on-site in an artisanal charcoal kiln (Ribot 2008a:3). The charcoal is then transported by truck or train to cities such as Dakar and sold to distributors, who in turn sell bags of charcoal to individual retail vendors for eventual purchase by city residents (Ribot 2008a:17).

In this system, rural villagers reap virtually no income, because neither the merchants nor the charcoal crews are local. Village chiefs may receive some payoff from charcoal merchants, and the charcoal crews may pay for lodging in village homes, but little else trickles down to the local economy (Ribot 2008a:4). In any case, the charcoal makers—whether local or migrant, work for subsistence wages, while merchants and urban distributors profit handsomely. In 2002, the average merchant reaped

PROFIT DISTRIBUTION ACROSS SENEGAL'S CHARCOAL MARKET CHAIN, 2002

Actor	No. of Actors in Senegal	Average Net Profit Per Actor After Subsistence Subtracted (US$/actor)	Total Market Net Profit (US$)	Distribution of Total Market Net Profit (%)
Woodcutter	9,827	134	642,930	15.9%
Foreman	246	438	52,556	1.3%
Merchant	640	3,815	2,196,053	54.3%
Urban Wholesaler	n.a.	2,922	876,461	21.7%
Urban Retailer	3,306	326	279,256	6.9%
TOTAL	14,018		4,047,255	100.0%

Source: Ribot 2008b.

Hauling charcoal in Senegal

a net profit of $3,815—nearly 30 times the $134 earned by those who cut and produced the charcoal (Ribot 2008b).

Because of the lack of economic benefits for local residents, most are not in favor of letting their forests be cut for charcoal, and their rural councils feel the same way (Ribot 2008a:7). Instead, many communities would like to enter the charcoal market on their own terms and capture more of the benefits. But they are blocked by the Forest Department. In the past several years a few communities have been able to enter the market under the protection of well-financed development projects (Larson and Ribot 2007:197). But outside of the project areas the new laws empowering rural communities are ignored and business-as-usual exploitation continues.

Although the new forest laws technically give rural councils the power to decide whether to allow cutting for charcoal in their forests, the Forest Department has found effective ways to thwart this authority and maintain central control. For example, the Forest Service has set strict rules for the mandatory forest management plans that rural councils must submit before the state will grant them authority over their forests. Local communities find it nearly impossible to develop these detailed plans, which are expensive and, arguably, unnecessarily complex (Ribot 2008a:7). In fact, to date only four rural communities have managed to submit plans acceptable to the government since the 1998 Forest Code was enacted—and those were only completed with support from foreign donors. Without an approved plan, the Forest Department retains management authority over a community's forest (Larson and Ribot 2007:200). In contrast, commercial charcoal harvesters do not need to submit any management plan before harvesting—they are allowed to cut without plans in areas assigned to them by local forest agents (Larson and Ribot 2007:200).

The Forest Department also has other ways to exact its will. It has authority to require and to allocate permits to produce, store, and transport commercial forest products. It also sets the quota for how much wood will be cut for charcoal—a power it has long used as a source of political patronage and power—and it determines which areas are eligible for cutting (ostensibly, with the permission of the local council) (Larson and Ribot 2007:199, 200). The Department uses these powers to put pressure on local communities. If a rural council questions whether to allow cutting for charcoal, local forest officials, merchants, and powerful political actors will contact the President of the council and usually bully or bribe him to give his permission to cut. Rural councils complain that, with no approved management plan of their own, they have little choice but to comply (Ribot 2008a:16). The result is that real power over harvest and management of forests has not shifted to local communities as intended.

The Senegalese experience demonstrates that without a reasonable set of rights to manage, use, and market natural resources, nature-based income will remain out of reach. In this case, forest villagers are barred from the charcoal market. But Senegal's story equally demonstrates that entrenched economic interests and their Forest Service allies can effectively block the empowerment process, even when progressive laws are in place. Merchants, foresters, and local chiefs with a stake in the Senegalese charcoal industry as currently configured have an incentive to work against the empowerment of elected rural councils and their rural constituents, whose entry into the industry will bring greater competition and will challenge the merchants' dominance of the charcoal market.

Changing this state of affairs will require dismantling the policies that let the Forest Department undermine local authority and allow urban merchants to dominate the charcoal industry. That means abandoning the system of quotas and permits that concentrate market access in the merchants' hands and loosening the requirements for forest management plans. But the political reality is that this will not be easy. Further, when the laws and regulations are changed, the bigger job will be to change practice—especially the culture of domination by forestry agents and urban merchants. The permit and quota systems were, by law, supposed to be phased out in 2001, but the deadline has long passed. In January 2008 the Minister of Environment signed another decree promising to eliminate the quota—even though it was already legally abolished (Ribot 2008b). Will the Forest Department relinquish its sources of power? If not, is the legislature prepared to force the issue?

government-supported nurseries are helping to free small-scale palm oil producers from one of their key competitive constraints by supplying them with the same high-quality seed stock that large plantations use (Vermeulen and Goad 2006:33). Technology interventions need not be highly sophisticated or expensive to be effective. In central and southern Africa, significant increases in honey yields have been realized by introducing new beehive technology, such as replacing traditional bark or clay hives with simple wooden structures with removable slats (Molnar et al. 2007:25; FAO 2005a:19–21).

Government guidance and support should not be confined to technical and production issues. It should also extend to business planning and market analysis—skills that are required early in the enterprise cycle. Local NGOs and intermediary support organizations frequently take on the task of helping local enterprises ascertain their markets and prepare business plans, but governments can sometimes work at a higher level to coordinate these services. In The Gambia, the government adopted a stepwise method of helping communities determine the most suitable forest enterprises for them to invest in for maximum benefit.

The program—called market analysis and development (MA&D)—is directed at communities that have established legally designated Community Forests under the state's community forestry rules, which were put in place in the early 1990s. In each community, the MA&D method proceeds in three phases. First, community members, with the help of a facilitator, assess the community's financial objectives and inventory their forest resources. Second, they identify potential forest products, evaluate their market potential, and select the most promising. In the final phase, the community crafts a business plan, explores financing arrangements, and is guided through a pilot phase of the enterprise (FAO 2005a:9–41).

One of the strengths of the approach in The Gambia is the melding of practical and political concerns. The government saw its adoption of the MA&D program as part of its overall effort to decentralize forest management and enhance forest livelihoods. It integrated the practical step of building local business capacity with the political reform of creating Community Forests, realizing that community forestry would only work well if it resulted in real benefits to the local economy (FAO 2005a:1–3, 59–60, 63).

Another way in which governments can help nature-based businesses expand their markets is in the area of product certification. Many small producers of coffee, spices, tea, timber, vegetables, and a number of other commodities and crafts have added value to their products by certifying them as organic, Fair Trade, or "sustainably harvested." However, certification can constitute a considerable technical and cost barrier for small businesses. Governments can facilitate the process by making sure state regulations support and encourage certification and by providing technical assistance and even financial support in some instances. Certification is not likely to be useful or attainable for all enterprises, however, and governments should be cautious about making certification a requirement for resource management—as has happened in some cases—lest it become an inadvertent barrier (Molnar et al. 2007:58).

COST TO PRODUCERS OF INTERNATIONAL CERTIFICATION (US$)

	Initial Certification	Ongoing Costs
FSC*	$7,500	Yearly Audit: $2000 Documentation: $2,500 Compliance: $10,000
Fair Trade**	$780 application fee + $3,125 certification fee.	Yearly renewal: $1,560 - $2,500 Compliance: Varies

*Average for Oaxaca, Mexico community forests of over 4,000 hectares
**For small farmer organization between 50 and 100 members:

Source: Molnar 2003: 17; FLO-CERT 2008.

