

IMPROVING THE COMPETITIVENESS OF SMALL AND MEDIUM-SIZED FORESTRY ENTERPRISES

(TC-01-03-03-1)

EXECUTIVE SUMMARY

Executing agency:	Centro Agronómico Tropical de Investigación y Enseñanza [Tropical Agricultural Research and Higher Education Center] (CATIE)
Beneficiaries:	The main beneficiaries of the program are small- and medium-sized forestry enterprises at selected locations in Honduras, Guatemala and Nicaragua that will participate directly in business promotion and production development. The program as a whole will also benefit the local communities since it will help enhance competitiveness in these areas by promoting business development and cooperation among the public sector, private producers, and society. At the same time it will help strengthen public and private institutions, as well as municipal agencies, in the strategic role of fostering local competitiveness.
Objectives:	The general objective of the program is to increase the efficiency and competitiveness of forestry SMEs through improved business and environmental performance. The aim is to strengthen the administrative and technical skills of forestry SMEs and to increase the opportunities for marketing forestry products over the long term.
Description:	<p>The program consists of two components for achieving these objectives:</p> <p>Component I: Strengthening the business and technical skills of the forestry SMEs. This component will strengthen the business and technical skills of small- and medium-sized forestry enterprises (SMEs) in the three countries while improving the skills of local experts to ensure continuity in the processes supported. The activities include providing instruction to personnel and monitoring the training; developing training modules in priority subject areas; performing a feasibility analysis of an accreditation and certification system for training personnel; establishing a forestry SME services website; promoting business exchanges; providing technical assistance in such areas as quality control; using demonstration cases (model SMEs); and promoting participation by forestry SMEs in dialogue to improve sector conditions.</p>

Component II: Marketing of forest products. This component will attempt to improve the trade and marketing of forest products by identifying products with current and future potential; developing innovative marketing strategies; creating and strengthening strategic alliances; representing the SMEs at fairs and conferences; creating a Web-accessible market information system; as well as identifying and promoting market opportunities, which would include different forms of certification.

Financing: Method: nonreimbursable (Small Enterprise Development Facility: III-A)

MIF	US\$ 1,684,200
Local counterpart:	<u>US\$ 787,260</u>
Total:	US\$ 2,471,460

Execution timetable: Execution period: 36 months
Disbursement period: 42 months

Environmental and social review: The Committee on Environment and Social Impact (CESI) reviewed and approved the program abstract on 24 May 2002, making the following recommendations: (i) prepare manuals that are tailored for target users; (ii) monitor the environmental and socio-economic impact of the Model SMEs; and (iii) apply the concept of cultural use of forests in analyzing the impact of forestry activity.

The first recommendation concerning specialized manuals is dealt with in paragraph 3.5, the second concerning monitoring in paragraph 3.7 and the third concerning the concept of cultural use in paragraph 3.7.

Special contractual clauses: Within three months after commencement of the program, CATIE will be required to present, to the Bank's satisfaction, the work plan for year one of the program.

Exceptions to Bank policy: None.

I. COUNTRY AND PROGRAM ELIGIBILITY

- 1.1 The MIF Donors Committee has declared Guatemala, Honduras, and Nicaragua eligible for all forms of MIF financing. This initiative is regional in nature since it seeks to attain the following objectives: (i) to achieve economies of scale in the development of materials, thereby allowing for a broader dissemination of methodologies and educational materials than a national program; and (ii) to strengthen the intraregional exchange of training and technical assistance methodologies and business-management skills for small and medium-sized forestry enterprises, as well as environmental conservation measures.
- 1.2 The program satisfies the eligibility criteria for receiving MIF financing under the Small Enterprise Development Facility (III-A) insofar as it contributes to the strengthening and growth of the private sector and small enterprises. More specifically, the program adheres to the MIF environmental strategy, in that it concentrates on providing management and technical training for business people committed to the sustainable use of natural resources. The proposed program will help small companies gain access to markets for wood and nonwood products. These are markets in expansion that offer forest product manufacturers significant opportunities. Accordingly, some of the justification for this MIF support rests on its potential demonstration effect for companies in other countries with opportunities for forestry products where revenue could increase while nature resources are conserved.

