



Securing forest business

A risk management toolkit for locally controlled forest businesses

Editors: Anna Bolin, Duncan Macqueen, Martin Greijmans,
Shoana Humphries and Juan José Ochaeta Castellanos



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Produced by IIED's Natural Resources Group

The aim of the Natural Resources Group is to build partnerships, capacity and wise decision-making for fair and sustainable use of natural resources. Our priority in pursuing this purpose is on local control and management of natural resources and other ecosystems.

Published by IIED, March 2016

Bolin, A. Macqueen, D. Greijmans, M. Humphries, S and Ochaeta, J.J. (eds.) (2016)
Securing forest business. A risk-management toolkit for locally controlled forest businesses. IIED, London.
See: <http://pubs.iied.org/13583IIED>

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Cover photo: Elephant foot yam and bamboo farmer, Myanmar.

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Printed by Full Spectrum Print Media, UK on 100% recycled paper using vegetable oil based ink.

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Acknowledgements

The chapters in this toolkit were written and edited by members of the Forest Connect alliance Anna Bolin, Duncan Macqueen, Martin Greijmans, Shoana Humphries and Juan José Ochaeta. A special thanks also goes out to our colleagues at the Forest and Farm Facility, Jeffrey Campbell, Sophie Grouwels and Jhony Zapata Andia and to Oscar Simanto from the Kenya Forest Service and AFECNET, who provided valuable input and advice during the review of this toolkit. And last but not least to Geraldine Warren, Holly Ashley and Eileen Higgins for your patience and hard work in coordinating the production and design.

We are grateful for financial support from the UK Department for International Development (DFID). The content of this book is the authors' own and does not necessarily reflect the views of DFID.

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Acronyms, initials and abbreviations

ACOFOP	Asociación de Comunidades Forestales de Petén (Association of Forest Communities of Petén), Guatemala
AQTSFCG	Association of Quang Tri Smallholder Forest Certification Groups, Vietnam
Banrural	Banco de Desarrollo Rural (Rural Development Bank), Guatemala
FAO	Food and Agriculture Organization of the United Nations
Fedecovera	Federación de Cooperativas de las Verapaces (Federation of Cooperatives of the Verapaces), Guatemala
FFF	Forest and Farm Facility
IIED	International Institute for Environment and Development
KTPA	Kisii Tree Planters' Association, Kenya
LCFB	Locally controlled forestry business
MA&D	Market analysis and development
MFV	Mondulkiri Forest Venture, Cambodia
NGO	Non-governmental organisation
R&D	Research and development
RECOFTC	The Center for People and Forests
SACCO	Savings and credit cooperative
SCOFOA	South Coast Forest Owners Association, Kenya
Suchitecos	Impulsores Suchitecos de Desarrollo Integral Sociedad Civil (Suchitecos Drivers of Integrated Development for Civil Society), Guatemala

Introduction for the facilitator

How to use this toolkit

Risk involves situations, events or actions that can challenge the ability of a business to reach its objectives and its overall sustainability. This toolkit is designed to guide the business manager (or whoever is tasked with the daily operations of running the forest business) and other business staff through a process of identifying and assessing possible business risks. This process is best carried out as a group exercise. The first time this toolkit is used might be together with an external facilitator (you) to help guide business staff through the different steps. But ideally, the aim for this toolkit is to be a self-assessment carried out by the business itself, ensuring the process is understood and owned by the business manager and business members. So let us start with some key terms:

- **Value chain:** a set of steps or parallel activities in the development of a product or service to which value can be added, including both primary activities such as sourcing, primary and secondary processing, delivery, marketing, sales and customer services, together with support activities such as infrastructure management, human resource management, research and development, and procurement.
- **Business objectives:** the specific results that the business aims to achieve within a timeframe and with available resources.
- **Risks:** situations, events or actions that can challenge the ability of the business to reach its objectives and its overall sustainability. These can come from inside or outside of the business.
- **Risk assessment:** understanding the impact of the challenges facing the business, measured through their likely scale of consequences and probability of occurrence.
- **Risk taking:** the practice of taking an action with unpredictable consequences in pursuit of business objectives.
- **Risk management:** a series of activities for dealing with unpredictability and challenges to the business.

Risk assessment, risk taking and risk management should ideally become part of your business management process and coincide or be closely linked with annual reviews of business plans. For businesses that are just starting out and have gone through the process of developing a business development plan, which in itself includes aspects of risk analysis, the risk self-assessment is likely to be most useful if implemented after the first year when the business plan is due to be reviewed. By then, it is likely that risks that were not picked up during the initial planning stage will have been identified.

The risk-assessment and management process includes seven steps:

- Introducing risk assessment and management processes,
- Reviewing business objectives,
- Identifying risks,
- Ranking risks,
- Assessing risk-management options,
- Assigning responsibilities, and
- Monitoring progress.

Steps 1 to 4 are the main stages where the actual assessment is done whereas steps 5 to 6 are mainly about putting the outcome of this into action and starting your risk management. More detail on the steps and main activities will be provided in Module 1 and then modules 2 to 7.

We will be using a risk assessment matrix to make sure that all the potential challenges faced by the business are considered. An example of this matrix is shown below in Table 1.

**‘Named must your
fear be before
banish it you can.’**

**Yoda, Star Wars: The
Empire Strikes Back**

Table 1 Example of a risk assessment matrix with the main areas of concern for the business and the main external factors that influence the business

Areas of concern for the business/ External factors that influence risk	Revenue flows	Resource access	Business relationships	Operational capacity	Security of operating space	Brand development	Importance low to high
<p>Macro-economic and market context</p> <p>For example:</p> <ul style="list-style-type: none"> - product supply/quantity - market demand - access to capital - market entry requirements/ barriers 	<p>Business competition (including illegal)</p> <p>Limited sales options</p> <p>No collateral or access to credit</p> <p>Inefficiencies in harvesting, transport and processing</p> <p>Limited market information)</p>	<p>Overlapping land uses</p> <p>Competition for resources within the sector</p> <p>Demand focused on particular species or products</p>	<p>Possibilities for or restrictions on collective action</p> <p>Partnerships and networking options</p> <p>Capacity to honour contracts and delivery</p>	<p>Education standards within labour market</p> <p>Lack of skills to meet required market standards</p> <p>Lack of training opportunities</p>	<p>Macro-economic fluctuations</p> <p>Theft, civil unrest and war</p> <p>Industrial sabotage</p>	<p>Market standards</p> <p>Certification requirements</p> <p>Ability to tell stories about social or environmental performance</p>	
<p>Institutional/legal frameworks</p> <p>For example, impacts of rules and regulations on:</p> <ul style="list-style-type: none"> - access to resources - production - processing - transportation - institutional support 	<p>Impact of costs of taxes and fees on production</p> <p>Bureaucratic procedures</p> <p>Corruption and bribery by officials</p>	<p>Resource allocation procedures</p> <p>Licenses (duration and renewal)</p> <p>Burden of lawenforcement processes</p>	<p>Nature of relationship with extension service providers/law enforcement officers</p> <p>Membership of industry groups</p>	<p>Social requirements too costly</p> <p>Lack of adequate technical assistance/extension services</p>	<p>Legal/institutional reforms create uncertainty</p> <p>Discretionary law enforcement</p>	<p>Bureaucratic procedures for formal registration</p> <p>Entry barriers to new markets due to regulation/certification requirements</p>	
<p>Natural resource management/ environment</p> <p>For example, resource:</p> <ul style="list-style-type: none"> - availability - location - use - management 	<p>Poor supply/quality of resource</p> <p>Seasonality of resource access</p>	<p>Over exploitation / degradation</p> <p>Inefficient exploitation</p> <p>Environmental shocks (eg extreme weather, pests etc)</p>	<p>Few opportunities to share management responsibilities and costs with partners</p>	<p>Seasonal labour requirements</p> <p>Availability of skilled resource-management expertise</p>	<p>Extreme weather events</p> <p>Seasonal access issues</p>	<p>Ease of ensuring sustainable management within production system</p> <p>Proof of sustainability</p>	
<p>Socio-cultural issues</p> <p>For example:</p> <ul style="list-style-type: none"> - indirect benefits for the community - contribution to incomes/benefit sharing - experience/skills - gender impact 	<p>Cultural taboos</p> <p>Customary rules governing resource access (including gender)</p> <p>Elite capture and corruption</p>	<p>Conflict over access and rights of use</p> <p>Gendered roles</p>	<p>Nature of relationships within community</p> <p>Culture of business interactions</p> <p>Technology cost-sharing with partners</p> <p>Communication infrastructure</p>	<p>Imposition of customary leaders on business positions</p> <p>Lengthy decision-making processes</p> <p>Lack of customary skills in desired business activities</p>	<p>Local power struggles</p> <p>Elite capture</p>	<p>Capacity of staff to understand the desired business model</p>	
<p>Technology, research and development</p> <p>For example:</p> <ul style="list-style-type: none"> - processing requirements (skills, technology, costs and location) 	<p>Up-front costs</p> <p>Maintenance requirements</p> <p>Optimal through-flow of product</p>	<p>Availability of resource extraction equipment</p>	<p>Business research and development skills</p>	<p>Technical capacity to operate machinery</p>	<p>Energy supply</p> <p>Infrastructure reliability</p>	<p>Ability and resources available to acquire technology</p> <p>Capacity to maintain market research</p>	
Total score (high = risky, low = less risky)							

The main objective of this section is to make sure you understand why this risk self-assessment toolkit has been developed and what it can achieve for a target business. Risk can easily be seen as something to avoid and many people are unsure how to deal with it. However, you will be surprised how much you are already doing to manage risk. Our intention with this toolkit is not to preoccupy you with possible doom scenarios, but to have you recognize that risk will always be part of your business and it can be managed through practical steps. This toolkit ultimately aims to help businesses plan for and take on risk in a calculated way and to install greater confidence in communicating about risk internally, as well as externally with business partners, finance institutions or government regulators.

The major objectives of this toolkit and risk-assessment and management process are to help you by providing:

- Practical guidelines for identifying and analysing risks for your business (**risk self-assessment**),
- Advice and practical options for how to deal with identified risks (**risk-management techniques**), and
- Tools for engaging with external actors in the value chain that can help reduce risks and improve the enabling environment.

After completing the seven modules of this toolkit you will have:

- An increased understanding within different levels of your business why risk management is important,
- A list of risks, including those with higher priority for action, and
- A plan for managing and monitoring risks internally and with external actors in the value chain.

Who is this toolkit for?

This toolkit is mainly targeted at business managers and their staff. It can also be a valuable guide for other value-chain actors – including the private sector, service providers (finance and technical), government offices, and second-level and apex organisations – to better understand the barriers locally controlled forest businesses face. These actors are a secondary audience for this toolkit, but they are also an important one. The self-assessment can be used to communicate not just what challenges a business is facing but also what it is doing to address them in the business plan. It can therefore provide a tool to engage more effectively with value-chain actors to unblock barriers and build mutual trust.

Why this toolkit?

At the fourth international Forest Connect workshop in Vietnam in 2015, members of the Forest Connect¹ alliance identified the need for concrete evidence and information on the many practical barriers that are standing in the way of locally controlled forest businesses.² Despite numerous examples of viable and even profitable locally controlled forestry businesses, many family, community and indigenous forest enterprises have to manage risks peculiar to their contexts and ownership structure. At the same time, because of these circumstances they are associated with high risk. Digging a bit deeper into this issue reveals that overall knowledge about risk management amongst small, medium and group enterprises in particular in the forestry sector is lacking. And there is limited guidance available on options and how to develop risk-management strategies that fit their particular profile.

In late 2015, the three co-management institutions of the Forest Connect alliance, the International Institute for Environment and Development (IIED), the Forest and Farm Facility (FFF)³ and the Center for People and Forests (RECOFTC) and subsequently joined by the Earth Innovation Institute (EII) designed a research process to investigate risk-management strategies of eight locally controlled forest businesses in five countries.

1. Forest Connect is an ad hoc international alliance of more than 1,000 members in 94 countries working to avoid deforestation and reduce poverty by linking sustainable locally controlled forest businesses to each other, to markets, to service providers and to policy processes. Forest Connect has operated since 2007 and is co-managed by IIED, the Forest and Farm Facility (FFF), and the Center for People and Forests (RECOFTC).

2. The concept of 'local control' is fundamentally about decision-making power, where local entrepreneurs have ownership over their own means of production and a say in how their natural resources are managed (Macqueen *et al.* 2012b). The need to look at the barriers affecting locally controlled forest businesses was documented at the 4th international Forest Connect meeting (Macqueen *et al.* 2015b).

