

Improving International Market Access via Better Forestry

IFC TA helps Nicaraguan businesses increase certified lumber exports and bring 27% of national forests under sustainable management

Nicaragua's wood sector has great potential to contribute to the economic and social development of the country. Demand for wood products is high due to a global boom in the housing and construction market, which in turn has attracted the interest of international investors. International demand for products made with environmentally certified wood has also grown. However, while over 78 percent of Nicaragua is covered by forests, annual exports total only US \$11.6 million, 99 percent of which are raw timber. Thus, these conditions provide interesting opportunities for local firms to engage in higher value-added activities, while addressing global consumer concerns about deforestation and the environment.

IFC's Facility in Latin America & the Caribbean designed a pilot project drawing on the World Bank's PROFOR wood project as well as on the increasing international interest in the sector. Analysis showed that timber resources are owned by local communities, and local firms in the sector are almost exclusively small businesses. Providing technical assistance (TA) to link local suppliers with international buyers was a right fit, and capitalizing on the opportunity could make the wood sector an important pillar of the Nicaraguan economy.

In February 2004 the facility began a small and medium enterprise (SME) supplier project with Exchange, a high-end furniture designer with links to approximately ten SME outsourcing companies. In March 2005, the facility partnered with the World Wildlife Fund (WWF) in a complementary pilot project to provide TA to five carpentry businesses and two forest communities. The pilot promoted environmentally sound lumber harvesting and provided market information on certified lumber. It also worked with local firms to target high-end international markets sourcing certified wood.

Sales to international buyers quickly exceeded project targets. SMEs increased their exports by US\$ 59,000. The project also demonstrated that forest communities can benefit from selling sawn lumber, which commands a much higher price than raw timber: the prices increase by a factor of 12 and up to date, forest communities report increased sales by US\$ 120,000. Additionally, the facility's project contributed to the certification of a forest community by the Forest Stewardship Council (FSC) – the largest NGO that provides environmental and social certificates on responsible forestry management – resulting in a 4,662 hectare certification or a 27% increase of total FSC certified forest in Nicaragua.

The facility plans to expand the pilot to include more forest communities and small businesses. It also plans to provide firm-level business management and better production technique training, sustainable forestry management advice by promoting the creation of a Forest Management Company that will offer TA to forest communities, and support them to achieve higher yields. It will also explore the possibility of setting up a capital fund to provide local firms and communities with working capital.

The strength of the pilot results has encouraged replication of the model in other countries. WWF is now supporting a similar project in Panama. The facility is using the experience to develop projects in Bolivia and Peru, and the IFC PEP Africa Facility is also using the model to develop in other countries.

For more information, please contact Marco González (mgonzalezrevatta@ifc.org).

Project News and Highlights

Improving the Business Enabling Environment

Peru: IFC's SME Department and the facility, along with ESAN University, hosted a training course in implementing reforms to simplify business regulations. The course, which was held in Lima at the end of March, was attended by representatives from the World Bank, IFC, FIAS, as well as IFC PEP MENA, and IFC-MPDF. Donor partners who attended included seco, GTZ, and the Netherlands-IFC Partnership Program. The curriculum was based on the SME Department's toolkit, "Simplification of Business Regulations at Sub-National Level," as well as the facility's own experience simplifying municipal business regulations in Bolivia, Peru, Honduras, Nicaragua, and Brazil. Local partners and stakeholders provided first-hand accounts of their experience in simplifying business procedures. Mayor Luis Castañeda and senior staff from the Metropolitan Municipality of Lima (MML) presented their experience working with the LAC facility in a project to simplify municipal business regulations. For more information, contact Ursula Blotte ([ublotte@ifc.org](mailto:ubllotte@ifc.org)) or Kristian Rada (krada@ifc.org).

Peru: The facility has signed agreements with the Municipalities of Piura and Ica to simplify municipal regulations for obtaining operation licenses. These projects build on the facility's experience in Lima (detailed in the last issue of News+) and are being coordinated as part of the national plan.

Enhancing Local Benefits

Peru: The Mecanismo Independiente de Monitoreo (MIM), an independent body affiliated with the National University of Cajamarca, launched its first quarterly report on April 27 in Cajamarca, Peru. MIM was established to promote awareness and dialogue about expenditures of public revenues generated by mining operations in the areas. The report provides a thorough yet easily readable overview of basic aspects of the mining canon (e.g., what it is, how it works) as well as specific data on funds received and expenditures. The facility has supported the development of the MIM as means of fostering greater transparency in public administration and, thus, enhancing the local benefits of mining. For more information, contact Fernando Ruiz-Mier (fruzmier@ifc.org).

Region: The facility is organizing a two-day round table on "Business for Development" for IFC clients in the region. The event will feature sessions on corporate social responsibility as local development promotion, developing areas of mutual interest between project sponsors and local actors, case studies, and IFC value-added services. For more information, contact Marco Giussani (mgiussani@ifc.org).