Overall, the guiding principle in offering state technology, marketing, research, or other services should be that these programs are rooted in the demand from local enterprises. State extension services are nothing new, but there is abundant evidence that many such efforts fail to achieve their goals. In Indonesia, for example, the government funds nearly 130 separate programs to support small and medium-size enterprises, but evaluations suggest that few meet their goals. A stronger element of local design would undoubtedly improve the effectiveness of these programs (World Bank 2006a:xii).

Improving National Governance

It is not enough to catalyze good governance at the community level if this good practice is undermined at the national level. Rural communities are often marginalized within national policymaking, leading to a lack of policy attention that can work against community enterprises. This is true both within national legislative bodies and within government ministries where the regulatory regime governing natural resource use is forged and enforced. The result is that rural communities face a lack of representation of their interests, often resulting in onerous regulations that handicap their ability to manage local resources. At the same time, government line agencies often perpetuate a top-down mentality that can runs counter to the community-driven approach that is known to foster scaling up of nature-based enterprises. While we concentrate in this section on the challenges of improving rural representation and the importance of reorienting the attitudes of line agencies, we realize that many other steps are necessary to improve national governance for nature-based enterprise, such as more complete decentralization of natural resource governance, less tolerance for natural resource–based patronage and corruption, and greater access to judicial redress for the rural poor whose resource rights have been violated.

Revitalizing Rural Representation in National Legislatures

Most nations have national legislative bodies based on the principle of representation, where legislators ostensibly represent the interests of citizens and are accountable to them—usually through elections. National legislatures are supposed to be the "People's House." They are designed to be the central government's main venue for articulating the popular will in national decisions—a bridge between ordinary citizens and their government. However, they can only fulfill this mission if legislators perform adequately as representatives of their constituents' concerns (Veit 2007:10).

Unfortunately, legislators face a number of disincentives to actually serve the interests of their rural constituents. As a result, they often do not use their lawmaking and oversight powers to protect rural communities from environmental exploitation or to argue their rural constituents' case for greater resource rights (Veit 2007:14). In a recent study of nine African legislatures, the dysfunctions typical of such legislative representation were clear. Across all the countries studied, there were strong incentives to support executive branch and party interests and few to represent local matters. Researchers concluded that "legislators are not downwardly accountable to their electors, do not have sufficient autonomy from political bosses and institutions, and lack the authority and capacity to effectively address their constituents' concerns." The result: many local views are routinely misrepresented in the legislature, and thus rural concerns—particularly concerns related to the environment—are not well represented (Veit 2007:37–38).

Correcting the legislative incentive structure and providing more direct and accountable representation is paramount if legislators are to become forceful advocates for small rural enterprises based on nature. This will require adjustments of the legislative process itself.

In many legislatures the bond between citizens and their legislators is weak. In part, this is due to the lack of transparency in legislative processes and the difficulty of getting basic information about what legislators are doing and how they are voting. In most African nations, for example, votes by legislators are not recorded and parliamentary sessions are not broadcast on radio or television. Committee meetings are often closed to the public, and special parliamentary reports or investigations are not routinely released to the public or translated into local dialects. This lack of information makes it difficult to hold legislators accountable for their actions (Veit 2007:20). Often the only way local constituents can judge the performance of their representative is by the "constituent services" they deliver—the direct help that legislators sometimes give to constituents to address a particular problem (Veit 2007:20–21).

While legislators may have weak accountability to their rural constituents, they are often quite beholden to more powerful political figures, such as party officials, cabinet ministers, the president, or other members of the executive branch. In fact, the executive branch routinely wields control over legislators through a combination of special favors and intimidation. On the one hand, the executive can offer opportunities for career advancement, such as a cabinet seat, an ambassadorial post, a position in local government, or an appointment to a key parliamentary committee. Many African nations maintain large numbers of presidential appointments for just such patronage purposes. Uganda, for example, has 21 cabinet ministers and 45 ministers of state. On the other hand, failure to support the executive can bring various kinds of harassment and withholding of access and money for constituent services (Veit 2007:24–25).

Political parties are a second pole of influence that demands legislators' attention. Party leaders often play a major role in deciding who will run for office, what committee positions legislators will occupy, and what resources they will have access to. Party officials routinely pressure their members to maintain party discipline and follow the party line. This discourages legislators from taking individual actions such as strongly defending local interests or opposing their party's stand on natural resource issues, including resource concessions, royalties, and subsidies (Veit 2007:25–28).

Even in this environment of weak downward accountability and strong incentives to serve party and executive interests, some legislators do become effective advocates for their rural constituents. But they often pay a political price. In 1997, a Cameroon legislator argued against a forest management agreement that the government had signed with a local forestry company near the Mengame Gorilla Reserve. The legislator objected on the grounds that the volume of timber the company was cutting was greater than it was reporting, while the benefits to his constituents—who lived in that area—were less than their due. Under pressure from the legislator, the agreement was revoked and an advisory board—with some members representing his constituents—was set up to help guide management of the reserve and development in the surrounding communities. For his work against the administration, the legislator was later sanctioned by his party and dropped from its list of candidates in the next election (Veit 2007:29–30).

As this example shows, the current lack of effective and responsive rural representation is not inevitable, but it is deeply entrenched. Addressing the breakdown of legislative representation will require significant reforms of the way power is configured within the legislative and executive branches of government. For example, the accountability of legislators can be raised first by simply increasing transparency and information flow about legislative processes. Adopting Freedom of Information legislation is often vital in this regard. In addition, providing citizens with the authority to recall their legislator in the event of misconduct and shortening the terms of legislators so that they must stand for election with greater frequency will also tend to increase their responsiveness to the electorate (Veit 2007:41–42).

Legislators' autonomy can be increased by limiting the influence of political parties; permitting independent candidates to run for office and allowing lawmakers to switch parties midterm would be a step in this direction. Curbing the executive's influence could be pursued by restricting the number of appointments he or she can make and requiring that all appointees be confirmed by the legislature. Restricting the executive's influence over the selection of legislative leaders such as the parliamentary Speaker or committee chairs would also help. Empowering the legislature to impose sanctions on government officials for poor performance would increase the vital oversight function that legislatures must perform in a healthy democracy (Veit 2007:40–41).

Such political reforms are never simple, but they are certainly not without precedent. Governments in Africa and elsewhere have already initiated wide-ranging political reforms in the last two decades that, if followed through, can empower legislatures, further decentralize power, and make it easier to stand up for rural constituents. In contrast, failure to strengthen rural representation will perpetuate the competitive and political disadvantage that rural enterprises now face with respect to their urban counterparts.

Reorienting Line Agencies toward Participation and Service

In spite of the move to decentralize natural resource rights, government line agencies often persist in their top-down approach to interacting with communities. For at least a decade, proponents of community-driven development and community-based resource management have suggested that government bureaucracies responsible for managing natural resources must reorient their approach. A greater emphasis on delivering support services and a greater embrace of community participation in resource management decisions is necessary if community-driven enterprises are to be developed (Esmail 1997:55–58; Pozzoni and Kumar 2005:22–23; Kolavalli and Kerr 2002:227–233).