II. BACKGROUND

A. Situation of the forestry sector

- 2.1 Guatemala, Honduras, and Nicaragua are three Central American countries, the majority of whose territory is devoted to forestry. However, there are a number of problems that have a negative impact on the development of the forestry sector, such as a legal and political framework that is unfavorable to the safety of investments. Another problem is the lack of trained human resources and the lack of management skills in the marketing of forest products. In addition, there are high levels of bureaucracy and corruption impeding the business development of the sector and indirectly promoting unbusinesslike practices, especially in the peripheral regions where broad-leafed moist forests predominate. It is common to see the nonindustrial, destructive cutting of trees, lack of management plans, disorganized production groups, disorder in marketing channels and unfair competition with companies operating within the scope of the law.
- 2.2 Despite the aforementioned difficulties, this project has been submitted because there is great potential for development of the sector. The region is strategically located near the U.S. market, which is a comparative advantage given the relatively low costs of transporting timber. There is also trade in forest products with

neighboring countries in the region. In spite of deforestation, due especially to the expansion of the agricultural frontier, the three countries still have extensive forest resources and potential for economic development based on these resources, both the broad-leafed species of precious, very high-quality timber, as well as conifers, in particular various species of pine.

- 2.3 The forestry sector is extremely important to the economies of Honduras and Guatemala, and to a lesser degree in Nicaragua, due to the latter's lower level of technological and business development. In Honduras and Guatemala, there is a downward trend in exports of simply cut timber due to an increase in exports of processed timber with added value. The great majority of employment generated in the forestry sector comes from small and medium-sized enterprises, either in the form of forest utilization, cutting or processing. Some small and medium-sized enterprises in the region have already been granted forestry certification by internationally accredited certifiers. Nevertheless, there are few such cases and their financial sustainability needs strengthening.
- 2.4 *Honduras* has forest coverage totaling approximately six million hectares, representing more than 50% of the national territory. There are nearly 1,000 small and medium-sized forestry companies in the country¹, of which 282 participate in primary production, 511 in industrial processing and the remainder in marketing. Although these enterprises are spread across almost the entire country, they are concentrated mainly in the central part. The forestry sector is highly informal and for the most part utilization involves nonindustrial practices, which are most evident in the broad-leafed forest. Nearly 77% of the employment generated by the forestry subsector comes from small and medium-sized enterprises, whether in the form of forest utilization and farm forestry, cutting or wood processing. It is estimated that 32.3% of employment is generated by secondary industries, 21% by agroforestry groups and the remainder by marketing activities.
- 2.5 It is estimated that *Nicaragua* has total of 3,033 forestry SMEs, distributed across the entire country. Of these, 683 are devoted to forest utilization, 1,762 to industrial processing and 588 to marketing. The broad-leafed forest is the most important resource for sustaining the SMEs in Nicaragua, representing 76% of these enterprises. The largest broad-leafed forest of this kind, and the one with the greatest potential, is located in the Caribbean regions. However, these are also the least developed. Pine forests are more concentrated in the north-central part of the country. The demand for services by the forestry SMEs in Nicaragua highlights the need for business and technological strengthening, as well as knowledge of markets. More than 90% of exports are made up of cut timber, with exports of products with greater added value being negligible.

¹ A small and medium-sized company is defined as a company with under US\$3 million in annual sales.

- 2.6 In *Guatemala* there are a total of 3,362 forestry SMEs, of which 2,688 participate in primary production, 240 in industrial processing and 348 in marketing. The lumber industry is most heavily concentrated in the mountain regions and is 97% dependent on pinewood, most of which comes from natural forests. In the year 2000, total pine production accounted for 68% of the country's forest product exports. The forestry SMEs in the Petén tropical region are mostly primary producers, in addition to five major industrial processing companies that use the precious broad-leafed species (cedar and mahogany), and account for 9% of exports. The SMEs in Guatemala require training particularly in finance (76%), management (69%), and marketing and international trade (92%). Of great interest for the Petén is the development of specific topics related to the quality and handling of nonwood products.