3. Forest and Farm Facility (FFF) is a multi-donor trust fund initiative co-managed by the FAO, IIED and IUCN steered by a committee of forest and farm producer and indigenous peoples' organisations and networks. The FFF builds organisational and business capacity of producer organisations in 10 countries in Africa, Asia and Latin America.

The result of this research, *Securing the future: managing risk and building resilience of locally controlled forest business* (Bolin and Macqueen 2016) is an important sourcebook for this toolkit. It provides a number of examples of risk-management options from the eight case studies. The research has allowed for testing the step-by-step approach and inclusive process outlined in this toolkit. Additional useful examples of how to facilitate the type of sessions and themes covered in this toolkit can be found in *Supporting small forest enterprises – a facilitator's toolkit. Pocket guidance not rocket science!* (Macqueen et al. 2012a) and *Community-based tree and forest product enterprises: market analysis and development (MA&D). The field facilitator guidelines for the implementation of the MA&D approach: introductory module* (FAO, 2011a).

This toolkit draws on the FAO's market analysis and development (MA&D) trainings, which is implemented in four phases using a participatory approach with local forest entrepreneurs. We designed the toolkit so that it can easily be used after the fourth phase of the MA&D training (supporting the start-up phase) when the facilitator is due to review the enterprise development plan together with the entrepreneur. However, this toolkit is also meant to be used as a stand-alone guide that is primarily targeted at business management teams and does not need to be linked to other trainings.

The rest of this document is divided into seven modules. The first module is an introduction to the concept of risk management, why it is particularly useful for locally controlled forest businesses to manage risk, and how this toolkit can help establish a system for on-going risk assessment and management. The remaining modules cover each of the remaining steps in the risk assessment and management process.

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A farmer harvesting snails in Ghana. Businesses like this one include the collection, processing and sale of non-timber forest products like shea nuts, spices and snails. They face risks associated with complex production and marketing chains, seasonal markets and fluctuations in demand, raw materials and labour availability.

Introduction to risk management and the toolkit

Purpose

To provide the facilitator/business manager with a background and understanding of some of the concepts and key words used throughout this toolkit so that he or she can explain this to the rest of the staff. Establishing a common understanding of what words like 'risk', 'risk management' and 'opportunity' actually mean and why you should bother carrying out risk management will be key for the rest of the process. After this module, the facilitator will be able to explain to participants what risk management is, why it is useful, and how the business can do its own risk self-assessment using the tools in this toolkit.

What do we mean by risk management?

Managing risk is a key part of growing a business. Some risks need to be avoided (eg pests and fire), while others might be brought on by the business itself as it tries to expand or diversify its products (eg limited cash flow, limited access to natural resources) with the hope that the risks will become less likely to occur or serious in the future.

When we use the word 'risk', we are referring to situations, events or actions that can challenge the ability of the business to reach its objectives and its overall sustainability. 'Risk assessment' is about understanding the likely impacts or severity of the consequences of certain events and the challenges that face the business. 'Risk management' can be seen as a series of activities for dealing with unpredictability and challenges to the business. The objective of risk management is a balance between cautiously handling risks on the one hand, but also being open to risk-taking which lies at the core of innovation and entrepreneurialism.

Risks can be internal or external. Internal risks are weaknesses within the business that it will have to work to manage (eg finances, people and operations). For example, the lack of skills to manage financial accounts or technology can be addressed through training. External risks come from outside of the business (eg the political, economic and social environment). For example, frequent changes in laws and regulations can create bureaucratic hurdles that increase unexpected operational costs.

While most businesses are subjected to external risks over which they have much less control, there are still steps they can take to try to minimise the impact of these risks and to engage with others for help in reducing the likelihood of these risks – for example, together with relevant stakeholders (eg associations or NGOs) businesses can alert government representatives to the negative financial consequences of long processes for licence renewal for the business. For example this might involve losing sales, losing skilled workers or incurring interest on debts. Alternatively they could link up with apex organisations, eg associations or federations that can help lobby and protect business interests against other more powerful ones.

It is also important to recognise that not all risks are 'bad', and some risks can be turned into opportunities. Expanding into a new market with a new product is on the one hand risky, as the business is entering an unknown territory. But on the other hand, it can also be an opportunity if it is successful. Alternatively, a common problem or risk could represent a new market demand for a product. For example, the threat of wildlife damage to tree and food crops can be turned into an opportunity for a local tree-growing business as there are likely to be a number of farmers looking for strong, reliable wood fences to protect their farms.

It is common for small businesses to manage risk reactively rather than proactively due to limited knowledge or experience in risk management. However, this limits the ability of the business to adequately assess and respond to risks, eg to reduce the consequence of certain risks, or to avoid them before they happen. Small businesses should be actively managing the risks over which they have control (eg training workers, having transparent financial reporting, introducing quality control systems) and where they have limited control to develop strategies for collaborating with others to reduce those risks. The many benefits of risk management are outlined in the next section.

Why locally controlled forest and farm businesses need to manage risk

There are many potential sources of risk for locally controlled forest businesses – in part due to how complex their sector and business environment are, but also due to the internal challenges of managing a group business. For locally controlled forest businesses, there are a number of reasons why the ability to undertake risk management is particularly important. These reasons include the likelihood of higher unpredictability due to:

- Access to finance: rural businesses may struggle to mobilise capital in contexts of poverty where financial services are scarce.
- Land-use competition: this is likely to be higher for businesses based on geographically extensive forest-farm resources belonging to multiple individuals.
- Group ownership: for businesses run by groups, eg associations or cooperatives, trust building is required between members to reduce conflicts within a firm and with business partners in order to achieve competitive scale efficiencies.
- Knowledge gaps: technical and business education may be restricted in remote rural locations, and knowledge of how remote businesses work is often limited for outside buyers and investors.
- Vulnerability: the fairness, monitoring and enforcement of legislation may vary or be discretionary in remote areas with poor access to required administration or justice services.
- Risk aversion within broad objectives: resource dependence fuels risk aversion especially in putting economic objectives above social and environmental objectives of member-owners.
- Limited support for reducing risk in the enabling environment: limited access to a number of powerful actors that control decision making over policies, credit and insurance leads to a reliance on intermediaries for market information.

Some challenges may seem more overwhelming than they need to be, while others may be underestimated. This creates a sense of lack of control, which also influences how you react to them. The first step in reducing the negative impact this might have is to learn about different ways of managing risks. By learning how to identify and understand the importance of risks it is possible to look at how to reduce or manage them so as to maintain the health of the business. The risk self-assessment process will help in doing this.

What are the benefits of risk self-assessment?

Anticipating and actively managing risks will help businesses meet their goals and improve their overall sustainability. There are several ways in which risks can be managed to strengthen sustainability. For example, developing systems for building working capital resources can pre-empt the risk of running out of money during critical periods of purchasing raw materials and delivery, but are also necessary to limit potential dependencies on credit to cover day-to-day operations. Ensuring the sustainability of the resource the business depends on can be done by putting in place systems for monitoring and ensuring extraction follows a management plan. Finally, investing in building the operational capacity of the business and its staff to lead and manage finances, new technology and marketing is another.

Taking risk is a pre-condition for growth and improvement. Moving from Point A to Point B will involve taking some risk. The risk self-assessment will help you to understand what risks are worth taking and which ones should be avoided.

Taking risk is also a question of trust. Do you trust other members of your association to pursue the same vision that you have? Or do members each prefer to rely on him or herself, and in that case, what impact does that have on your business or the community it operates in? Having a shared vision and commitment is key to the success of a group enterprise in order to work with the multiple interests and needs of individual members. The risk self-assessment process will help you to discuss how that shared vision can best be achieved.

The inclusive process of risk assessment can help unblock barriers for locally controlled forest businesses. These can be internal or external. The general tone of this toolkit is to be participatory and interactive. In our recommendations for how to carry out a risk self-assessment we suggest that you invite participants from different levels of the business who can provide different perspectives of risks and management options. We also suggest that at the later stages of your assessment you engage with external actors in the market and within government to discuss with them the

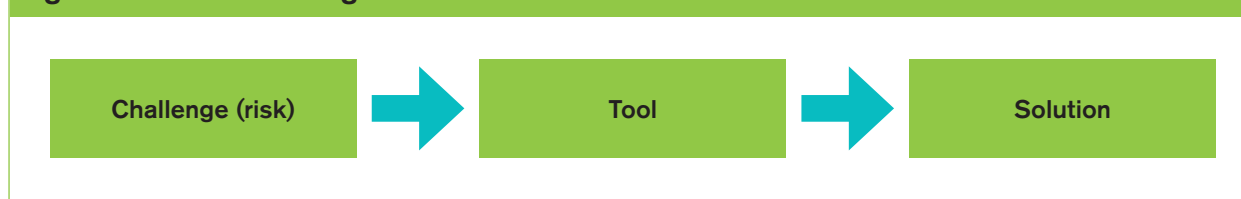
barriers local enterprises face or who can help unblock some of the barriers that you are facing and cannot solve on your own. For example, which external actors might help you to protect your rights (apex organisations), reduce bureaucracy (government authorities) or improve access to finance (financial service providers)?

What are tools good for?

A tool is a set of activities that has been designed to help people move from a problem to a solution. Tools are meant to be action oriented and practical and focus on the process of 'how' to approach a problem rather than the goal itself (Figure 1). Basically, they are a means to an end. The good thing about tools is that they are not bound to specific contexts but can easily be transferred and adapted in different environments and by a variety of forest-linked businesses.

A risk-management tool can be defined as a process of internal risk assessment and external engagement aimed at securing your business objectives against unwanted risk.

Figure 1. From challenges to tools and solutions



What makes a good tool? A good tool is practical and does not just say what or why something is important but how to do something about it. It should also provide a simple, logical set of activities that can easily engage the intended users in a language and with tools that make sense to their interests and needs. It should also facilitate a common understanding of what the problem is as there are likely to be different views of risks depending on who you ask. People perceive and respond to risks differently depending on (a) their own direct experience of a specific threat/risk, or indirectly through someone else (b) what they value and believe in, and (c) the social conditions and relationships around them. For example, a management team might be more concerned with strategy and have a longer-term perspective of risk (eg sustainability of the brand, business relationships etc.) whereas an association member or field manager might be more aware of daily operational risks and be more risk averse to long-term objectives compared to other short-term needs. Engaging with other external actors in the value chain is also important, as their perspective might offer new insights and help with risk-management options.

Guide to the tools in this toolkit

This toolkit is meant to help locally controlled forest businesses to move from a situation of reacting to proactively managing risk. Risk assessment and management is an ongoing process of reflection and action. The process diagram below shows the step-by-step process outlined in modules 2 to 7 (Figure 2). Each stage will contain a set of activities, a description of the purpose and what you can expect to be able to do afterwards. We propose that you use this toolkit in the order it is presented here.

Following this process will help increase understanding within different levels of your business regarding why risk management is important. It will set out a logical process for engaging with your staff on risk management, and provide options for how to best manage risks internally and with external actors in the value chain. We will go through each step in detail in modules 2 to 7 but the next section provides a brief introduction.

Reviewing objectives (Module 2)

To understand which risks are important to your business you need to set some rules to determine what risks should be considered. Focusing your assessment around the objectives of the business organisation is an effective way of doing this and to ensure that the risks that you will assess are relevant. This will involve clarifying **what** those objectives are, **how** risk assessment and management can help achieve them, and deciding on a process for carrying out the risk assessment – **who** to involve and **when**.

4. See Vermeulen (2005).

Box 1.1 Organising the risk self-assessment

The seven steps of the risk-assessment and management process can be divided into a number of different sessions.

- **Session 1** will introduce what risk management is and its purpose and link this with the business objectives.
- **Session 2** will focus on assessing and ranking risks.
- **Session 3** will involve selecting risk-management options and assigning responsibilities for implementing and monitoring these over one year (the action plan). And finally, before the end of the year,
- **Session 4** should be organised to discuss the results of the risk-management action plan (monitoring) and to reflect on planning for the next year.

We have suggested how these sessions might be structured and how long they might take, but please do use your own judgement to design a process of risk assessment and management that suits your needs.