Unfortunately, this goes against the culture and training of most natural resource line agencies, which are populated with professional resource managers trained with a mandate to manage the resource for production, not for community development purposes. Line agencies' culture of control derives from their traditional dominance of the planning process as well as the regulatory system of permits, quotas, and licenses that is central to production and marketing of natural resources. Participation and consultation threatens this control and is often seen as outside the agency's core competence, overly complex, and ultimately inefficient. It is not surprising then that, as one researcher noted, "though top-down planning has lost much of its luster in the past decade, it remains a powerful organizational reflex" (Howard et al. 2001:7; Kolavalli and Kerr 2002:228).

Increasing the responsiveness—or downward accountability—of line agencies to rural communities will require a number of interlocking strategies. First is a redefinition of the mission of these agencies, with the focus shifting from control to facilitation and from product to process. Rather than conceiving and measuring success in terms of production targets, the agency must now be seen as encouraging a fruitful decision-making process, balancing community and industry use of ecosystem resources, and delivering capacity-building services that eventually enable community-led production through local enterprises. An important part of this mission shift is the acceptance that the timeframe for a given project or intervention will be lengthened to allow more time for capacity development and strengthening of the local organizations that will become the frontline resource managers (Pozzoni and Kumar 2005:22).

Greater attention to community concerns and capacity development will not happen in a day. It can be hastened by developing a new slate of performance indicators that reflect this change in mission and by tying promotion and compensation to these indicators. NGOs may be able to provide a useful service by acting as community watchdogs, grading agencies on their services and processes (Kolavalli and Kerr 2002:228, 231). There is also a part to be played by the media and other influential parties, such as members of parliament or other government departments. Such actors can often exert indirect pressure to change ineffective attitudes and reward new approaches (Vania and Taneja 2004:117).

Capacity-building within the agencies themselves is obviously a crucial step in making this cultural transition. Few agencies have staff equipped with the professional skills most useful in encouraging participatory processes, and few line staff think of themselves primarily as service providers. Of course, requirements for community participation are not entirely new, and training programs on participatory methods have become more common in recent years. But these have not yet prompted fundamental changes in staff competence or attitudes. Bringing about that kind of shift will require a new incentive structure that rewards staff for attitudes that foster participation, such as openness, tolerance, and adaptability (Pozzoni and Kumar 2005:22; Kolavalli and Kerr 2002:228).

Indeed, many observers suggest that line agencies, to remain effective in their new role, must make greater efforts to become "learning organizations" that give staff more autonomy to make joint decisions with communities and that encourage risk-taking, innovation, and an ability to record and disseminate lessons. Such an organization would be in a good position to help community-based enterprises tackle the management and marketing challenges they face (Bainbridge et al. 2000:12–13).

Improving Physical Infrastructure

One of the most profound obstacles to market penetration and commercial success for rural enterprises is physical isolation. Roads and communication links to the outside world are notoriously inadequate in most villages, restricting the ability of community members to send their products to market, to collect and share market information, or, in the case of tourism, to provide access to the customer base. In the mountainous province of Benguet in the Philippines, rough roads make it a jarring six-hour journey to the lucrative vegetable markets of Manila. Transportation costs and broker fees hit Benguet farmers hard, forcing them to sell their produce for five times as much in Manila as in their home villages, reducing their competitiveness without giving them any extra profit (Beattie 2007:1). Their plight is an example of how important the improvements in rural infrastructure are to bettering the prospects for nature-based enterprises.

Governments have long known that economic growth requires infrastructure investment, and studies in developing countries have particularly identified the economic benefits of roads and telecommunication networks to rural communities (ADB et al. 2005:79–82). Better roads and telecommunications open new markets and attract new business investment, in addition to helping rural people serve their traditional markets better. Inexpensive mobile phone service, for example, has expanded the ability of poor fishers off the southern Indian coast to market their fish, letting them contact wholesalers in a variety of local ports to alert them to the quantity and timing of their catch and allowing the fishers to bargain for a fair price (Sullivan 2006:1). Improved road and communication infrastructure also

gives rural people more access to government and financial services and a greater ability to participate in the political process and advocate for their interests (Jahan and McCleery 2005:11, 17).

Infrastructure investments are especially important to the poor (World Bank 2005:74–75). Studies in India, for example, show that investments in roads are nearly twice as effective as other forms of government expenditures in reducing rural poverty (Fan et al. 1999:39–41). In Vietnam, poor households living in communes with paved roads have a 67-percent greater chance of escaping poverty than those without paved roads (Ali and Pernia 2003:6). The poor often define their poverty in terms of access to infrastructure such as roads, schools, and health centers (Fan et al. 2004:26).

In spite of its recognized benefits, infrastructure investment remains difficult and controversial, particularly as it has traditionally been practiced. Large road, dam, energy, irrigation, or telecommunications projects are often expensive, prone to corruption, and subject to poor maintenance, increasing the ratio of costs to benefits. In addition, many infrastructure projects carry high environmental and social costs. While roads increase market access, for example, they also may encourage encroachment and increase competition for natural resources, make enforcing resource management rules more difficult, or raise local land prices, thus increasing land insecurity for the poor. In addition, many rural roads are built not by the government to serve rural communities but by extractive industries for the purpose of tapping rural resources—often the same resources local enterprises would otherwise use. All these factors can work against the success of local nature-based businesses.

The New Paradigm: Community-Driven Infrastructure

To meet the challenges of upgrading rural infrastructure, a new paradigm has emerged that accepts the need to approach such infrastructure with social and environmental sustainability in mind. This requires being more sensitive to local demand and more community-focused, drawing on a process of consultation with affected communities. As much as possible, it also enlists communities in building and maintaining new infrastructure and demands of them a financial commitment—typically 10 or 15 percent of the total cost. This kind of community-driven infrastructure often involves smaller-scale projects that can be planned and undertaken at a local level and then integrated into larger infrastructure networks (Jahan and McCleery 2005:23–45; Torero and Chowdhury 2005:5; Adato et al. 2005:67–69).

Small-scale, community-based infrastructure projects have shown that they can confer a variety of local benefits and can better target these to the poor. In Bangladesh, a project to build portable steel bridges across local rivers has greatly increased mobility in the communities that chose to participate. In the Savar area, travel times to the nearest market, school, and hospital were cut by 75 percent, and travel costs fell by two thirds. Farmers are able to move their perishable products such as milk more quickly and thus realize greater income and less spoilage. Women in particular have benefited from the small, strategically located bridges and can more easily seek wage employment now; girls' school enrollment rates have also climbed with the increased safety of river crossing (Jahan and McCleery 2005:35–36).

PORTABLE BRIDGES SAVE TIME AND REDUCE COST OF MOBILITY IN SAVAR AREA, BANGLADESH

	TIME (minutes)		**COST** (taka)	
	Before	**After**	**Before**	**After**
Nearest school	60	15	15	5
Nearest hospital	75	22	20	7
Nearest market	60	15	15	5

Source: Jahan and McCleery 2005:35–36

One of the strengths of a community-based approach to infrastructure is that it often directs resources to problems that large-scale infrastructure programs ignore. For example, while many national road projects are focused on building or upgrading primary roads that connect villages and cities, recent research makes it clear that improvements in road infrastructure should not stop there. Feeder roads as well as a variety of informal village paths and tracks are also crucial for the day-to-day transport that supports rural businesses and gives the poor access to natural resources (Hettige 2007:2–3). In Uganda, state investments in rural feeder roads are three times more effective in reducing poverty than expenditures on paved roads, because they directly contribute to greater agricultural productivity (Fan et al. 2004:47). Maximizing the effect of road-building programs on ecosystem-related businesses thus requires reorienting them to include these crucial secondary routes—routes that would be appropriate targets for community-based efforts.