B. Small and medium-sized forestry enterprises

- 2.7 The main shortcoming of forestry SMEs in these three countries consists of their low level of skills in management, administration, and marketing. This is particularly evident from their lack of expertise in marketing their products using strategies that generate higher revenues, increased operating capacity and therefore higher profit margins. It is of vital importance that the SMEs participate in associations so they can strengthen their position, obtain financing, collaborate in product marketing, and receive technical assistance, etc.
- 2.8 One of the key elements for competing internationally is to develop the human resources that will allow for the reasonable and efficient utilization of available resources and lead to higher production and productivity indices. To achieve this aim, systematic training activities will be needed in forest utilization and forest management, and primary and secondary industries, to address the root causes of the problems faced by the various forestry SMEs. These companies need systematic training with monitoring and follow-up to determine the degree to which the various technologies or processes provided are being adopted and utilized.
- 2.9 Over the last two decades, the Centro Agronómico Tropical de Investigación y Enseñanza [Tropical Agricultural Research and Training Center] (CATIE) has worked with many of the forestry SMEs to promote sustainable management of the forests and generate the necessary information, methodologies and human resources. Worthy of mention are the efforts made over the last six years through projects in the Petén in Guatemala, along the Northern Coast and in Mosquitia Region of Honduras, and in the North Atlantic Autonomous Region (RAAN) and San Juan River in Nicaragua. By implementing these projects, CATIE has been a key participant in developing community forest concessions in the Petén and in improving forest management in farming and indigenous communities in Honduras and Nicaragua. CATIE has managed to increase the scope of its efforts by strengthening horizontal cooperation among the various agencies participating in the sector. In Honduras and Nicaragua, for example, three horizontal cooperation

networks have been established, bringing together some 80 agencies from the public and private sectors, universities and technical schools, NGOs, projects, research centers, producer associations and companies.

- 2.10 In the three countries, there are organizations with links to the forestry sector - some in primary production and other in processing (secondary production). In Honduras, the program will be coordinated with the Honduran Association of Trade and Industry [Federación de Cámaras de Comercio e Industria de Honduras] (FEDECAMARA) and the Honduran Broad-Leafed Forest Management Network [Red de Manejo del Bosque Latifoliado de Honduras] (REMBLAH). FEDECAMARA, a national association bringing together a number of the country's different business and manufacturing associations has more than 7,000 affiliates. REMBLAH is a network of different organizations representing forestry manufacturers that targets the country's Atlantic coast region. In Guatemala, the program will be coordinated with the Guatemala Forestry Guild [Gremial Forestal de Guatemala] and Petén Forestry Community Association [Asociación de Comunidades Forestales de Petén] (ACOFOP). The Forestry Guild, an organization attached to the Guatemalan Manufacturers' Association [Cámara de Industrias de Guatemala], represents most of the country's wood processing companies. ACOFOP is an organization based in Petén that brings together forestry communities and cooperatives. In Nicaragua, the corresponding organizations are the National Association of Small and Medium-Sized Businesses and Handicrafts Industries [Cámara Nacional de la Mediana, Pequeña Industria y Artesanía] (CONAPI) and Nicaraguan Forestry Association [Cámara Forestal de Nicaragua]. With members in the wood processing industry, CONAPI's coverage reaches almost the entire country except the Atlantic coast region. The Nicaraguan Forestry Association is the only organization open to forestry companies.
- 2.11 Organizations representing the forestry SMEs in the three countries have expressed an interest and desire to participate in a project focused on improving business performance. In fact, the six organizations have sent letters to CATIE expressing interest in the program and a desire to take part in it (see Annex XII). These same organizations have identified the strengthening of their members' competitiveness through business management and providing new opportunities for certified products as key to the survival of the forestry SMEs. This project would thus fill an important gap. Without this support, the forestry SMEs would find it difficult to compete under the new free market conditions.
- 2.12 While the program was being conceived, assessments were performed of demand for the services in the three countries (Annex X) in order to size the program (geographically and beneficiary companies) and to verify the forestry companies ability to pay. The consultants used a survey of forestry SMEs in the three countries as input for these assessments in order to understand their needs better and their willingness to pay for the services. One of the findings of the assessments is that among forestry SMEs there is considerable interest in and demand for technical

assistance, and they need help in gaining access to national and international markets for their wood and nonwood products. Another finding was that there is a shortage of professional personnel with an understanding of the appropriate methodology that could assist SMEs in technical and specific areas.