The 'who' part will involve taking a decision on which external actors to involve and at what stage in the process. For example, involving representatives from government, financial institutions or other business partners at an early stage can have its drawbacks as you might not be ready to engage with them yet (eg you might not be able to give them a concrete risk assessment with management options where you need their help). On the other hand, they can help identify gaps and opportunities from a different perspective. There are benefits and drawbacks with each and you will need to decide this at an early stage. After completing this step, you will know what is critical for your business to reach its objectives and therefore also have an idea of where to focus your risk assessment and management.

Identifying risks (Module 3)

Once you know which objectives are of interest to the business, you can start identifying and categorising risk. The risk-assessment framework has been designed to help you brainstorm on what risks you are likely to need to consider. The framework presented in this toolkit was developed and tested for the *Securing the future: managing risk and building resilience of locally controlled forest business* book (Bolin and Macqueen 2016; see also Annex 1). This framework is structured around six areas that businesses are most likely to be concerned about because they are potential sources of risk (natural resource access, financial health, business relationships, security of the external operating environment, internal operational capacities and brand reputation). These are cross referenced with five generic areas of influence in the enabling environment drawn from the Market Analysis and Development Framework as shown in Figure 3 (macro-economic and market context, institutional and legal context, natural environment, socio-cultural relationships, and technology/research and development) which can help the facilitator develop leading questions to help with the risk identification. After completing this step, you will have listed the risks that your business is exposed to, both now and in the future.

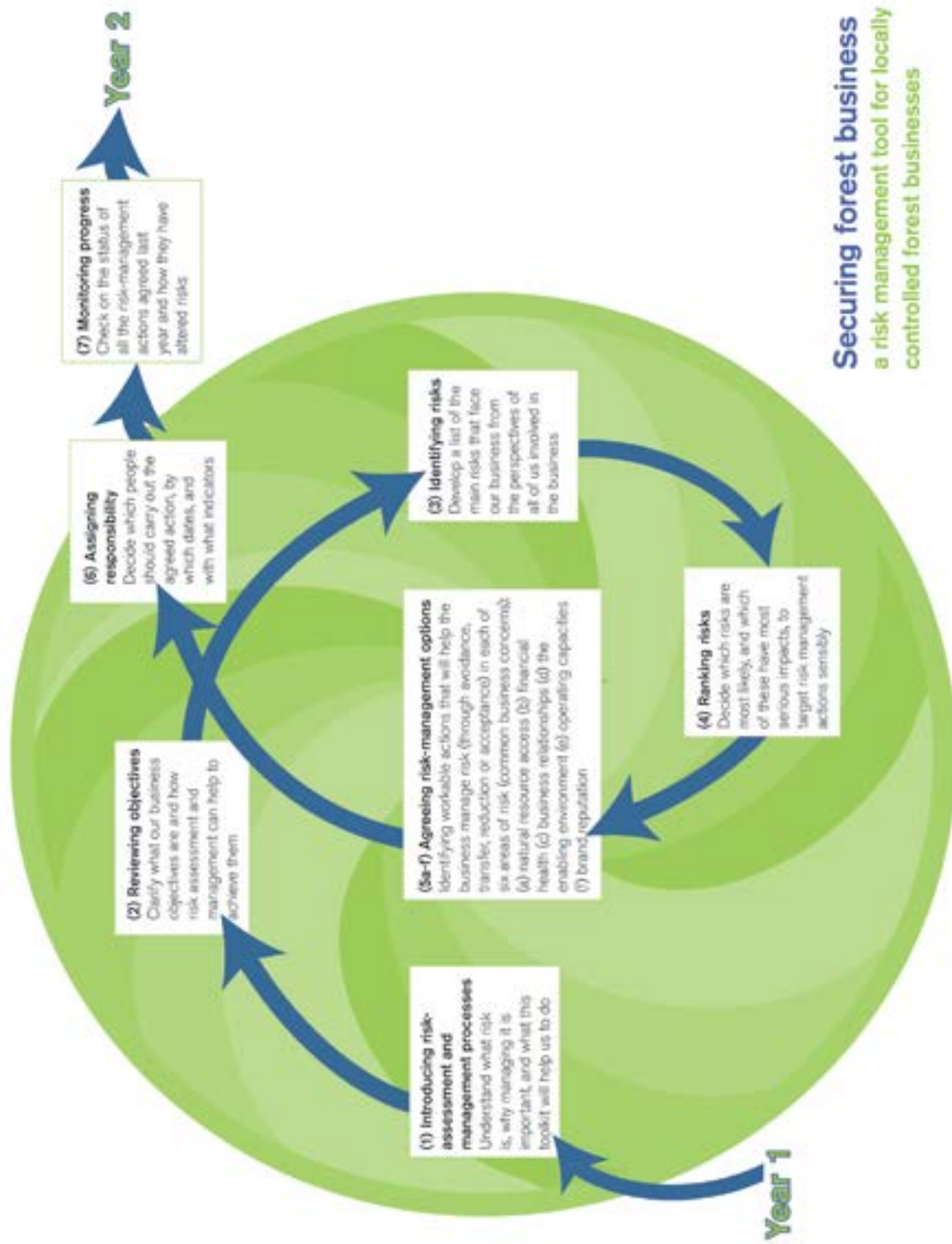
Ranking risks (Module 4)

The next step after identification is analysing the importance of those risks and prioritising which ones to include in your risk-management strategy. This is done using a sequence of steps where you first reflect on how severe the consequences of each risk could be and how likely it is to happen. For example, hazards (eg hurricanes, floods, earthquakes) have large consequences but if the probability of them occurring is low, then you should probably look into insuring the business against damage and/or take actions to minimize potential damage, like building flood defences. Once you have a good idea of the likelihood and severity of a risk, the next step is to decide how you will respond to it, i.e., whether to accept, reduce, transfer or avoid the risk. After completing this step, you will know which risks your business should prioritise.

Assessing risk-management options (Module 5)

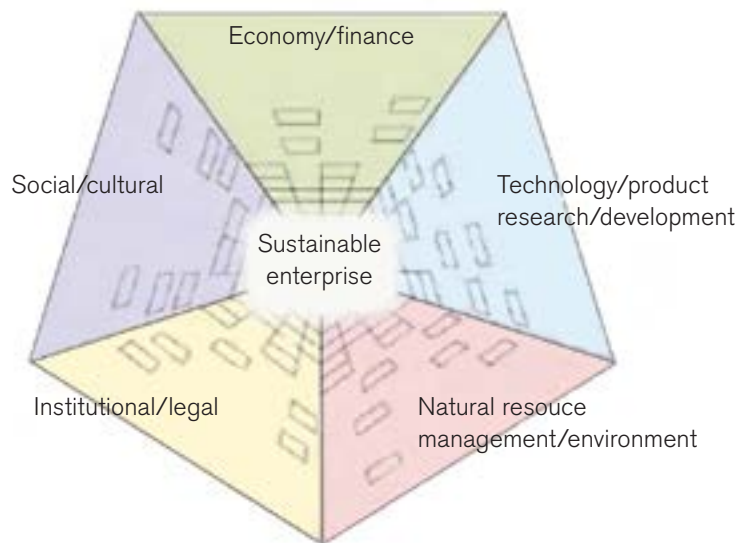
Often, the main problem is not a lack of knowledge about the risks you face, but rather what you can do about them. This step in the process introduces ideas, tips and tactics drawn from case studies to give you some ideas about options for managing different types of risks. The ideas are drawn from Bolin and Macqueen (2016) and elsewhere and are structured according to the same six areas of concern as the risk-assessment framework. These are meant to trigger your thinking about strategies and partnerships for managing risks and seizing opportunities. After completing this step you will have a set of options for how to deal with the risks that you have prioritised as most important.

Figure 2. The risk-assessment and management process following the modules in this toolkit



Securing forest business
a risk management tool for locally controlled forest businesses

Figure 3. Five generic areas of influence in the enabling environment



Source: Lecup and Nichol森 (2000)

Assigning responsibilities (Module 6)

Now that you have your list of risk-management options it is time to put these into action by defining actions and assigning responsibilities, including who needs to do what, when, how and using what resources. You will also need to decide on how to measure whether your risk-management strategy is working or not. For example, take note from the start of what the existing situation is (risk) and then follow up on changes to that situation: has the risk been reduced, avoided or improved (opportunity)? Ideally, risk management should be integrated into overall business planning and not treated as a separate activity. This can be put into practice for the second year once you have some experience from the first year of implementation. After completing this step, you will have a clear action plan ready for implementation with identified risk-management strategies and responsibilities, and a strategy for monitoring results.

Monitoring progress (Module 7)

The last step in the annual cycle is also the one that will bridge your business into the next year of planning and review. This is where the management and monitoring plans will be presented back to the team and relevant other stakeholders (if appropriate) and a reflection on what has worked well and not so well can be discussed. This is of interest not just to yourself but also to others who might have an interest in your business (eg investors, business partners or government). This is an opportunity to show that your business is informed and prepared to deal with risks that you have identified.

After the completion of an annual cycle of regular monitoring, the results should tell you:

- Whether you were right about the risks you identified at the beginning of the year,
- If there are new risks you need to be aware of and include in next year's assessment, and
- If your management strategy is working while generating new ideas for improvement.

The following sections will lay out the main practical modules of the toolkit and provide you with the tools for organising your risk-assessment and management process, designing and implementing a risk-management action plan.

Further information

For an overview of experience of carrying out risk self-assessments and risk identification see Bolin and Macqueen (eds.) (2016).

Reviewing objectives

Purpose

To introduce the idea of risk management to business staff and to brainstorm the main reasons why your business should do it. In this module, the main objectives of your business will be clarified and critical factors for achieving these will be discussed. This will help you to better understand how risks may affect your ability to achieve those objectives.

After this module, you will have clarified:

- What risk management is and the benefits it can provide to your business,
- What your business objectives are and what contribution your business intends to make to society, members or shareholders, and
- What the risk-assessment and management process involves, who should participate and if/when to involve external actors.

Activities

1. Organise a meeting involving the business manager and staff in both operations and management positions who know the business well. Start by openly brainstorming on what the terms risk, risk management, opportunity and risk assessment mean. Let people think about it before offering suggestions. Your role is to facilitate and guide the discussion, not dictate the answers. After initial brainstorming on the meaning and purpose of risk management, explain how taking risks and managing them is a vital part of business growth.
2. Introduce the seven steps of the risk-assessment and management process that this toolkit will lead you through (Figure 2). Explain the logical flow of the different steps and what your colleagues can expect to be able to do after each. Where will one full year of risk management lead you and what do you want to use your risk assessment for? Explain the two objectives of engaging both internal and external stakeholders and the purpose of doing this.
3. Link the risk-assessment and management process with the objectives of the business. Encourage those with knowledge of the business and business plan (if available) to discuss what the business objectives are in the short, medium and long term, and review their experiences in meeting these objectives. This might include economic objectives (eg profitability of the business) alongside social objectives (eg contribute to household income and community projects) and environmental objectives (eg securing tenure over and restoring forest resources). Have a brief discussion about how far the business has come in meeting its objectives to date.
4. Discuss how unpredictable events in the past have affected the ability of the business to achieve its objectives. Could these have been avoided or managed better? Brainstorm why it might be useful in the future to take a more proactive approach to risk management in business:
 - a. **How might risk self-assessment improve your chances of achieving your objectives?** For example, could developing a plan for engaging with people who are not part of the business but living in the local area help to ensure the business objectives are understood and supported? Including social risks and strategies to reduce them in the risk management plan could help minimise both potentially negative social impacts of the business later and, ideally, improve the lives of community members. See Module 5 for more examples.
 - b. **Are there any disadvantages to discussing risk?** For example, might publicly discussing the challenges facing your business create an unfavourable impression that may demotivate staff or put off financial credit

Time and resources required

- Part of **SESSION 1** which will require approximately 60 minutes
- Document outlining business objectives (eg organisation mandate/articles of association/ constitution)
- Prepared notes with the meaning of key words and reasons for doing risk management
- A diagram showing the risk-assessment and management process
- Flip chart with at least 4 pages. One for agreeing on meaning of key words, one for outlining objectives, one for drawing the cycle diagram, and one for deciding on a process (who to involve and when)
- Marker pens
- If available, business plans of the enterprise



A sawmill in Dollo Mena, Ethiopia that processes hardwoods from the last remaining rainforests of Ethiopia managed now in part by community forestry cooperatives. They face risks such as incursion by livestock herders, difficulties in maintain spares and operating capacity.

agencies? It is important to remember that risk is not only negative but is also a positive move towards improving control over challenges and taking opportunities.