Community-driven infrastructure projects also confer the same kind of empowerment and engagement benefits that other community-based efforts do. Participation of community members in planning and execution of infrastructure projects builds a sense of collective ownership of the roads, water works, or other infrastructure that is built. Cost-sharing and responsibility for long-term maintenance of the facilities reinforce this feeling and make it more likely the infrastructure will continue to deliver benefits in the future. Working together on infrastructure projects builds community solidarity and social capital in the same way that joint resource management does (Jahan and McCleery 2005:36–38; Adato et al. 2005:xi). In fact, the two may reinforce each other, with small-scale infrastructure programs acting as a catalyst for a variety of local enterprises, and these enterprises in turn providing a rationale for continued infrastructure maintenance. Conceived in this way, it is not hard to imagine that infrastructure investments, when appropriately planned and executed in a way that meaningfully involves the user communities, can play a critical role in scaling up nature-based enterprises.

While the community-based approach to infrastructure development has clear advantages, it still depends on strong support from national government to succeed. Infrastructure networks clearly require high-level planning and coordination—traditionally a government responsibility—if they are to provide transportation, communication, power, or water in an integrated and equitable manner. And even if local communities contribute a portion of the budget through cost-sharing, the bulk of infrastructure financing will appropriately come from state coffers. In addition, government expertise is needed to help communities evaluate the safety of existing infrastructure such as bridges and roads in the face of the increasing risk of natural disasters associated with climate change. Government oversight and facilitation will thus continue to be required even if local communities are given considerable budget authority over local projects. Governments must therefore carefully balance their coordination, oversight, and funding roles without unduly interfering in the conduct of decentralized, small-scale, locally driven projects if they are to discharge their mandate to provide the "built capital" that rural development requires.

Providing Adequate Finance

Like all businesses, small rural enterprises need financing to bankroll their start-up costs and expand their operations as they mature. Yet access to such financing has traditionally been extremely limited. Community-based businesses—particularly when undertaken by the poor—are characterized by high vulnerability and lack of collateral, a financial profile that has left commercial banks reluctant to extend conventional loans to this sector. Loan sharks were often the only available source of funds.

Today the microcredit industry has begun to address this financing void. Over the last three decades, small loans—typically between US$20 and US$500—have become increasingly available to a range of rural and urban enterprises. Inspired by the success of Grameen Bank and other similar initiatives, a host of NGOs, credit unions, community-based organizations, and government funds have entered the microcredit market. The Microcredit Summit Campaign, a nonprofit dedicated to tracking these services for the poorest populations, reported that at the end of 2006 there were 3,316 microcredit institutions worldwide, serving more than 133 million credit recipients (Daley-Harris 2007:2). This growth—and much more—is necessary to finance any substantial scaling up of nature-based enterprises. At the same time, the microcredit field has morphed into the broader "microfinance" industry, expanding into other financial services targeted to the poor, such as "microinsurance." Even remittances—the funds sent home by family members who emigrate to urban areas or to other nations—have become a target of the microfinance industry, as service providers try to reduce the costs and increase the impact of these transferred savings.

The microfinance world is maturing in other ways as well. Urged by governments and encouraged by the success of NGO and government microcredit operations, commercial banks have increasingly entered the microcredit field, servicing over 17 percent of all microcredit customers (Gonzalez and Rosenberg 2006a:6). The private sector role is growing across all forms of microfinance. Many major banks are adding microfinance

products, and commercial insurers are seriously considering how to provide life insurance, crop insurance, and even health insurance in a "micro" form to a historically underserved and often unreachable market. In the remittance sector, too, money transfer operations are competing to attract immigrants' business, forcing down the cost of sending remittances. This positive feedback loop between migration and falling remittance costs pushed remittances to developing countries alone to an estimated $239 billion in 2007 (World Bank 2008).

Against this background of change and expansion, government's role is changing too. While financing opportunities for enterprises have definitely expanded, they still fall far short of the need. In India, for example, some 70 percent of small farmers still have no access to credit (World Bank 2007a:1). Overall, some 3 billion people could benefit from microfinance services, but only about 500 million currently have access to them (World Bank 2007b:2). Governments must therefore continue to encourage the expansion of the commercial microcredit industry by providing the basic economic conditions this requires: a stable macroeconomic environment and a legal system that is safe for investment. At the same time, governments must take a more robust role in regulating the microfinance industry and encouraging competition and improved products. In addition, governments will need to remain involved as investors themselves to make sure that the poorest enterprises are served—a market that the private sector may never be able to serve well (Hashemi 2001:1).

Helping Microcredit Mature

Microcredit has proved its effectiveness and profitability since Yunus and his compatriots helped pioneer the concept in the late 1970s. In 2006, microfinance organizations reported an average loan loss rate of just .9 percent: on average, only .9 percent of the lender's gross loan portfolio is unrecoverable (MIX 2008:44,53). Interest rates on microloans typically range between 18 and 70 percent, depending on the lending institution and the circumstances of the loan (Grameen Foundation 2007).

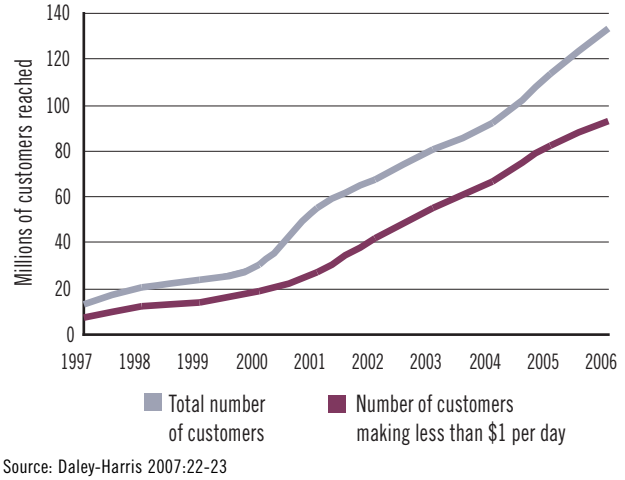
Attracted by the high repayment rates and interest rate potential, private sector banks have been entering the lucrative and underserved microfinance arena in increasing numbers. Large financial institutions like Citigroup, Deutsche Bank, and American International Group now provide wholesale loans to microfinance institutions around the world, and hedge funds and governments have also begun investing in microfinance (Parks 2007). Such is the interest in microfinance investment that Compartamos, a high-profile microfinance bank in Mexico, held a successful initial public offering (IPO) of stock in 2007 to become a publicly traded company. Since the IPO, Compartamos' net income has risen 38 percent over the previous year (Compartamos 2007; Parks 2007).

The financial resources and management skills that commercial banks can tap have brought new dynamism to microfinance, where 44 percent of all borrowers are now served by profitable institutions (Gonzalez and Rosenberg 2006b:3). Commercial banks also bring advantages that complement the capabilities of the NGOs and community-based groups that pioneered microcredit. For example, regulated banks are not constrained by the same rules for accepting funds and accumulating profits that NGOs typically must follow. NGOs usually have a more difficult time raising money to finance their loans, since they cannot technically accept deposits like a bank and must rely heavily on grants (FAO 2005b:34–35). Likewise, savings cooperatives cannot usually tap commercial credit markets and can only cover their loans by expanding their limited depositor base (FAO 2005b:34–36). Commercial banks thus bring greater firepower and the hope of considerably expanding the credit pool.