III. OBJECTIVES AND COMPONENTS OF THE PROGRAM

A. Program objectives

- 3.1 The general objective of the program is to increase the efficiency and competitiveness of the forestry SMEs through better business and environmental management. The aim is to strengthen the administrative and technical skills of the forestry SMEs and to increase the opportunities for marketing forest products in the long term.
- 3.2 This objective will be reached by executing the following components:
(i) strengthening the business management and technical skills of the forestry SMEs; and (ii) marketing of forest products.

B. Program components

1. Component I: Strengthening the business management and technical skills of the forestry SMEs (MIF US\$705,680/Counterpart US\$394,040)

a. Training for trainers

- 3.3 The goal of component I is to strengthen the business management and technical skills of the small- and medium-sized forestry enterprises (SMEs) in the three program countries, while improving the skills of local qualified technical employees to ensure continuity in the processes supported. This component will include all phases from improvement of forest production to preparation of products to the specifications of domestic and international markets. The selection criteria for participants in this activity will include their level of work experience in the forestry sector, experience with SMEs and association with agencies offering services to forestry companies. The participants will be selected by the director of the program (see paragraph 4.2). Even when technical specialists and producers are knowledgeable about certain technical matters, they often lack experience in discussing and communicating their knowledge. Thus part of the training will include courses in applied pedagogy. Technical mastery and the ability to transmit knowledge will also be verified through the appropriate monitoring of their training activities.
- 3.4 The program will design and maintain a website accessible database of service providers in the three countries (see paragraph 3.18 for further details about this website). This database will facilitate the location of local consultants for planning

and implementing program-related activities and will be used for other projects and agencies interested in developing similar activities. Lastly, given the wide range of expertise and skills of the technical experts that offer services to companies, an analysis will be carried out to determine the feasibility of establishing an accreditation/certification system for these specialists. Such an analysis will include an evaluation of the system for certifying the experts, together with recommendations on the organizations that could be entrusted with performing the certifications. .

b. Training for forestry enterprises

- 3.5 To strengthen the business capacity of the forestry enterprises, eight technical and business training modules will be developed for the forestry SMEs with a coherent focus and content. This will facilitate the work of the training personnel in the three countries. The modules will cover such subjects as organization for production, administration of the SMEs, financial matters, training and education in management skills. In preparing the modules, consideration will be given to the target group (e.g., campesino communities, secondary sector enterprises, etc.), as well as types of forests. Training courses for forestry SME representatives in the three countries will also be included. The program will make use of local training personnel (see paragraph 3.3) whenever possible to give courses and will make an effort to strengthen local training skills.
- 3.6 Exchanges between businesses represent a powerful tool for achieving rapid improvements in the performance of forestry SMEs. The program will undertake a minimum of six exchanges with an average of 15 representatives participating in each exchange. Representatives from the selected SMEs will visit other companies in the same country that have stronger business and technical components. The visits will enable other companies to view the progress and headway made by other companies. These visits will also be used to transfer expertise to companies in a weaker position. The selection criteria will be type of enterprise, size, legal status, and the legal right to wood and forest utilization (see Annex XI technical files). In addition, with the goal of understanding each link in the production chain, producers who work in the forest will visit companies whose business is primary and/or secondary wood processing to emphasize production quality. Although most of the exchanges will be limited to a specific country, at least one will be regional in scope.
- 3.7 A key strategy of the program is the development of nine demonstration cases, or "Model SMEs" in the three countries targeted for the program, which could serve as an example for other SMEs. The experience with other initiatives has demonstrated that these model SMEs represent valuable tools to extend the scope and achieving a multiplier effect for the activities undertaken. The program makes every effort to ensure that these enterprises improve their business management and technical skills. Representatives of the model SMEs will participate in various

training activities described in this document and will also receive direct technical assistance. Most of the courses will take place in the forests and at the companies' facilities. Part of the work with these model SMEs will include an analysis of the environmental and socio-economic impact, considering the concept of cultural uses of the forests. These are some of the selection criteria for the model SMEs: (i) be a small or medium-sized enterprise; (ii) have a legal right to forest utilization; (iii) be prepared to share their experiences with other enterprises; and (iv) have the commitment and full participation of management. (See Annex XI technical files).