5. Discuss what the advantages for the business would be for insiders and outsiders to know that your business has developed a risk-management plan to ensure that it can better achieve its objectives. Consider:

- a. Internal actors such as business members, business managers, board members
- b. External actors such as banks, government, service providers (technical and financial), representatives from membership federation/association, business partners.

6. Provide adequate time for people to express doubts, concerns, and support for moving forward.

7. At the end of the session write up on one of the flipcharts an overview of what has been agreed during the session to see “where the business stands now”. Include what your business objectives are and what contribution your business intends to make to society, members or shareholders, and what you have agreed on in terms of process, who should participate and if/when to involve external actors.

Tips

Discussing risks can give the business:

- A deeper understanding and ownership of challenges and opportunities,
- A better position to be able to identify appropriate mitigating actions to build resilience and/or manage (reduce) risk,
- Increased confidence to develop the business and its purpose,
- An improved sense of the ecological (appropriate, low impact), social (create jobs, provide opportunities for people) and economic contributions (reduce poverty) your business makes, and
- A sense of increased leverage and being prepared to engage with external actors eg to develop or have a stronger pitch when asked about your business plans and how you manage risk.

Deciding who to involve in the risk-assessment process and when, especially for external actors, can be tricky. It might be good to discuss some clear criteria for who should be included. For example, you might want to include those with knowledge about specific areas of the business (operations, management, marketing, finance etc). You might also want to think strategically in terms of who to engage with for support to overcome barriers (eg finance) or reduce risk (eg government regulators).

Identifying risks

Purpose

To brainstorm the risks facing your business. After this module you will have a list of risks (challenges) that you need to address to ensure your business meets its objectives – and a greater understanding within the business about how different staff perceive those risks.

Activities

1. Organise an internal risk-assessment meeting (inviting key people such as management and staff representatives of different parts of the business).

2. Introduce the purpose of the session, and review what risk is and why risk assessment and management is important in helping the business reach its objectives (as discussed in Module 1).

3. While you are all together, draw a value-chain map (eg Figure 4) that shows (i) everyone who is required to get the product from the forest to the end user (ii) any external influences or processes that you have to go through to operate legally – so that everyone is thinking about all the steps required for success.

4. If there are many people involved, divide into groups of four to five to ensure that everyone participates in the discussion.

5. In those groups, invite each participant to write on big cards what they perceive as the biggest challenges or threats to the ability of the business to meet its objectives or to its overall sustainability. Have each group cluster the challenges or threats into similar ideas.

6. Introduce and explain the 6 areas of risk – and have a flip chart page for each area of risk. Then invite each group to report back on their main clustered perceptions of risk and discuss in which of the six areas of risk each cluster should be put. Put each cluster on the flip chart page for the risk type with which it is most closely associated.

7. Discuss the main risks they have identified, and then check whether any of the six areas of risk have been missed. Introduce the five generic areas of influence in the enabling environment that are described in Figure 3 and Table 2. To be clear, for each category of risk, e.g., natural resource access, ask whether there are any other risks that emerge from the macro-economic and market context, institutional and legal context, natural environment, socio-cultural relationships, and technology/research and development.

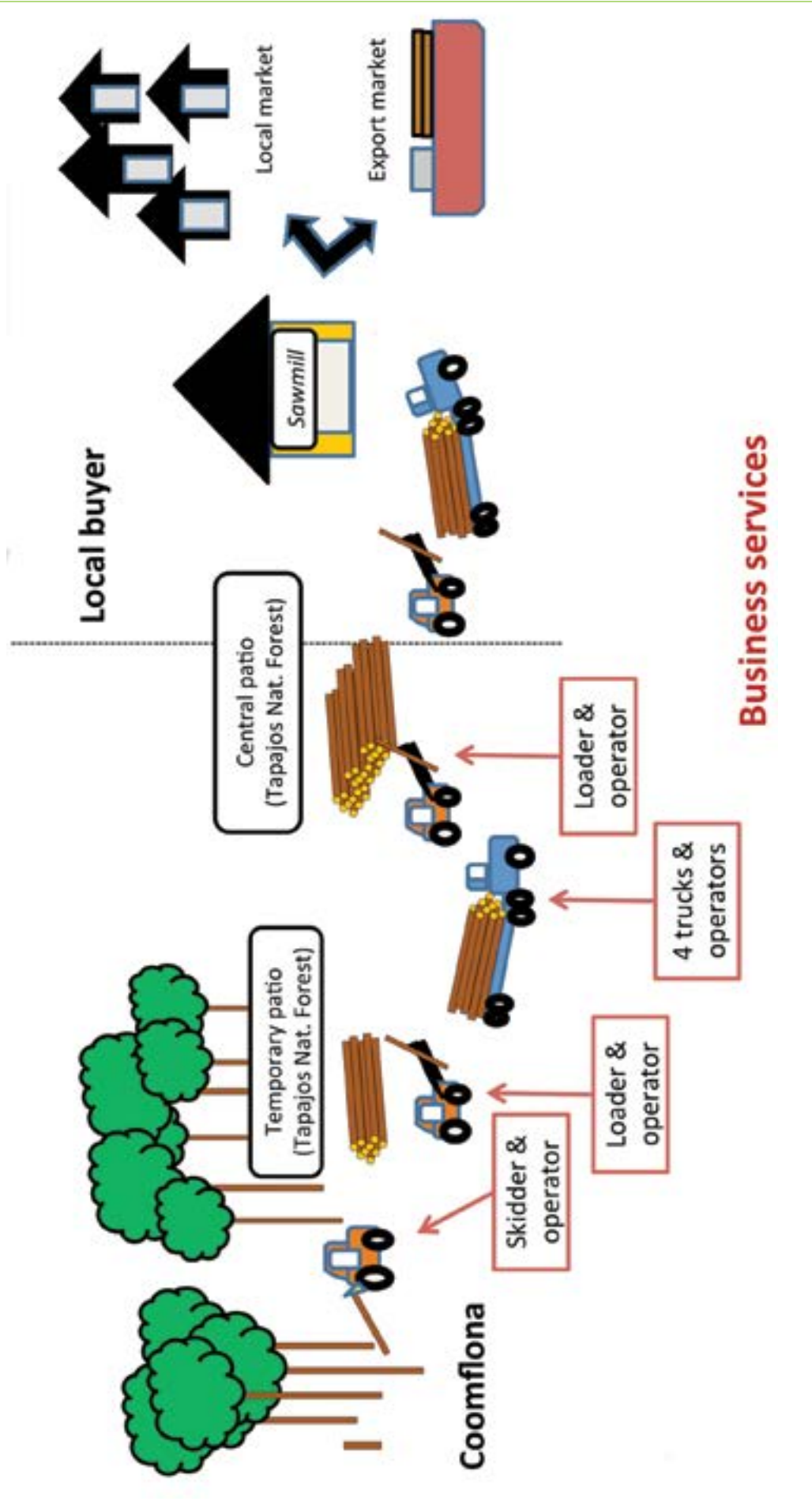
8. Once the main risks have been identified and grouped by major risk type, write the main risks into the relevant boxes in Column 2 of Table 2. (The next module explains how to fill in the other columns of the table.)

9. Organise an external risk-assessment meeting and repeat this exercise with any external actors whose opinion you feel to be important for your business such as government, buyers, suppliers, service providers (eg banks, technical assistance), support non-governmental organisations (NGOs), and donors.

Time and resources required

- Part of **SESSION 2** (which will need 4 hours or half a day in total). This module needs 2 hours.
- Flip chart with at least six pages – one for each area of business risk (see Table 1 for list)
- Big note cards on which participants can write their ideas
- Risk assessment table to prompt a thorough consideration of the six different areas of risk

Figure 4. Example of a value chain map (for the Brazilian timber cooperative Coomflona)



Source: Macqueen et al. (2015a)

Table 2. Example of the risk-assessment table with randomly entered figures to give an example of how the table might be filled in

(please delete these fictitious examples of risk and numbers when you fill in your own table!)

1. Main areas in which risk might occur		2. Risks identified for each area to do with	3. Scale of consequences: high (3), medium (2), low (1), none (0)	4. Probability of impact this year: certain (3), high (2), low (1), none (0)	5. Overall score in this year (0–6)	Rank in comparison with other risks
Natural resource access	Macro-economic and market context (eg competition for resources, overlapping land uses, demand focused on particular species or products)	Some competition for forest use	2	1	3	4
	Institutional and legal context (eg licensing or renewals, burden of law enforcement processes, resource-allocation procedures)	Renewals are too slow and bureaucratic	3	3	6	1
	Natural environment (eg over-exploitation/degradation, inefficient exploitation, environmental shocks)	Lack of forest area to meet buyers demand for product	2	3	5	2
	Socio-cultural relationships (eg gender inequities in resource rights, conflict over access and rights of use)	Community conflict over access to non-timber forest products	3	3	6	1
	Technology/research and development (eg availability of resource-extraction equipment)	Cannot source spares for chainsaws	2	1	3	4
Financial health	Macro-economic and market context (eg accessibility of credit, business competition – including illegal – and limited sales options)	No banks with lending programmes for forest business	3	3	6	1
	Institutional and legal context (eg corruption and bribery, impact of costs of taxes and fees on production, bureaucratic procedures)	Corrupt rent seeking by transport police is reducing profits	1	2	3	4
	Natural environment (eg seasonality of resource, poor supply/quality of resource)	Seasonal access problems which reduce profits in the wet season	2	1	3	4
	Socio-cultural relationships (eg lack of trust in joint saving schemes, cultural taboos, customary rules governing resource access – including gender, elite capture and corruption)	Trust is not yet there to set up a joint saving scheme	1	2	3	4
	Technology/research and development (eg start-up or maintenance costs, maintenance requirements, optimal through-flow of product)	Maintenance costs are too high	1	3	4	3
Business relationships	Macro-economic and market context (eg market networking opportunities, possibilities for or restrictions on collective action, capacity to honour contracts and delivery)	Remoteness means it is difficult to find new buyers	3	3	6	1
	Institutional and legal context (eg membership of trade association, nature of relationship with extension service providers/law enforcement officers)	There is a particularly difficult official who is slowing up permits	2	2	4	3
	Natural environment (eg sustainability concerns of business partners, few opportunities to share management responsibilities and costs with partners)	Business partner is struggling to pay on time	1	1	2	5
	Socio-cultural relationships (eg culture of business, nature of relationships within community, culture of business interactions)	Lack of opportunities for women is generating conflict within the community	2	1	3	4
	Technology/research and development (eg cost-sharing opportunities, communications infrastructure)	Lack of expertise to research lesser known timber species	3	1	4	3

Security of external operating environment	Macro-economic and market context (eg macroeconomic fluctuations, theft, civil unrest and war, industrial sabotage)	Armed conflict is affecting road access to the main port	1	3	4	3
	Institutional and legal context (eg institutional or legal reforms, discretionary law enforcement)	Legal reforms may increase the concession fees	2	3	5	2
	Natural environment (eg extreme weather events, seasonal access issues)	Hurricanes are increasing due to climate change	2	2	4	3
	Socio-cultural relationships (eg local power struggles, elite capture)	State governor want to allocate land to a palm oil company	2	0	2	5
	Technology/research and development (eg energy supply infrastructure reliability)	Electricity shortages interrupt sawmilling	1	0	1	6
Internal operating capacities	Macro-economic and market context (eg education programmes)	No courses run by government forest agencies	0	0	0	7
	Institutional and legal context (eg level of technical extension)	Technical extension services absent	2	0	2	5
	Natural environment (eg resource-management expertise)	Lack of expertise in Reduced Impact Logging	1	2	3	4
	Socio-cultural relationships (eg cultural motivation of staff)	Motivation problems of staff	1	2	3	4
	Technology/research and development (eg technical capacity to operate machinery)	Machinery operating manuals not translated yet	1	0	1	6
Brand reputation	Macro-economic and market context (eg labour standards, market standards, certification requirements, ability to tell stories about social or environmental performance)	Not yet attained phytosanitary certification for timber export	2	2	4	3
	Institutional and legal context (eg formal registration requirements, bureaucratic procedures for formal registration)	Still to receive formal business registration documents	2	2	4	3
	Natural environment (eg certification for sustainability, ease of ensuring sustainable management within production system, proof of sustainability)	Certification costs too high but this is reducing market access	3	2	5	2
	Socio-cultural relationships (eg capacity of staff to understand desired business model)	Members cutting trees when they need cash income which undermines sustainability	0	3	3	4
	Technology/research and development (eg quality assurance, ability and resources to acquire technology, capacity to maintain market research)	Quality of sawn timber still variable which is causing rejection by the buyer	3	2	5	2

Tips

- Make sure you have at least a couple of hours for this exercise.
- Make sure you have read the introduction to this toolkit and have understood what risk is, and what some examples of risk are.
- Make sure you involve people who play different roles in the business because they might have very different perceptions of risk (eg the marketing manager, the accountant and the field operations manager).
- Make sure that people have a chance to explain why they thought a particular challenge was critical for the business – so that the causes of concern are expressed and not left confused or vague.