The entry of commercial banks into microfinance is not the only transformative change under way in the industry. The Internet has made information on microfinance widely accessible, connecting these institutions around the world to potential donors and investors. For example, the Microfinance Information Exchange Market website contains detailed information on more than 1,000 microfinance institutions and 100 funders, citing statistics on their portfolios, financial standing, and transparency (MIX 2007). Even individuals can now invest in microfinance. Via the Internet, the would-be investor can view the profiles of small entrepreneurs and invest online, receiving repayment at the end of the loan cycle (Kiva 2007). This increased information exchange has been instrumental in microfinance's recent growth, leveraging funds from both small donors and large commercial banks like CitiGroup (Daley-Harris 2006:13–14).

At the same time, new computer and mobile phone technologies are helping to make loan payments and other transactions easier and less costly. For example, mobile phones—already used by 3 billion people worldwide and increasingly penetrating rural areas—

FIGURE 4.1 REACHING THE POOREST WITH MICROCREDIT WORLDWIDE, 1997 – 2006



Source: Daley-Harris 2007:22-23

NEW VENTURES: LINKING DEVELOPING ECONOMY ENTREPRENEURS AND INVESTORS

Private equity and venture capital funds are largely inaccessible to entrepreneurs in small and medium enterprises (SMEs) in developing economies. Yet such direct investment can be critical for the growth of these businesses, particularly in new, cutting-edge sectors. The scarcity of investors willing to research and take risks on SMEs in developing states—especially in rural areas— creates a major gap in financial systems for the increasing number of enterprises that have outgrown micro-loans or have visions for their businesses that exceed what local group banking schemes can provide. Fortunately, there is a growing field of businesses and non-profits that are helping enterprises acquire private equity and venture capital and simultaneously providing them with the business and technical skills they need to grow.

One such example of a "business incubator" program is New Ventures, a project of the World Resources Institute. New Ventures works with partner organizations in the Global South to promote the growth of SMEs. The process begins when New Ventures screens enterprises through a call for business plans in each of the countries in which it operates. Selected enterprises are those companies that demonstrate a sound business model and show potential to meet social and environmental goals through innovative, sustainable goods and services. New Ventures provides professional mentoring for the selected enterprises, including business development services, business plan development, and marketing support, and convenes investor forums in which the entrepreneurs can pitch their enterprises to potential investors (New Ventures 2008a).

The New Ventures "portfolio" spans many sectors and regions. It includes Indian medicinals company Gram Mooligai *(See Box 2.6),* Mexican-based AdobeTerra, which produces low-cost, environmentally-safe adobe-based bricks, and Brazilian EnerSud Ind e Soluções Energéticas, a manufacturer of small-scale wind turbines (New Ventures 2008b). Since its creation nearly ten years ago, New Ventures has helped 180 businesses attract US$120 million in investment (New Ventures 2008a).

For more information, visit http://www.new-ventures.org.

can help rural customers make their loan payments without traveling to the city, by using the services of "rural agents" like shopkeepers. Brazil currently has the most advanced system of banking agents, with 74 different institutions managing about 90,000 "points of sale" across the country (Taylor 2007; Siedek 2007).

Continuing Role for NGOs

Despite the new technology and the entrance of commercial banks, successful finance of rural enterprises still requires many of the institutional skills that gave birth to the microfinance industry decades ago. For this reason, NGOs and self-help cooperatives retain an important role in the industry—as do governments. They are still in many cases the only providers of microfinance services in the poorest and most rural areas or to the most marginal borrowers. Just as important, their missions generally go beyond only providing finance, and they are more likely to adhere to broad environmental or social objectives that banks may neglect in their search for profits (FAO 2005b:36).

In some ways, scaling up the microfinance industry represents a danger to this larger development mission. Microcredit NGOs have come under pressure to grow their portfolios and recover more of their costs, just like commercial banks. One response to this "mission drift" has been to try to separate "simple" (and profitable) microfinance loans from those that incorporate a wider array of development services—loans that are less likely to be suitable to commercial lenders and may need to be subsidized. For example, the Bangladesh Rural Advancement Committee (BRAC) developed two distinct loan products—one a straightforward microcredit line meant to be self-sustaining through repayments and the other a line subsi-

dized by donors and coordinated with the government to address more complex poverty issues in the poorest segments of the population (BRAC 2005a, 2005b). The second type packages health care and various kinds of skills training with the loan so that recipients gain the capacity for enterprise—and for loan repayment. A high percentage of those receiving these loans "graduate" to conventional microloans later (Matin 2004:7–9).

Major Role for Government

Other innovative programs explicitly target enterprise development among groups. Nepal's Micro-Enterprise Development Programme (MEDEP) is a government initiative that partners with the Agriculture Development Bank of Nepal to provide loans to "microentrepreneur groups" composed of low-income individuals selected primarily for their business potential. Before receiving loan funding, the group receives a staged series of business consulting services and entrepreneurship training that helps them assess their potential market, gain marketing skills, and connect to appropriate technology. In Nepal's rural Parlat district, almost 40 percent of MEDEP's loans have gone to small-scale forest enterprises like beekeeping, bamboo craft making, soap making, or the processing of various medicinals and forest plants. Among these businesses, the loan recovery rate stands at 99.7 percent. The high repayment rate is a testament to the strength of packaging loans and business services together. Although MEDEP's loan administration costs have been high due to the expense of its training and support services, the net profit appears sufficient to sustain the program, even though the loan rate is fixed at 12 percent—a very low rate for microfinance (FAO 2005b:51–58).

A major role for government in spurring the continued maturation of microfinance is to provide a stable investment environment that both attracts new financial institutions into areas where loan availability is still restricted and spurs competition among loan providers in areas where microfinance is already well established.

In addition, government plays a critical role in providing information and training for lending institutions. Lack of staff training is a serious obstacle for many smaller microfinance providers. Subsidizing staff capacity-building could help microfinance institutions cut costs, maximize their investment impact, and diversify their product portfolios. With the high volume of capital flows pushed through microcredit institutions today, it is important that this educational element is not neglected. Government, with its research, technical, and outreach capacities, is the logical entity to assume this task (CGAP 2007:11; FAO 2005b: 84–85).

Meeting Increasing Needs

As microcredit scales up and rural enterprises begin to grow, one emerging issue is how well the industry will serve mid-size businesses. Will an industry geared to loans of less than US$1,000 be able to provide larger loans as enterprises expand? Microfinance institutions tend to hesitate to underwrite such larger loans because, ironically, there is greater risk associated with larger enterprises due to their high capital costs and longer payback periods. It would seem that these mid-size businesses may face a new credit shortage as they succeed (Farrington 2002:6).

Yet competition and the natural evolution of the microfinance industry seems to be filling this void. Where the microfinance market is already saturated, institutions will look to the less-crowded mid-size market to continue their growth, as is already happening in Bolivia. Institutions like BRAC are also beginning to include business loans, ranging from US$20,000 to US$300,000, in their product lines (BRAC 2005a). The presence of successful medium-size businesses may even attract banks to rural areas in order to service this sector. An important role for government in this period of growth will be to develop and manage a credit bureau that assembles and disseminates borrower information, so that businesses with good credit histories at the microfinance level are more visible. Having such a system in place can provide one more incentive for microfinanciers to take on bigger borrowers, propelling these enterprises to the next level (Mylenko 2006:3–9).