A Progressive Approach to Forestry in Bolivia

Strengthening the wood sector value chain through sequenced technical assistance

One of the primary ways the IFC Technical Assistance Facility for Latin America and the Caribbean works to promote private sector development is by strengthening strategic sectors with unrealized potential to generate employment and income, especially for those groups traditionally excluded from market opportunities. In this regard, the facility has identified forestry as a particularly important sector for Bolivia.

Bolivia has 53.6 million hectares of forests, which represent 48 % of its total territory, and possesses more than 40%, or 2.2 million hectares, of the world's environmentally certified tropical forests. Currently, Bolivian forests export \$145 million dollars annually (only 3% of its GDP), but studies estimate that these exports could reach \$1 billion dollars in 10 years. To achieve that export growth, however, the sector must address issues such as poor coordination among sector players (especially in areas such as logging and transport), production constraints (e.g., inadequate technology), and individual firm weaknesses (e.g., poor management which hinders access to financing).

The facility's approach to sustainable sector and supplier development begins with such diagnostic studies to match sector needs with areas of IFC experience and expertise. After designing a program based on that analysis, the facility begins with a moderately sized pilot project. The pilot not only allows the facility to test the program's assumptions and operating model, it also allows the facility to develop strong working relationships with local partners. The pilot results and partnerships then serve as the basis for scaling up the project.

In this case, the facility began with a pilot designed to financial transparency and organization of a few smaller businesses, thus enabling them to gain financing for growth. The facility partnered with a local business service provider, Fundación Bolivia Exporta (FBE), in creating a new business plan, financial model, and balanced scorecard for local wood sector SMEs. From October 2004 to April 2005, FBE carried out diagnostics of participating enterprises, conducted a strategic planning workshop with them, and delivered the necessary documents. As a result, one of the businesses received \$300,000 in new financing (a mix of loan and equity), approximately 19 times the project cost. With this financing, the company expects to increase its export income by over 300 percent in five years. Another of the businesses received approximately \$300,000 in working capital, and a third is currently establishing joint ventures, with the help of FBE.

Based on this pilot and its experience with forestry development in other countries, the facility is extending its program to address two main challenges facing the sector: poor supplier-manufacturer relationships due to unreliable certified wood supply and inadequate marketing and commercialization skills for increasing sales nationally and internationally. For this program, the facility is continuing to work with one of the businesses that participated in the pilot. In addition, the facility is building on the partnership forged with World Wildlife Fund/Global Forest and Trade Network (WWF/GFTN) through forestry sector work in Nicaragua.

One of the project's key aims is to increase indigenous community participation in the certified forestry market. As demonstrated in the facility's work with WWF/GFTN in Nicaragua, indigenous communities can greatly increase the value of their production by achieving certification and, consequently, gaining access to more lucrative markets. Also, by employing environmentally responsible management practices, these communities will be able to protect their land as a sustainable source of income.

The project, currently being deployed, is expected to end in 2008. For more information, please contact Milagros Chiappe (mchiappe@ifc.org).

Project News and Highlights (cont'd.)

Sustainable Sector and Supplier Development

Bolivia: As part its program to promote market access for indigenous artisans, the facility organized and sponsored a Craft Fair during the global tourism "launch" of the Chiquitania Region (located in the eastern part of Bolivia). More than 30 indigenous enterprises representing four different ethnic groups (Chiquitano, Ayoreo, Guarayo and Guarani) exhibited their products (including wood carvings, ceramics and textiles) to more than 500 international attendees, including numerous press and tour operators. Additionally, the Facility brought two international handicraft buyers (One World Projects and Charity USA) interested in craft with cultural identity. For more information, contact Marisol Giacomelli (mgiacomelli@ifc.org).

In Other News...

Monitoring & Evaluation

The M&E team is supervising the completion of two evaluations of the facility's work in simplifying business regulations. In Peru, the facility is working with MIT on a randomized evaluation of reforms for obtaining operating licenses in the Metropolitan Municipality of Lima. In Bolivia, an external evaluation, including comparative analysis, of similar projects in seven cities (four of which were supported by IFC) is underway. The results of both evaluations should be available in May. For more information, contact Ricardo Furman (rfurman@ifc.org).

Donor Relations

On March 7 and 8, a delegation of facility staff visited the Swiss state secretariat for economic affairs (seco) in Bern, Switzerland, to discuss progress on current seco-supported projects, as well as opportunities for future collaboration. seco reaffirmed its support of the facility's work, especially in BEE and access to finance. The facility and seco agreed to explore ways of deepening their relationship through closer coordination and more frequent interaction. For more information, contact Jorge Wong-Valle (jwongvalle@ifc.org).

Staff Development

In February, the facility hosted a two-day orientation for new staff in Lima, Peru. The orientation program provided a concise overview of IFC (relationship to the World Bank, history, mission, structure, and operations) and a thorough introduction to the technical assistance project cycle (including TAAS reporting requirements as well as monitoring and evaluation methodology). In addition, the program included session on human resources and benefits, knowledge management, and communications. Following the orientation, individual pillars hosted more program-specific workshops for their staff.

Also as part of its ongoing staff development program, the facility hosted a three-part series of workshops for senior and managerial staff during the week of March 20. The workshops included sessions on time management, staff development and motivation, and communication skills.