Further information

Examples of different types of risk can be found in the cases in Bolin and Macqueen (2016).

Ranking risks

Purpose

To identify the most serious risks based on how likely it is that each risk will occur and its potential consequences for the business. After this module, you will be able to focus the business's risk management efforts and resources on the most serious risks.

Activities

1. Continue the session to evaluate the risks you have identified in Module 3, ensuring the participation of a diversity of types of staff and, if desired, outside actors, such as collaborators from civil society and/or government.

2. For each risk, first determine how serious the consequences (or impacts) of the risk would be if it were to occur. If the business is already incurring the risk, such as a very slow bureaucratic process for the approval of licences, you can score that risk against those real consequences.

Time and resources required

- Part of **SESSION 2** (which will need 4 hours or half a day in total). This section needs 1 hour
- Prepared lists of risks in each of the six areas of risk from Module 3 on flip charts
- Table prepared in module 3
- Coloured marker pens to score the scale of consequences and probability of occurrence for each risk

The following scale should be used for assigning a score to reflect the likely scale of consequences or impacts for each main risk in the next 1-3 years (Table 3). The score for each risk will be used in Figure 5 to help the business prioritize and determine how to deal with the most important risks.

Scale of consequences	Description	Score to give to that risk
High: very high impact or consequence	This risk could seriously impact the ability of the business to realise one or more of its objectives or to be sustainable in the short or long term. For example, a small association may have very high dependence on one person who handles all administrative and sales activities. If this person were to leave, it could seriously compromise the ability of the group to continue its business.	3
Medium: moderate impact or consequence	The impact of this risk would be important for the business, but would not necessarily compromise the ability of the business to realise one or more of its objectives or compromise the sustainability of the business in the short or long term. For example, if one of a business's clients does not pay on time or at all, it could have a significant impact on working capital, but not enough to bankrupt the business.	2
Low: minor impact or consequence	The impact of this risk would be significant for the business, but would have only a small effect on the ability of the business to realise one or more of its objectives or the sustainability of the business in the short or long term. For example, a business may find it more challenging to sell some products than others (eg lesser-known species of timber or the pulp of a fruit it harvests to sell the seed). While finding a market for these other products would be very helpful, not having a market for them now poses a low risk to the business's financial viability.	1
None: not likely to have an impact	After further discussion, it is decided that the impact of this risk would be very minor, and therefore it is not a risk. For example, the business might need to renew its concession license every 25 years which would have a major impact if the renewal was unsuccessful. However, if the renewal date is still ten years away the risk can be scored as zero for the current year.	0

3. Next, for each risk, determine the probability of the risk occurring in the next 1-3 years. If the business is already incurring the risk you can score a probability of 3 – certain. For any risk where the potential impact is likely to be high but you are uncertain of when or if such a risk will ever happen you can score as a low certainty.

The following scale should be used for assigning the probability of occurrence (Table 4). As with Table 3 above, the score for each risk’s probability of occurrence will be used in Figure 5 to help the business prioritize and determine how to deal with the most important risks.

Table 4. Scale for assessing the probability of occurrence in the next 1-3 years		
Probability of consequences	Description	Score to give to that risk
Certain: very likely to occur or already occurring	The risk is very likely to occur or is already occurring. For example, a business may operate in an area that suffers annual floods, therefore the probability of needing to plan for alternate transportation routes or breaks in production is very high.	3
Medium: likely to occur	The impact has occurred in the past and is likely to recur, or the business believes it is likely to occur. For example, a business is aware of news reports about an influential senator from the dominant political party proposing a new tax law that could significantly increase taxes for the business. The pundits are unsure what will happen, as there is strong support for and against it.	2
Low: low likelihood of happening	The impact is not likely to occur, but is something about which the business should stay aware. For example, accidents might occur infrequently (once every few years), but the impact of them could be very high, so actions should be taken to avoid them.	1
None: not likely to happen	After further discussion, it is decided that the risk is very unlikely to occur, and therefore it is not a risk. For example, if the business wants to change its name and brand but is worried about the impact on customers, this might be considered a risk. But if, after further consideration, the staff reveal that no product was shipped using the original company name or logo, in that instance the probable risk of changing the name could be ranked at zero.	0

4. Add the results of the evaluation of the scale of consequences and the probability of impact to determine the priority ranking. The results should range from 2–6.

The following scale should be used to interpret the priority ranking:

- 5–6: High priority. These risks should be the first ones addressed in Module 4 to define risk-management options.
- 3–4: Medium priority. These risks should be monitored for changes, but are not the highest priority for the business to address. However, if the business still has the resources (staff time, funds) after addressing the high-priority risks, it should work on these risks as well.
- 2: Low priority. These risks should be monitored for changes, but do not require the immediate action of the business.
- 0–1: Not a risk. These risks should not be monitored and should not be used in Module 4 to identify options for risk management.

Where the risk falls in the following graph also gives you some idea of how to deal with the risk:

5. As you conduct your priority ranking you can also get a feeling for how you will respond to those risks. In your risk-management strategy you can choose to transfer, accept, reduce or avoid identified risks. The tendency to do each of these actions is defined by the scoring in the matrix in Figure 5.

- **Accept the risk:** Some risks are inconsequential and are likely to be part of the everyday realities of running a business. Market risk is a good example of this. Customer preferences may change and you will always face the risk of competitors pushing you out of your market niche. These are part of the risks involved with having

Figure 5. Risk-assessment matrix

		Scale of consequences			
Scale		0	1	2	3
Probability of occurrence	0	ACCEPT (live with it)			TRANSFER (insure against it)
	1				
	2				
	3	REDUCE (keep an eye on it)			MANAGE OR AVOID (plan for it)

a business which you just have to accept – but you can minimise and learn how to manage them better. For example, carry out market research so that you know what your customers want and where your advantage lies compared to your competitors.

- **Transfer the risk:** In some cases, the impact of a certain risk is likely to be high but the likelihood of it happening is too difficult to predict. Natural hazards (eg storms or floods) are a good example of this. Your business might be able to take out insurance to transfer some of the risk of fire, theft or crop failure. This will allow your business to recover some of its losses.
- **Reduce the impact of the risk:** Some impacts for frequently occurring risks are unnecessarily high simply because there is no plan to deal with them. Your business can come up with ways to reduce the damage that is caused by a risk event. For example, you can control credit risk through careful recordkeeping and monitoring. You might set aside some funds in a savings account so that you have resources available to react to an unexpected event as soon as it occurs. Contingency planning is important for natural disaster risks.
- **Manage or avoid the risk:** Your business will have either to actively plan for risks or avoid risks that have a significant impact and a high probability. For example, you might have to buy product from an unknown third party to meet a large customer order – even though you have no track record with that supplier (this is planning for the risk). Alternatively, you might choose not to give credit to customers you do not yet know or those who have a bad credit history. This can protect you from the cost of default, as well as the costs associated with trying to recover a late payment (this is avoiding the risk).

6. Next in the risk management table that you are developing, make a record of the priority scoring for each risk and a note of whether you might prefer to manage or avoid, transfer, reduce or accept the risk (see examples given in Table 5).

Table 5. Example of scoring different risks

Main areas in which risk might occur	Risks identified for each area to do with:	Scale of consequences: high (3), medium (2), low (1), none (0)	Probability of impact this year: certain (3), high (2), low (1), none (0)	Overall score in this year (0–6)
Natural resource access				
	<i>Macro-economic market issues (eg competition for resources)</i> New trade agreement brings a flood of lower-priced imported lumber into the country	3 (high)	1 (low)	4 (medium – transfer)
	<i>Institutional and legal issues (eg licensing or renewals)</i> Highly bureaucratic system results in delays in getting licence for annual harvest	3 (high)	2 (medium)	5 (high – manage)

Tips

- **Participants:** The perception of the seriousness of different risks can vary based on a person's knowledge and experience. This is why it can be helpful to have a diversity of types of internal and external people involved in the evaluation and prioritisation of risk. However, if your staff would prefer to complete the evaluation and prioritisation module with only internal people first, they could then discuss the results with external actors to get their feedback afterwards.
- **Discussion on consequences:** To help with the discussion and evaluation of the potential scale of consequences of risks, these questions might be helpful:
 - What is the likelihood that the business would not be able to meet one of its objectives if this risk occurred? (Note: The business's objectives are defined in Module 2.)
 - What is the likelihood the business would suffer severe financial insecurity (eg bankruptcy) if this risk occurred? What would the impact of this be on the business?
 - What is the likelihood the business would lose its support from the community if this risk occurred? What would the impact of this be on the business?
 - What is the likelihood our source of credit would no longer lend to us if this risk occurred? What would the impact of this be on the business?
 - What is the likelihood we would not be able to meet our contractual obligations to our clients if this risk occurred? What would the impact of this be on the business?
 - What is the likelihood we would lose our license to operate if this risk occurred? What would the impact of this be on the business?
- **Discussion on probability:** To help with the discussion and evaluation of the probability or likelihood of each risk, these questions might be helpful:
 - Does the business currently face this risk?
 - Has this risk occurred before? How likely is it to occur again?
 - How probable is it that this risk will happen in the next 1–3 years?
- **Score of zero:** It is quite common that after identifying many different risks, upon further discussion, the group will decide that a risk is actually very unlikely and/or the potential impact is close to nothing. It is fine to evaluate these risks with a zero and to leave them behind as the business moves forward with plans for risk management and monitoring.

Further information

To learn more about how to do a financial analysis, please see the Earth Innovation Fund's Green value: a tool for simplified financial analysis of forest-based initiatives (EII undated).

See: <http://earthinnovation.org/our-work/case-studies/green-value/>

Risk-management options

Purpose

To make sure that you have specific actions planned to manage each of your priority risks. For example, you should have planned actions to ensure that you can secure: access to and supply of the natural resources that your business depends on; enough money to keep your business running on a daily basis; trust, mutual benefits and sustainable business relationships; the right conditions to help your business reach its objectives; operating capacities to run the business efficiently with skilled staff; and a business reputation helps you win business rather than lose it.

After this module you will be able to:

- Identify ways of bridging access constraints and develop strategies with partners and business members that can help your business secure its natural resource supply,
- Adapt some financial risk-management options to improve the financial sustainability of your business,
- Identify and implement strategies to improve and strengthen your business relationships,
- Identify actions to create and/or maintain a supportive operating environment, and
- Have a better collective understanding of the importance of building brand reputation – and how that might be done for your business.

Time and resources required

- Part of **SESSION 3** (which will need 3 hours or half a day in total). Each category of risk needs at least 30 minutes to discuss
- Flip charts with lists of prioritised risks
- Tables from preceding session on the computer
- Table and Excel spreadsheets of risk management to insert risk-management actions into
- Come to the meeting prepared. Read some of the case study examples from the *Securing the future: managing risk and building resilience of locally controlled forest business* (Bolin and Macqueen 2016) and other suggested resources at the end of this module. This way, you will be able to help in the brainstorming sessions to identify options if participants get stuck.

Activities

1. Convene participants to discuss how to respond to the risks identified and prioritised in modules 3–4, making sure you have staff with the relevant expertise represented at the meeting.
2. Reflect on why you are doing this as defined in the introduction and getting started (modules 1 and 2) and make sure you are clear on terms (value chain, business objectives, risk, opportunity, risk management).
 - What are the main objectives the business has?
 - How might risk assessment and management help us achieve those objectives?
 - Why is the business doing this now?
 - What benefits do we (meeting participants) see in risk management?
3. Introduce the fact that you are going to consider specific actions that the business can take to address risks that have been prioritised in previous sessions – using six areas of risk (common concerns for any business): natural resource access, financial health, business relationships, security of the external operating environment, internal operational capacities and brand reputation. Work through each area one by one.
4. For each area, explain how the discussion will work. Participants will talk through what the business is already doing to manage the identified risks in that area. Discuss why this is an area where risks will need to be managed. Discuss why that area is important to your business. Go back to Module 2 and reflect on the main risks identified for which risk-management strategies will need to be developed. Brainstorm on what else the business might do to manage risk in the area of concern. Ask the following questions to help guide your discussions:
 - What needs to change for the situation to be improved?
 - How could this change come about – what actions and people might you need to consider?
 - Who are the main direct and indirect actors that either prevent or enable those actions?
 - What are some examples you can draw on from your own experience or others'?