Encouraging Microinsurance

Fostering small rural enterprises requires not just greater access to credit but also a reduction in the substantial risks that these enterprises face from accidents, natural disasters, and the ill health of the owners. Without credit, rural entrepreneurs cannot build their businesses; without insurance, however, they may not be able to survive hard times. Insurance is another way that businesses make themselves more resilient in the face of threats. Conventional businesses typically combine insurance into the package of financial services they rely on to stay in business, and

small rural businesses deserve no less. In addition, having insurance increases security and therefore promotes investment and growth of the enterprise—a positive cycle that enhances the enterprise's viability and sustainability (Arena 2006:1–3).

Insurance is especially critical for nature-based enterprises that will face increased uncertainty from climate change and other factors beyond their control. Increased droughts and floods, changing geographic distribution of vector-borne diseases, and more severe weather events are just a few of the threats that owners of nature-based enterprises may face. Global economic shifts—now evident in higher food and fuel prices worldwide—are also a source of risk. If fuel prices make flying substantially more expensive, for example, this could pose a risk to ecotourism destinations like the Namibian conservancies. Microinsurance is one way for nature-based enterprises to increase their resilience in the face of these threats.

Microinsurance is not new. NGOs and community-based organizations have provided microinsurance to some low-income customers for decades, and they currently cover about 10.5 million people, primarily with health, funeral, or life insurance. More recently, the corporate sector has joined in and now commands the largest share of the microinsurance portfolio, with some 38 million policies. Coverage is quite uneven, with policies mostly in a few countries like India, where the govern-

LARGE-SCALE VS. COMMUNITY-LEVEL USE OF NATURAL RESOURCES: ARE THEY COMPATIBLE?

In this volume, we argue the importance of natural capital for rural development. We present a model that relies on community-based development of ecosystem resources to generate income for poverty reduction. But not all natural resources are exploited at the community level. National governments tend to encourage large-scale extraction of natural resources such as minerals, oil, fish, and timber as a source of government revenue through taxes and royalties. In Guinea Bissau, for example, revenue from fishery access agreements for foreign fishing vessels provided 30 percent of all government revenue between 1993 and 1999; in Mauritania, 15 percent; in São Tomé, 13 percent (OECD 2007:55).

Large-scale commercial exploitation thus has the potential to contribute substantially to economic growth in many developing nations. Such extraction is generally organized and regulated at a state or national level—with the revenues accruing there rather than at the community level. In theory, this large-scale, "top-down" use of natural capital can be an important source of development capital—and poverty reduction—if governments use these revenues to fund education, infrastructure, social programs, or—as we suggest—the promotion of rural enterprise (OECD 2007:7-11).

But are these different approaches to the use of natural resources compatible? Both exist side-by-side today, and both are probably necessary to drive economic growth. However, large-scale extraction—through physically extensive forest, fishery, or mining concessions—has the potential to work against the interests of local nature-based enterprises by competing for ecosystem resources or degrading the ecosystems themselves, often aided by corruption. Forest or fishery development that leaves these ecosystems less viable or less available is not a recipe for rural resilience. Even when industrial-scale use of natural resources brings jobs to local people, this may not enhance their resilience if it decreases their opportunities for self-generated enterprises or fails to impart marketable skills that enrich their social and business capacities.

Two principles should guide efforts to make large-scale resource use compatible with community-level uses and a contributor to rural poverty reduction:

1. *Large-scale resource extraction should not undermine the prospects for local enterprises, but co-exist with or support them.* National policies should not pit these two approaches against one another, but acknowledge the place of both in economic growth. The first practical effect of this acknowledgement should be a commitment to include local interests in the decision-making process when resource concessions or other large natural resource development projects are negotiated. Too often, local communities are effectively left out of the process of determining the size, location, and operating conditions for such projects, and are not compensated if they suffer losses to their traditional livelihoods or lost opportunities for nature-based enterprises. The process of inclusion and respect for local communities is embodied in the practice of "free, prior, and informed consent"—or FPIC. It consists of giving local people a formal role in decisions on large development projects that materially affect the local environment. FPIC is a mechanism, like strong tenure laws, to help communities secure their resource tenure, or to receive reasonable compensation if their tenure rights are involuntarily transferred to others. It is one means to negotiate the interface between large-scale and local extraction modes (Sohn et al. 2007:6-8).

2. *A portion of natural resource revenues should be used to fund local development priorities, particularly local infrastructure.* With foresight and planning, central governments can direct at least some of their resource-derived revenues to activities that foster rural development and reduce poverty. Done properly, this attempt at a fairer distribution of resource benefits can increase the prospects for successful local enterprises if the revenues are used as development capital for local roads, schools, and other basic infrastructure, or to fund microfinance or rural enterprise programs. In some countries, government policies already contain a distributional formula for resource revenues. In Nigeria, for example, 13 percent of oil revenues are returned to the jurisdictions in which the oil was extracted (Veit 2008). Unfortunately, experience shows that the existence of a "fair" distribution formula is no guarantee that revenues will be used wisely or to benefit the poor. Much depends on the capacity of both local and central governments to disperse funds for community-driven infrastructure, education, or other support programs. Developing this capacity for "distributional equity" is a prerequisite for making large-scale resource exploitation both pro-poor and supportive of local enterprise and initiative.

ment requires large insurers to sell a portion of their policies to poor people (Roth et al. 2007:31).

The percentage of poor people around the world with any kind of insurance remains very low—an estimated 0.3 percent in Africa, 2.7 percent in Asia, and 7.8 percent in the Americas (Roth et al. 2007:17, 18). But commercial interest in microinsurance is growing. For instance, AIG Uganda and Delta Life in Bangladesh now both carry insurance products targeted at the poor (Churchill 2006:13). As with microcredit, insurance companies have realized that serving the poor—or at least the moderately poor—can be profitable (Roth et al. 2007:21).

But designing quality microinsurance suited for the rural poor is not easy. Insurers face high costs as they distribute their products in areas where populations are spread out and commercial insurance is unfamiliar. Verifying claims for these distant clients creates high transaction costs. Companies must also deal with higher costs when insuring the rural poor because there is typically low risk diversity among rural clients, meaning that many rural businesses in a given area may face losses from the same risk, such as a cyclone.

One way to cut costs is to make insurance plans for the poor simpler and more flexible. This is necessary for working successfully with small enterprises that must pay their deductibles across a longer time frame because of the episodic nature of small enterprise income (Churchill 2006:22). Group insurance plans are another effective means of cutting down on transaction costs. And all rural insurance plans are most effective when a large insurer partners with a small, community-level channel to distribute the product and verify claims (Loewe 2006:44). These local "agents" might be churches, post offices, employers, or local retailers (Roth et al. 2007:i). The most important qualities of the "on-the-ground" partner are having both the trust of the community members and the competence to educate and provide appropriate insurance packages to the local clientele.

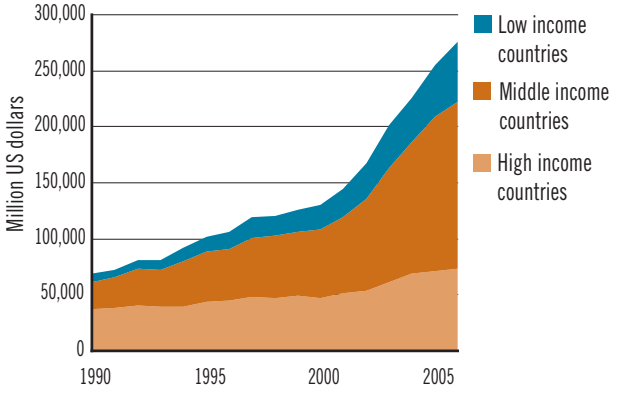
The ideal role for governments with regard to microinsurance may be similar to their role in providing microcredit. They must foster an environment hospitable to investment and competition between insurers in order to ensure that premiums are driven down. Government must simultaneously reach out to the poorest through targeted grants tied to training and partnerships with NGOs.

Governments also play a critical role as providers of information about the industry to potential clients. This is especially important in developing countries where there is no insurance culture and where a mistrust of insurance exists (Trommersauser et al. 2006:513). And while insurance is an important way to promote investment and provide security for small enterprises, the government's primary focus within rural finance should remain on securing more basic finance options like savings and credit first—and then building insurance into these finance channels.

Leveraging Remittances for Rural Investment

Remittances constitute the third growing form of finance for the rural poor and a potential source of investment capital for rural enterprises. As noted earlier, the World Bank estimates that in

FIGURE 2 GROWTH IN GLOBAL REMITTANCE RECEIPTS, 1990–2006



Source: World Bank 2007e

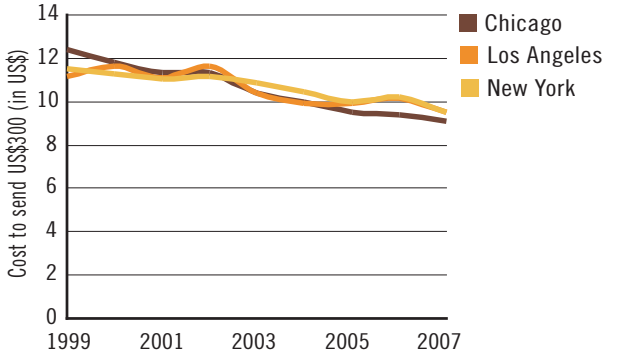
2007 internal and cross-border migrants from the developing world sent US$239 billion back to their home countries (World Bank 2008). This is more than double the official development assistance (US$103.7 billion) provided to developing countries in 2007 (World Bank 2007c). The International Fund for Agricultural Development estimates that 80–90 percent of such remittances is spent meeting basic needs such as food, shelter, health care, and other necessities. The remaining 10–20 percent is saved or invested—potentially to finance a new business (IFAD 2007:7).

It is hard to assess the impact of remittances on poverty reduction or economic growth, but evidence suggests that even when these monies are not directly invested they have a strong multiplier effect on the local economy (OECD 2006:155). In Mexico, one study suggested that for every remittance dollar spent in the country, the Mexican gross national product increased by about three dollars (Ratha 2003:8). Statistics also indicate that remittances allow more children—especially girls—to go to school and are often designated for this purpose by the sender (World Bank 2006a:126, 2007d).

Governments are beginning to recognize the significant development opportunity that these funds represent. Some are partnering with so-called hometown associations—groups of migrants from a particular region who provide funds and support for their communities from abroad. Local or national governments might provide information to these associations about their communities' needs, establish grant funds to match remittances sent home by the associations, or provide contractors for projects like constructing hospitals or schools. El Salvadorian hometown associations, for example, compete with each other for matching funds from the central government to complete development projects. As of 2004, US$2 million from hometown associations had leveraged almost US$7 million from the government to complete 45 development projects, including infrastructure works and recreational and health facilities (Orozco 2007:234–235).

Yet while individual and collective remittance funds clearly have a significant positive development impact for poor

FIGURE 3 COST OF REMITTANCES TO MEXICO FROM SELECT U.S. CITIES, 1999–2007



Source: Profeco 2008

communities, the cost of sending remittances is high, and the lack of other financial services such as savings accounts in rural communities makes long-term investment of the funds less likely. Fortunately, competition is lowering these costs, especially in the most heavily used channels, such as between the United States and Mexico (World Bank 2006b:137). The cost of sending US$300 from the United States to Mexico fell nearly 60 percent between 1999 and 2005 (from US$26 to US$11), largely due to the entrance of banks into the remittance transfer business during this time (World Bank 2006a:137–140).

As with microcredit and microinsurance, government has an important part to play in expanding the development benefit from remittances and increasing their ability to finance rural enterprises. Promoting competition within the remittance sector is a definite priority so that transfer costs continue to come down. But governments must also be more active in encouraging group remittances for development purposes by establishing incentives like El Salvador's matching grant programs. With guidance and incentives, remittances could become a more well directed and potent source of local investment finance.

Beyond Microfinance

While access to credit through traditional banking or microfinance channels is a clear necessity for the growth of rural enterprises, it is not the only finance source needed for scaling up. As the case studies in this report attest, project funds from government or multilateral donors remain an important part of the total funding mix for nature-based enterprises.

Particularly during the demonstration phase of new resource management strategies and the growth of nontraditional industries like ecotourism, these external sources of enterprise funding can provide crucial seed money, acting as catalysts for communities. This makes them an invaluable tool in the initial stages of scaling up. Governments therefore have the important task of integrating such public grant funding with the larger pool of traditional loan-based finance so that they reinforce each other, creating a dynamic environment for the growth of rural enterprise.

Encouraging a variety of finance mechanisms for rural enterprise is crucial in the shift toward community-driven development. However, consistent finance for rural populations is only one part of a larger development effort that includes general education, health, and infrastructure investments.

Education provides a higher return on investments because it gives rural citizens a greater capacity to innovate. Where young people in rural areas use their educations to migrate, finances cycle back to rural areas in the form of remittances. Infrastructure promotes microfinance investment by lowering the transaction costs associated with working in rural areas (FAO 2005b:84). Basic health services and sanitation take on added importance because physical labor is at the heart, at least in the early stages, of rural enterprise. Malaria, dysentery, and HIV/AIDS all reduce the productivity and the growth potential of such enterprises.

Thus in addition to their many roles in encouraging microfinance and targeting finance options toward rural enterprises, governments must commit to meeting these other rural needs in order to succeed in their microfinance efforts—and ultimately in their goal of growing the rural economy and reducing poverty.

SUMMING UP: DRIVING THE SCALING PROCESS

SEVEN INSIGHTS FROM THE CASES

- *Resource Tenure Need Not be Perfect to be Useful.* The prospect of gaining new or more secure resource rights is more important to the scaling up of nature-based enterprises than the form this tenure takes, although the precise form does have important implications for the enterprise's sustainability.
- *High-Profile Demonstrations and Communication Help Scale Up Demand.* Scaling up will not occur without good communication of success stories.
- *Capacity Follows Power.* Devolution of resource rights induces capacity development, offering incentive and opportunity to gain entrepreneurial skills.
- *Local Resource Management Institutions Require Time to Mature.* The development of a capable local resource management institution requires patience as the institution gains legitimacy and becomes more representative and responsive.
- *ISOs Provide Focus and Credibility.* Intermediary support organizations focus community demand and help create functional institutions with the necessary technical and social capacities.
- *Accountability Remains Important.* Accountability of the local resource management institution helps maintain the will for collective action and enterprise.
- *High-Level Government and Donor Commitment Is Necessary.* Sustained scaling up cannot occur without clear government and donor commitment over an extended period of enterprise development.