5. Use the following sets of examples to complement the discussion for each of the six areas of risk.

5a) Risk-management options for natural resource access

The following examples on how to manage risk relating to natural resource access can be used:

- i) **Nurturing strategic partnerships with other suppliers:** Getting enough products from your members to meet the volume desired by buyers can be a challenge – especially if you do not have access to enough resources within your members' organisation. One way of overcoming this is to look for other businesses in your area which can provide the same product. These suppliers may also be approached by others who want to buy their product. Therefore, to make sure you can secure products for your business and meet the expectations of your buyer, it is a good idea to develop a contract or supply agreement with external suppliers. The agreement will help nurture the business relationship and help both parties feel more secure in the partnership.
- ii) **Expanding association membership and on-farm production:** Another way of dealing with not having enough supply is to expand the association membership so that production can be increased from within the business. Increasing the membership could also have additional advantages beyond increasing access to natural resources as it could also be a strategy for raising working capital from membership fees and shareholdings.
- iii) **Improving efficiency through technical training:** Sometimes it is not possible to expand access to natural resources, for example directly (by adding forest land to your concession) or indirectly (through new members). In this circumstance, you will need to try and make the most out of what you have and make production more efficient, for example, by improving techniques for cultivation, domestication, management, harvesting and processing. Training is one good option for ensuring members across the organisation learn how to improve the efficiency of their activities. Training is typically provided by a service provider, such as a technical extension service or NGO. It can also be provided by a business partner. If you are working with a business partner who has specific quality requirements and who is experienced in your line of business this could be a good opportunity to extend that partnership to also include business training.
- iv) **Developing guidelines for sustainable management:** Smallholder forest and farm businesses often struggle with being recognised as legitimate businesses and managers of natural resources. One way of overcoming this is to seek independent validation of their ability to manage a natural resource business sustainably through certification. The benefit of certification is that it will provide a process for formalising documentation within the business for how it governs its accounts, internal organisation, and management of natural resources. This not only helps the business improve its operative plans but it also provides legitimacy from a recognised industry certification body.
- v) **Securing product transport from members to buyers:** Transport can be a significant cost to the business. This is often due to the limited ability of smallholder forest and farm businesses to acquire enough volume to make the cost of transport worthwhile, or simply because of the limited transportation options available. At the same time, this is a problem faced by multiple businesses and transport is a service for which there is likely to be high demand. Establishing a transport service could therefore be an opportunity. It will allow you to reduce your members' transport risk and, by offering this service to adjacent businesses for a fee, you will also increase your sources of income.
- vi) **Engaging with second- and third-level organisations to advocate for natural resource rights:** While business is always competitive, there can be common issues that businesses face that can best be addressed en masse. Working together in regional or national associations and federations is a key tactic to improve the enabling environment. It can also open up new business possibilities as well.
- vii) **Protecting from fire and wildlife damage:** Fire hazards and damage from wild animals can be a big challenge. One event can destroy a whole harvest and years' worth of investment and hard work. To protect yourself against these hazards, you need to take action before they happen. One way of doing this is by assigning committed responsibilities to members to control and manage fire and wildlife risks. The annual operative plan should include key responsibilities and activities for this, and can include: establishing fire breaks, setting up barbed-wire and chain-linked fences, digging trenches around farms and nurseries, using bonfires at night to scare away wild animals, and having guards at certain times of the year to guard the timber day and night until it has been harvested. Creating public awareness about these methods is also important as sometimes fire is spread from adjacent farms, or even deliberately set by people for different reasons. In these circumstances, working with local authorities and organisations on improving awareness

about fire hazards will be important. If it is a social or cultural problem then it will be equally important to create awareness about the business and its objectives and, if possible, look at options for involving other local people in the business activities somehow to improve local support.

5b) Risk-management options for financial health

The following examples on how to manage risk relating to financial health can be used:

- i) **Investing in transparent financial administration with annual accounts:** An essential start to any attempt to improve the financial administration of a business is to have someone who is able to handle balance sheets, profit and loss statements and cash-flow analyses. Only when you know what money you are likely to need and when you will need it is it possible to plan for financial savings or loans to improve the sustainability of the business. For example in Cambodia, the Mondulkiri Forest Venture (MFV) prioritised the hiring of a professional accountant alongside the business manager, production manager and marketing manager (Bolin and Macqueen 2016).
- ii) **Undertaking financial analysis to research break-even price of your product** (and look at ways of cutting costs by being more efficient). By looking at your volumes and prices of costs and sales returns in some detail it is possible to calculate at what price you would have to offer your product to cover your costs and break even. For example, the business Allpabambu in Ecuador conducted just such an analysis using the EII's Green Value tool – and this has helped them to make decisions on cutting costs of production so as to be more profitable (Bolin and Macqueen 2016).
- iii) **Look carefully at the tax categories into which you fall** and investigate whether there are ways to pay less tax. This can often offer substantial savings. For example in Guatemala, Suchitecos Drivers of Integrated Development for Civil Society (Suchitecos) reviewed the several different ways of registering their company with the tax office and found that it was possible to change the way in which their business was registered such that their tax bill was reduced (Bolin and Macqueen 2016).
- iv) **Researching further buyers and sell as a group to negotiate the best price for your product:** The negotiated price of a product is often determined by the relative power of buyer and seller. Working as a group to offer your product in a single offer is one way to shift power in favour of the seller. Ensuring that there are several buyers who want to compete for the product is another way of shifting the balance of power to the sellers. For example in the Petén in Guatemala, the Association of Forest Communities of Petén (ACOFOP) managed to reach agreement with community forestry concessions from the Maya Biosphere Reserve (MBR), to offer mahogany only as a group and at a single (higher) price (Macqueen *et al.* 2015a).
- v) **Developing systems to recover cash from your buyers and/or organise credit with your buyers** to cover cash-flow needs or to make new investments. Especially if an enterprise does not have large cash reserves, ensuring that buyers pay on time is critical. One way to do this is by reaching a payment schedule with buyers over time. For example in Ecuador, Allpabambu has buyers who have agreed to settle 30 per cent of the cost on signing the contract, 50 per cent on receipt of the container and 20 per cent upon verification of the quality of content. The prepayment helps Allpabambu with its cash flow (Bolin and Macqueen 2016).
- vi) **Establishing a system for building up capital reserves and reinvesting a percentage of profits towards developing the business:** we cannot over-emphasise how important it is for a business to (i) have enough capital reserves to cover day-to-day running costs and (ii) reinvest some profit to develop the business. Reinvestment makes the business stronger. Failure to do so results in decay. For example in the Cambodian company Mondulkiri Forest Venture, shares have been sold to members to raise capital, and there is also an annual membership fee (Bolin and Macqueen 2016). In the Guatemalan business Suchitecos, there are new plans for profits to be put into a business account from where 50 per cent will be distributed to members, 25 per cent reinvested in company infrastructure, and 25 per cent placed in a cash-flow account to ensure enough money is available to pay members for their product (*ibid.*).
- vii) **Speaking to local micro-finance organisations and banks to assess terms and conditions for loans** including the collateral required. Taking out a loan at an unfavourable repayment rate can magnify rather than reduce business risk – so any loans need to be assessed carefully. But it can be possible to develop strong relationships with financial institutions. For example, the Federation of Cooperatives of the Verapaces (Fedecovera) in Guatemala became a shareholder in one of the biggest rural Guatemalan banks, Banco de Desarrollo Rural (Banrural). They have not previously used this link to source working capital – but this might be an option in the future to buy the timber for their new sawmill until Fedecovera's members' timber plantations come on stream (Bolin and Macqueen 2016).

viii) **Developing diversification strategies to reduce cash-flow dependence on single product lines:**

Maintaining cash reserves is much easier if revenues are not all tied to one single production line (especially if that production line is highly seasonal). For example in Cambodia, the Mondulkiri Forest Venture is diversifying beyond honey production into resin and bamboo production to spread risk in terms of cash-flow problems (Bolin and Macqueen 2016).

5c) Risk-management options for business relationships

The following examples on how to manage risk relating to business relationships can be used:

- i) **Developing working capital to pay members for their products:** Maintaining group cohesion within a locally controlled forest business requires a great deal of trust. By having internal working capital, it is possible to pay members for their product on delivery and thereby secure the trust of those members. For example, Fedecovera in Guatemala has generated a working capital fund through an annual capitalisation process and being efficient in its financial management. This has allowed this company to pay its member cooperatives immediately for raw materials (Bolin and Macqueen 2016).
- ii) **Developing internal procedures and quality standards for members:** Relationships with buyers depend on the reliable delivery of specified product quantities and qualities on time. For example, the Kisii Tree Planters' Association (KTPA) in Kenya has struggled to encourage members to sell through the group and reach required standards for buyers such as the Kiamokama Tea Factory. The intention is to have an agreement with members to use the necessary cutting and processing equipment required to comply with buyers' needs (Bolin and Macqueen 2016).
- iii) **Developing benefit-sharing agreements to ensure reliable supply from members:** One of the risks is that inequitable sharing of benefits can undermine trust within a business group. A strategy to reduce such risks is to develop a clear and transparent benefit-sharing mechanism. For example, to access raw materials, Fedecovera in Guatemala offers its member cooperatives competitive market prices (Bolin and Macqueen 2016).
- iv) **Negotiating as a group:** To build trust between business partners, some business groups have chosen to negotiate as a bloc. For example in 2015, all the community forest concessions in the region where Suchitecos is based joined with the support of ACOFOP to establish a minimum sale prices based on quality for the key timber species. This avoids one community concession undercutting another (Bolin and Macqueen 2016).
- v) **Accompanying delivery schedules of required product volumes:** A major risk to business relationships is the control on qualities, quantities and timeliness of delivery. For example for this reason, staff of Allpabambu in Ecuador check the delivery loading for each shipment of bamboo to avoid any subsequent complaints from the buyer (Bolin and Macqueen 2016).
- vi) **Developing market networks and business relationships:** As noted above, business relationships include both internal and external actors. For example in Kenya, KTPA have recognised the challenge of getting members to sell through the group – and thereby have stronger negotiating power with buyers. They are addressing this risk by establishing a cooperative and setting up a savings and credit cooperative (SACCO) for their members so that member can apply for loans for forest establishment at lower rates than those given by finance providers, thereby encouraging loyalty within the new cooperative (Bolin and Macqueen 2016).

5d) Risk-management options for the enabling environment

The following examples on how to manage risk relating to the enabling environment can be used:

- i) **Joining or establishing industry roundtables and other federated representation structures:** One of the ways to facilitate communication with policy and decision makers is to unite with other organisations which work in your industry. These organisations have a better chance of engaging governments and donors on behalf of members and can lobby for, for example, improved policies and regulations, better infrastructure or improved law enforcement. For example, Asociación Rio 7, which sells bamboo produced in plantations in a remote area of southern Ecuador, joined the National Bamboo Roundtable, which has strong links to the ministries of agriculture, industries and productivity, and the environment. After meeting each other at roundtable events, the manager of Asociación Rio 7 helped a representative of the Ministry of Agriculture,

Livestock, Aquaculture and Fisheries to revise the forms used to transport bamboo products to better reflect the needs of bamboo producers (Bolin and Macqueen 2016).

- ii) **Developing specific policy-engagement strategies:** Uniting in organisations also allows members to discuss and agree on strategies for achieving improvements to their operating environments and to present a united set of messages to policy and decision makers. For example, the forest enterprise Suchitecos in Guatemala has developed data on how delays in licensing and corruption in control entities affect their business. The company works with its umbrella organisation, ACOFOP, and other partners to use this and other information to lobby for specific improvements to the policy environment (Bolin and Macqueen 2016).
- iii) **Implementing a communication plan:** A good communication strategy with coherent messages can help inform governments and, when used in the media, help alter public opinion. A good example of such a risk-management strategy comes from Fedecovera, which has a communication plan to disclose the economic, social and environmental impacts of its activities – but also the constraints that impinge on positive impacts (Bolin and Macqueen 2016).
- iv) **Undertaking conflict management in producer landscapes:** One of the sources of risk in the enabling environment particularly pertinent to locally controlled forest farm businesses is conflict between members. For example, on Kenyan farms there has not been a historical cultural practice of growing trees for commercial ends – and the practice sometimes causes conflicts between neighbours which can lead to arson or other damage. For this reason, the South Coast Forest Owners Association (SCOFOA) in Kenya has a policy of developing active conflict management among its members – part of which involves demonstrations to neighbouring farms of the benefits of, and best practices for, on-farm tree planting (Bolin and Macqueen 2016).