ELEMENTS OF AN ENABLING ENVIRONMENT

1. Fair and Expanded Markets for Rural Enterprise

- *Confront Elite Capture, Encourage Competition.* The more valuable the resource, the more prone it is to being used for political patronage, resulting in distortions in how resource concessions, subsidies, or access are granted. Regulatory instruments such as production quotas or permits are also frequently captured by those with influence. Many developing nations still lack basic competition laws and have yet to act aggressively to police the marketplace or confront resource-related corruption.
- *Adjust Regulatory and Tax Regimes.* Governments have a tendency toward heavy-handed regulation of community groups that manage natural resources, often manifesting as strict prescriptions for "best practices" that communities are required to follow or complex management plans that they must formulate before being granted the necessary permits to harvest or carry out management activities. In many cases these prescriptions are unnecessarily complex, do not respect local institutions or capacities, and impose a severe financial burden. An alternative would be to adopt a "minimum standards" approach, in which the national government would establish a set of rules or standards that community members must follow in management but would grant communities flexibility in how they meet this standard. In addition, reconfiguring the tax burden away from taxes levied at the point of resource extraction could benefit nature-based enterprise formation.
- *Provide Technical, Research, and Market Assistance.* Governments have a legitimate role to play in helping to set product quality standards and undertaking product research, as well as introducing new technologies, improved seed and plant varieties, and more effective resource management methods that rural producers would have trouble developing on their own.

2. Improved National Governance Related to Rural Enterprise

- *Revitalize Rural Representation in National Legislatures.* Rural communities face a lack of representation of their interests, resulting in onerous regulations that handicap their ability to manage local resources. Rural legislators frequently lack autonomy from political bosses and the executive branch and are not easily held to account by voters for their actions. As a result, they often do not use their lawmaking and oversight powers to protect rural communities from environmental exploitation or to argue their rural constituents' case for greater resource rights or more appropriate regulations.
- *Reorient Line Agencies toward Participation and Service.* Line agencies are typically dominated by professional managers oriented toward resource production rather than community consultation or the development of small enterprises. Changing this situation will require redefining their mission to stress facilitation of community enterprise through capacity development and participatory decision-making.

3. Improved Physical Infrastructure

- *Adopt a More Community-Driven Approach to Infrastructure.* Inadequate roads, communication lines, and energy infrastructure are persistent and profound obstacles to rural enterprise. To meet the challenges of upgrading rural infrastructure, a new paradigm has emerged that accepts the need to approach such infrastructure with social and environmental sustainability in mind. This requires being more sensitive to local demand and more community-focused, drawing on a process of consultation with and participation of affected communities. Small-scale, community-based infrastructure projects have shown they can confer a variety of benefits particularly targeted to rural enterprises and the poor.

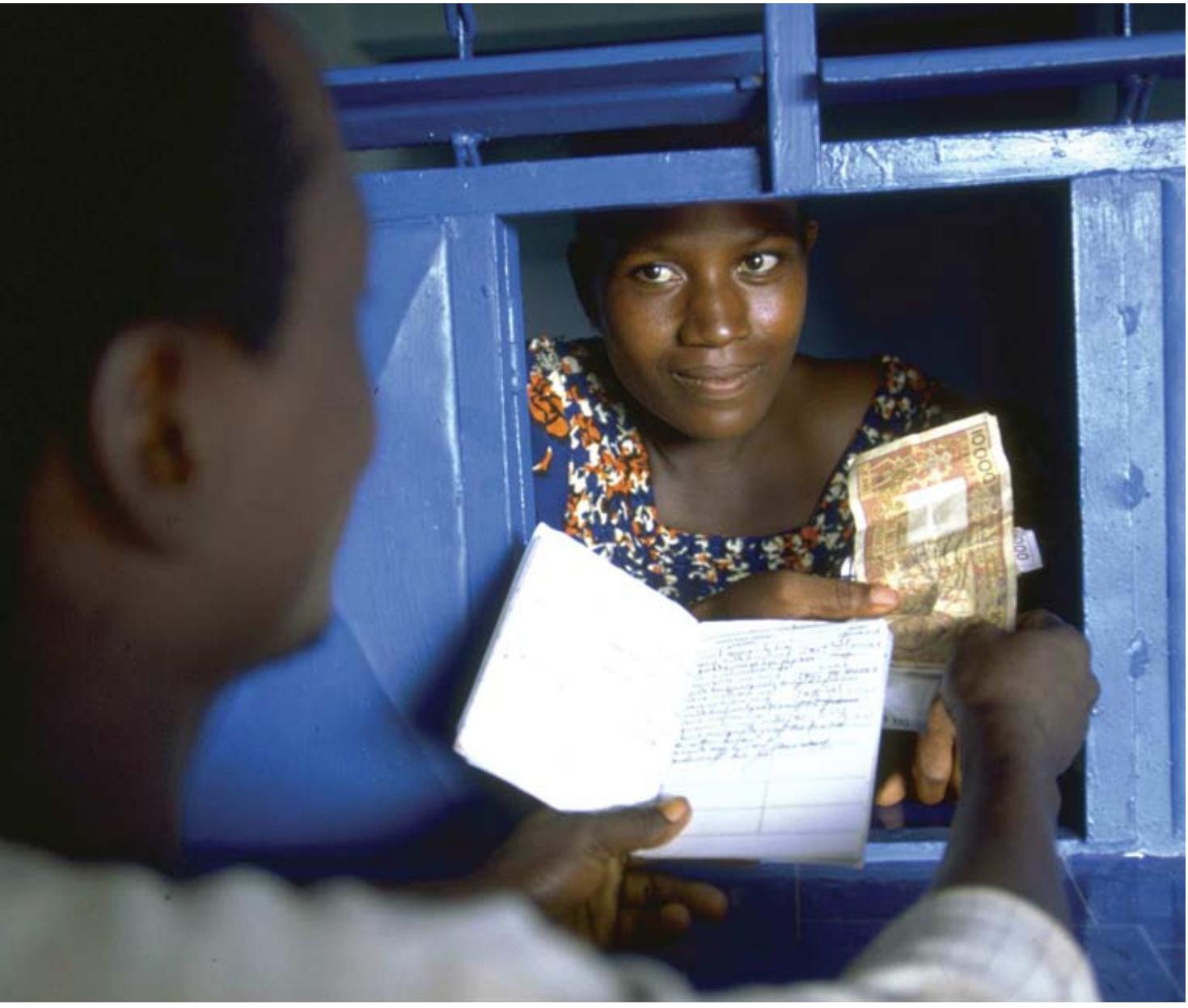
4. Adequate Financing

- *Help Microcredit Mature.* The microcredit industry has achieved impressive growth in the last two decades, attracting the interest of the commercial banking industry. Nonetheless, the availability of finance is still a main obstacle in rural enterprise development. A major role for government in spurring the continued maturation of microfinance is to provide a stable investment environment that

SUMMING UP: DRIVING THE SCALING PROCESS (CONTINUED)

both attracts new financial institutions into areas where loan availability is still restricted and spurs competition among loan providers in areas where microfinance is already well established. In addition, government has a critical role in providing information and training for lending institutions.

- *Encourage Microinsurance.* Conventional businesses typically combine insurance into the package of financial services they rely on to stay in business, and small rural enterprises deserve no less. However, the range of microinsurance products available today is still quite limited. Simpler and more flexible plans are required to serve a low-income rural clientele, coupled with a community-level distribution channel through local institutions like post offices or local retailers.
- *Leverage Remittances for Rural Investment.* Remittances are potentially a significant source of investment capital for rural enterprises. Some emigrants have established informal development funds in which they pool remittances and send them to their home towns to fund development projects. In turn, some governments have established matching grants to encourage this kind of community investment. Bringing down the high cost of sending remittances will be key in making them a more potent source of investment funds.



When ownership, capacity and connection are present, communities enhance their ability to manage ecosystems collectively and extract a sustained stream of benefits.