5e) Risk-management options to secure operating capacities

The following examples on how to manage risk relating to the enabling environment can be used:

- i) **Installing organisational structures and staff roles with clear and agreed terms of references** (eg administration, finance, marketing, production management, business management, conflict and grievance ombudsman). For example, Fedecovera in Guatemala has employed qualified staff to develop a stronger organisational structure that supports all the activities of the business (Bolin and Macqueen 2016).
- ii) **Staff training and demonstration plots:** Based on the required positions for your business, tailored capacities may need to be developed, such as skills (eg leadership, facilitation), knowledge (eg accounting) and attitudes (eg motivational, leadership, sense of responsibility for members) required to do the job. Training institutes or NGOs can provide a range of technical, business management and facilitation skills (eg RECOFTC) both in the classroom and demonstrations in the field.
- iii) **Rotating staff to broaden their skills base:** By deliberately rotating staff through several areas of the business, they can build their experience and act as cover in the event of a person leaving or falling sick. For example, Forescom in Guatemala (the commercial company belonging to ACOFOP) trains its staff in all productive business processes so that production is guaranteed if any employee becomes sick or leaves (Macqueen *et al.* 2015a).
- iv) **Setting up technology and energy inventory, spares and backups:** Consider ensuring that any technology used for your business is sourced locally so that servicing and spare parts are readily available. Also, maintain a well-documented inventory or database of the most frequently needed spare parts. This helps to plan for and restock necessary parts and equipment, thereby ensuring minimal losses in the event that machinery breaks down. In Guatemala, Fedecovera ensures that the brand of machinery it uses has a representative in Guatemala. In this way, it ensures the availability of spare parts (Bolin and Macqueen 2016).

5f) Risk-management options for securing brand reputation

The following examples on how to manage risk relating to the enabling environment can be used:

- i) **Building understanding on why brand reputation matters:** Essentially, a business's brand reputation depends on performance (delivering specified quality and quantity on time) and the imagery that conveys the identity which the business stands for. This translates into customers' judgements and feelings, which may be either positive or negative. Ensuring that those judgements and feelings are positive is the way to create a 'relationship' with the customer that will result in repeat business. The section on risk-management options for business relationships (Module 5c) covers this aspect in more detail. For example in Kenya, KTPA soon

realised that failure to deliver by any one of its members translated into a poor brand reputation for the group as a whole (Bolin and Macqueen 2016).

- ii) **Establishing a specific staff role relating to market research and marketing** (eg a marketing manager). By proactively asking customers exactly what they want, and what features matter most to them, the business can develop both its performance and associated imagery that results in better customer judgements and feelings. This matters even if you only have one customer.
- iii) **Developing and exploiting a market niche:** Once you know what customers want, you can use your company's vision and values, its way of being and doing, to set out the unique way that your business meets those customers' needs. For example in Cambodia, MFV's research on honey customers showed a demand for reliable quality and positive social and environmental contributions. In a sea of undifferentiated street vendors of honey, MFV offered a reliably high-quality product in a beautifully labelled container at a premium price (Bolin and Macqueen 2016).
- iv) **Developing internal quality standards** (for resource management and harvesting, processing, use of technology and chemicals, and labour standards) or **pursuing third-party certification:** Third-party certification is perhaps the best way to assure customers of quality in terms of product and production process. For example, the Association of Quang Tri Smallholder Forest Certification Groups (AQTSFCG) in Vietnam was specifically set up to assist member tree farmers with certification by the Forest Stewardship Council. Arrangements were made so that initial costs were covered by the supporting agency – normally this would pose a risk if smallholders have to cover these costs initially (Bolin and Macqueen 2016).
- v) **Developing the name, slogan and imagery (logo):** Ideally, the business name, slogan and imagery should all reinforce the unique way in which your business meets customer needs. For example in Guatemala, Fedecovera has a slogan 'United we are one – or the same' which promises the customer unified quality sourced from many local people. Its logo imagery depicts an indigenous person gazing on growing trees – emphasising Fedecovera's roles in incentivising landscape restoration (Bolin and Macqueen 2016).
- vi) **Developing a marketing strategy (and revising it often as markets change):** Accurately conveying what a company can offer to customers while eliciting a positive customer feeling is an important art form. The '4Ps' are often used to describe the main ingredients in marketing: 'Timely **promotion** of the right **product** in the right **place**, at the right **price**'. This can sometimes involve second-level associations. For example, ACOFOP in the Petén markets mahogany from the seven community forest concession companies (including Suchitecos) at a single minimum price (Macqueen *et al.* 2015). Proactively participating in events that bring you into contact with customers (eg markets, trade fairs and other industry events) is one important element in such a marketing strategy.

6. Agree what specific activities your business will undertake in the next financial year to improve how your business addresses each risk that has been prioritised.

7. Record the specific actions to be taken in the risk-management table and Excel spreadsheet that accompany this toolkit.

Tips

- When discussing natural resource access, brainstorm about what it is that motivates members to be a part of your business organisation. What benefits are there for others (who might be able to expand your business's access to natural resources) to join and how can you motivate them to do so?
- When discussing financial health, remember that paying for things must either involve saved capital or debt capital. The latter always introduces risk and loss of control to the business. So finding ways to generate saved capital reserves is important.
- The terms of payment that can be agreed with buyers are often a function of trust – so to some extent, progress in this module may depend on business relationships (Module 5c).
- When discussing business relationships, make sure that you invite comment from people who play different roles in the business because they might have very different perceptions of risk (eg the marketing manager, the accountant and the field operations manager).



For enterprises like this one in Dollo Mena, Ethiopia, a major and immediate risk is how to upgrade forest product value chains so that communities can increase the value they earn to secure both livelihoods and forest resources.

- Make sure that people have a chance to explain **why** they think a particular challenge is critical for the business – so that causes of concern are expressed and not left confused or vague.
- When thinking about trying to influence the enabling environment, plan for enough time to gather evidence about the changes you wish to see happen in the business environment. Solid data wins arguments. Remember the general axiom that there is strength in numbers, so it may be worth exploring how to join a regional association or national federation to make your point
- Cultivate contacts in the media – if there is something that is really hampering economic growth in rural areas it is likely that it is newsworthy. And try to frame solutions to problems that might be implementable by policy makers – and not always as complaints. It is easier to be the champion of change than the butt of criticism.
- When discussing capacity development remember that it is not static and, as the business grows, new or more advanced skills will need to be developed, planned and budgeted for.
- In terms of brand reputation, discuss whether there are any ways in which business performance or brand imagery could communicate the identity of the business more clearly to key business partners. For example, what performance factors are likely to affect what customers think of the product or service you are offering? What imagery or messaging is best able to communicate the benefits and identity that your company stands for?
- Consider inviting other experienced businesses with knowledge relevant to your sector (and therefore perhaps also knowledge of the risks) to participate. Learning from others is often a very effective way of understanding challenges and different ways of approaching them.

Further information

To find out more about how to develop a natural resource management inventory and management plan please see FAO's (2011a) market analysis and development (MA&D) guidelines: www.fao.org/docrep/014/i2395e/i2395e.pdf

For motivating new members to join your business organisation, see FAO's business management for small scale agro-industries (Santacoloma *et al.* 2009): <ftp://ftp.fao.org/docrep/fao/011/i0499e/i0499e00.pdf>

To learn more about how to do a financial analysis please see Eill's (undated) Green Value tool: <http://earthinnovation.org/our-work/case-studies/green-value/>

There are also very many useful financial tools at www.ruralfinanceandinvestment.org. For example, see Heney (2011): www.ruralfinanceandinvestment.org/sites/default/files/TAM5_Explaining_how_to_manage_risk__1.pdf

To learn more about how to strengthen producer organisation see deMarsh (2014): <http://www.fao.org/3/a-h0038e.pdf>

For further information on tools and tactics to tackle issues of land tenure see Mayers *et al.* (2013): <http://pubs.iied.org/G03674.html>

For further information on a broader range of tools to address power see IIED (2004): www.policy-powertools.org

For further information on general legal empowerment see Cotula (2009): <http://pubs.iied.org/G02476.html>

To learn more about how to carry out a capacity assessment please see Paudel *et al.* (2010): <http://tinyurl.com/forestaction-recoftc-2010>

Other various tools to improve capacities are the Market Analysis and Development (MA&D) tool (FAO 2015), which is a participatory training approach designed to assist local people in developing income-generating enterprises while conserving tree and forest resources. See: www.fao.org/forestry/enterprises/25492/en/

To learn more about how to build a brand read Hinge (2016): www.hingemarketing.com/library/article/the_brand_building_guide

For further information on appropriate harvesting see: <http://www.recoftc.org/project/forinfo/training-manuals-and-guides/appropriate-small-scale-forest-harvesting-technologies-southeast-asia>; and <http://www.recoftc.org/project/forinfo/static-landing/videos>

For further information on simplified procedures of managing teak plantations and securing teak plantation management certificates (for farmers, financial institutions and government agencies), see: <http://www.recoftc.org/project/forinfo/static-landing/extension-materials-lao>

For more information on participatory management of forests see: <http://www.recoftc.org/training-manuals-and-guides/participatory-management-forests-and-protected-areas-trainers-manual>

For more information on Natural Resource Governance see: <http://www.recoftc.org/training-manuals-and-guides/natural-resource-governance-trainers-manual>

For more information on considering indigenous peoples and local communities rights, Free, Prior, and Informed Consent (FPIC) process is useful, see: <http://www.recoftc.org/project/grassroots-capacity-building-redd/training-manuals-and-guides/putting-free-prior-and-informed-consent-practice-redd-initiatives>

Assigning responsibilities

Purpose

To make sure the responsibilities for each risk-management activity identified in Modules 4 and 5 are clear and allocated to appropriate staff to follow up. After completing this module, it should be clear who in the business will be in charge of every risk-management activity identified, what resources are needed and how to evaluate the results..

Activities

1. Continue Session 3 to discuss which staff are directly related to each risk identified in each area, and select staff with relevant experience and proximity to the risk to be able to oversee and manage it. Look at both internal and external risks and use the organisational chart and value-chain map to identify key staff and responsibilities.

2. Talk through the main activities. Do you have enough capacity to manage these risks within the business or do staff need to involve external actors in addressing the risk, and if so, how and when?

3. If you have not already done so, consider organising a meeting with external actors in the value chain to present the results of the risk assessment and identify areas where you need their support and/or collaboration (see modules 1 and 2). Assign responsibilities for organising the meeting and for following up in the action plan.

4. Discuss with the session participants what results they can expect for the risk-management options they are going to implement. What is the current situation and where do they hope the situation will be in a year's time? Decide on a baseline or 'starting point' from where you can measure the results of your risk-management strategy. Decide on what information you need in order to know whether your strategies have been successful or not (indicators) and when you need to know this by (dates for reporting). This should be at regular intervals from the first risk-assessment meeting to the annual review a year later. The timing of the monitoring is likely to depend on the nature of the risk that you are trying to manage (how frequent, probability of happening, and consequence). Decide on a system that is practical for the staff to follow and which will allow you to adapt your strategy if needed early on.

Note on monitoring if the main risk the business faces is lack of working capital and it has decided on two strategies for addressing this (setting up a capital fund for saving income from sales and establishing formal contractual agreements with suppliers and buyers to deliver and pay on time). To know whether these strategies have worked two things are likely to be monitored: 1) changes to working capital reserves (have they improved?) and 2) changes to financial accounting (have records and management of expenditure improved?).

5. Agree on what to measure so that you will be able to see evidence (indicators) of results and assign responsibility for monitoring indicators for each risk-management activity.

6. Next, discuss time and resources needed. When will activities be implemented? When will feedback on results be reported, by whom and to whom? What resources are likely to be needed? Will some activities require additional resources? Agree on key responsibilities, risk-management activities, resources and a timeline between now and the end of the year in time for the annual business planning and review.

Time and resources required

- Part of **SESSION 3** (the first part which will need 3 hours or half a day in total). This is the second part of the meeting and should not take more than an hour. Assigning responsibilities should be relatively quick. What might take more time, however, is deciding on the implementation plan and reporting and monitoring system.
- Flip charts with a list of prioritised risks and selected management options (if available, the Excel spreadsheet with inserted risk-management options). You need at least 3 extra sheets for drawing up key responsibilities, a timeline and resources needed, and agreed evidence of results (indicators).
- Organisational chart and value-chain map (showing key actors and activities internally and externally).
- Annual plan of activities and timelines for different activities to plan reporting together with other reporting/administration needs.

7. Draw up an agreed action plan with identified risk priorities and management activities, responsibilities, timeline and evidence of achievement (see Table 5).

8. Agree on a date for the final session in the risk-assessment and management cycle to review implementation and results.

Table 6. The business risk-management action plan

Rank	Ranked risk (taken from Step 5)	Detailed list of activities to address priority risks	Person assigned responsibility for those activities	Resources that need to be allocated to achieve activity	Actors outside the business who need to be engaged	Indicator of achievement with expected completion date	Status of indicator
1	Community conflict over access to non-timber forest products						
1	No banks with lending programmes for forest business						
1	Renewals are too slow and bureaucratic						
1	Remoteness means it is difficult to find new buyers						
5	Legal reforms may increase the concession fees						
5	Certification costs too high but this is reducing market access						
5	Lack of forest area to meet buyers demand for product						
5	Quality of sawn timber still variable which is causing rejection by the buyer						



Asociación Río 7 is a worker-owned bamboo enterprise in Ecuador. Lack of working capital represents a big risk to the association. To mitigate this, it has set up a payment plan to receive advances from buyers to cover operating costs such as transport and repairs to vehicles.

Tips

- Ensure that no one person is overloaded with responsibilities.
- Ensure that the action plan takes into consideration any additional resources that might be needed to implement the risk-management activities (eg funds for travel to engage other suppliers, talk with banks, or lobby government representatives).
- Record the action plan into the Excel spreadsheet and keep this for your records as this can easily be updated each year and shared with others if wanted/needed.
- Consider organising a field study of the risks identified to ensure that all participants with assigned risk-management responsibilities know the full picture of the agreed risk-management strategy. This could involve visiting your main buyers, suppliers, competitors, regulating agencies and financial institutions in the business environment. It may also involve visiting the business's field operations to understand identified risks.
- If helpful and needed, invite supporting agencies such as NGOs or service providers to help with the monitoring plan. Sometimes looking at concrete ways of measuring results can seem a bit abstract and can need a bit of practice and experience. Keep it simple but ensure it is relevant to what you are trying to find out.
- To help external actors develop an understanding of the risks faced by your business, small meetings could be held with some of the key actors who have more influence over risks to ensure their understanding of their role in either causing and/or potential for reducing specific risks.
- Consider using the risk assessment to present findings to any association or federation that your business is a member of – or in other fora/meetings such as roundtables or policy consultations where you might want to raise issues that you need greater support from others to change or advocate for.



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Himalayan Naturals is a charcoal-briquette enterprise in Nepal. From the beginning, it has addressed specific risks such as increasing demand due to the undeveloped and seasonal nature of market, sourcing raw materials and accessing finance and technology.

Further information

On developing a system for evaluating performance of the business (eg accounts and plans) and monitoring results of implementing a plan, see FAO (2011b): www.fao.org/docrep/014/i2395e/i2395e04.pdf

On developing strategies for engaging external actors or specific for policy on natural resources see IIED's Power Tools initiative (2004): www.policy-powertools.org

Monitoring risk-management progress

Purpose

To assess risk-management progress against agreed activity targets for the year. Once you have identified the risk-management strategies and assigned responsibilities for their implementation you need to establish a system for monitoring the implementation of those activities. Monitoring should take place from the start of implementation until the end of the year when you will return to your business planning and review the effectiveness of your risk-management strategies. After this, you will have a clear idea of how your business attempts to embrace new business challenges and manage risk have fared during the year. You will also agree how to incorporate lessons learnt from last year into your business this year.

Activities

1. After one year of risk-management activity according to the risk-management table developed in modules 2 to 6, organise a review session with relevant staff within the business.
2. Start by taking the risk-management table or spreadsheet that you have developed in modules 2 to 6 and remind the group of the priority risks that were identified last year, the activities and assigned people that were agreed to manage those risks, and the indicators and dates for achieving those activities.
3. Ask each of the responsible people identified to undertake risk-management activities during the year to present a progress report. Have a group discussion to assess the progress to date – and any obvious new activities that might need to be undertaken this year to address ongoing risks.
4. Make a record of any new activities that are required to address ongoing risks and that will need to be included in the annual risk assessment and review.

Time and resources required

- Part of **SESSION 4** (2 hours at least) – invite as many key people within the business as possible – but certainly those assigned to undertake risk-management activities in the past year. The latter people should be warned in advance to prepare short presentations on the activities that they were tasked with – and what progress they have made. The session should end with a discussion about the business objectives (Module 1). If time is available, this meeting should be scheduled to precede, on the same day, the beginning of the second year's risk-assessment and management process starting with the exercise in Module 2.
- Flip charts to note key lessons from reports of implementation of the risk-management activities and monitoring of results
- The agreed baselines and action plan developed in Module 6

Notes: At this stage, you have completed a full annual cycle of risk assessment and management. Hopefully, you have managed to identify and undertake certain activities to improve the sustainability of your business. But nothing ever stands still.

5. The facilitator should start a new annual risk-management cycle by re-introducing the business objectives (Module 1). Have a discussion about whether these objectives still hold true. Are there any changes to the objectives that might now need to be made in the light of risk-management activities undertaken this year? If so, try to agree and formalise these changes.
6. Continue the new cycle by revisiting Module 2. Try to repeat the fairly thorough assessment of risk using Module 2 – but do not be afraid to use last year's risk-management table as an aide-mémoire. Perhaps this year, with greater understanding of risk management, some new risks have been identified that need to be addressed. Perhaps some of the risks that were identified last year have now been addressed or feel less important. Include the new risks identified and recorded (noted in Step 3's discussion of activities).
7. Start an entirely new risk-management table – with a reworked set of risks. Continue the process of risk management by prioritising those risks for the new year and defining activities necessary to address the high-priority risks using modules 3–5. Keep the old risk-management table as a record – but use the new table for the second year's risk management.



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La Myang Community Forest Rattan and Bamboo group' in Kachin, Myanmar. It faces risks to do with volumes of supply of raw material, weaving capacities of newly trained staff, and over-dependence on few buyers.

Tips

- Make sure you have at least a couple of hours for this exercise.
- Pre-warn those who were assigned responsibility for risk-management activities (see Module 6) that they will need to be prepared to report back on progress during the year.
- Hand out the completed risk-management table at least in electronic form – but preferably printed out and mounted on the wall so that everyone can refer back to what was agreed on last year.
- Have a way to make notes (eg flip chart or projector if using an electronic file) in front of the participants on the status of activities to address risks, and to record the results of the risk-assessment and risk-management activities planning for the next year.
- Remember to celebrate even the smallest amount of progress on risk management that has made the business more sustainable.
- Disseminate the new risk-assessment and risk-management plan to all participants and other people who should have it.
- If you have to report annually on business progress, remember to take minutes of this meeting and use it to inform the writing of annual business reports.

Further information

Examples of risk can be found in the cases found in Bolin and Macqueen (2016) *Securing the future: managing risk and building resilience of locally controlled forest business*.

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Locally controlled forest and farm businesses collectively comprise the biggest rural private sector. They support subsistence needs and income generation for more than a billion people – many of them poor. But it's usually tough business. Fierce competition is the norm in securing natural resources, money, buyers, business permits, skilled workers and brand reputation. Business managers face many challenges or risks, but there are opportunities too for those prepared to risk something new.

There are simply too many forest people for a strategy of fencing-off the forests to work (however important protected areas might be for key biodiversity hotspots). To protect and restore forests en masse, the business interests of local people must align with forest management and restoration. That means making locally controlled forest businesses economically viable, socially acceptable, and ecologically resilient – a triple bottom line.

Securing forest business against that triple bottom line is what this toolkit is about. It addresses an identified gap: a lack of know-how on how systematically to assess, and then manage or take, risks. What is presented here is a step-by-step guide for locally controlled forest business managers and their staff. These steps involve risk self-assessment and analysis followed by assigning responsibility and actions to manage or take those risks. The process of risk management helps the business to improve and adapt. This strengthens its triple bottom line – and creates the incentives for local people to protect and restore the forests on which their prosperity, and the world's environment, depends.



Toolkit

March 2016

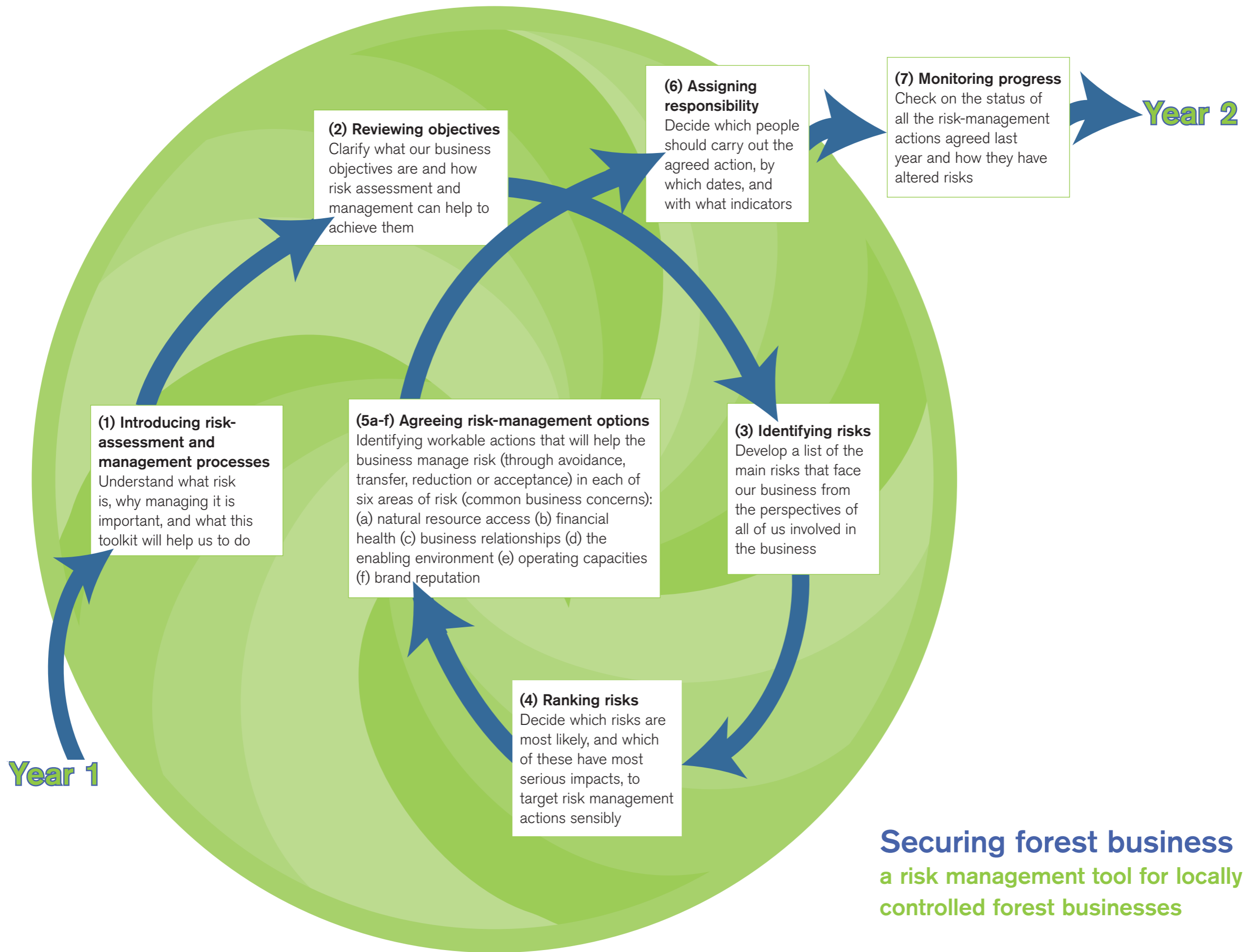
Forests

Keywords: Forest Connect, Small and medium forest enterprises, Locally controlled forestry, Risk



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Product code: 13583IIED
ISBN: 978-1-78431-296-1



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