- 3.8 One of the common weaknesses affecting the performance of the SMEs is related to low production quality. Quality management and product development can both be considerably improved through training and technical assistance activities, as is evidenced in the forestry SME diagnostics performed during the preparatory phases of this program (See Annex X technical files). To supplement the training activities in this area, the program will hire consultants on an annual basis to provide technical assistance on these subjects in each country. This follow-up will be vital for consolidating improvements in production quality.
- 3.9 Training courses will employ a highly practical approach in areas such as quality control and management of primary and secondary wood and nonwood forestry product processing. A series of technical courses in the three countries is also planned for achieving and maintaining forestry certification including forest management, planning and technical evaluation of forest utilization, among others. At least 20 SME representatives are expected to participate in each course, and they will each be charged a fee for attendance.
- 3.10 Formulating standards and policies for a sustainable forestry sector has facilitated the participation and training of the various participants in terms of the sector's opportunities and limitations. Nevertheless, in many cases this participation has suffered from the lack of adequate knowledge of the subject matter and possible follow-through. The program will therefore support a workshop in each country on development of standards for sustainable forest management, with content and planning suitable for members of the various forestry groups, networks and associations. In addition, a regional workshop will also address policies that create incentives and disincentives for sustainable forest management and performance of the forestry SMEs. Finally, the program will foster the participation of the forestry SMEs in a dialogue with the public sector to improve the political and legal framework of the sector. This will include drafting a series of publications on legal and institutional aspects, as well as identifying incentives in the forestry sector of each country. These publications will be distributed through the sector's representative organizations.

2. Component II: Marketing of forest products (MIF US\$593,450/ Counterpart US\$228,880)

- 3.11 The aim is to improve the marketing of forest products by identifying potentially lucrative products, developing innovative marketing strategies, creating and consolidating strategic alliances, representing the SMEs at fairs and conferences, creating a web-accessible market information system, as well as identifying and promoting market opportunities. The successful performance of the SMEs in the program will depend on various factors, including: (i) identifying and promoting markets with suitable product prices; (ii) generating products of acceptable quality in the necessary quantities; and (iii) gradually incorporating value added into raw materials.
- 3.12 An already established methodology will be applied for strengthening forest product enterprises (see Annex IX technical files). First, a consultant will be hired to provide advisory services to the forestry SMEs through an inventory of existing resources and products. Products that generate higher revenues for the SMEs will be identified, and non-viable products eliminated. In order to accomplish this aim, six workshops (two per country) will be offered for training personnel, employing a “hands-on” learning method, which will facilitate the collection of data for analyzing the current situation. New training personnel will leave for their different areas to initiate implementation of the methodology they have learned. The second phase in this methodology will include an analysis of the domestic and international market, which will provide a basis for selecting the most promising products, identifying potential markets and defining means of marketing. With this information, the program personnel will establish contacts with potential buyers.
- 3.13 During the third phase, the results of this market analysis will be disseminated to the SMEs. In order to achieve this objective, workshops (two per country) will be carried out for preparing the strategic planning of the SMEs, and business plans will be developed to redesign lines of production and marketing. A pilot and training phase will follow (see Component I), during which business people will learn to monitor progress and make adjustments in response to changes.
- 3.14 The key to success in the search for and utilization of new markets is to establish and strengthen transparent and trustworthy relations between producers and buyers. In order to achieve this aim, the program will provide technical assistance to the forestry SMEs, specifically to promote favorable relations between enterprises and the newly identified markets. This task will include identifying products for which there is a demand and making concerted efforts to ensure quality, a reliable production flow and the transparency of transactions.
- 3.15 The program will work to establish, strengthen and increase strategic alliances among the SMEs. Efforts will be made to foster and strengthen strategic alliances among community enterprises, creating trust through visits, meetings and mutual

training sessions, which are provided for under Component I. An attempt will be made to promote ways of organizing themselves into groups and marketing their products jointly through training and dissemination of lessons learned from successful experiences in Latin America. Alliances will also be promoted through two workshops to be held annually in each country with the help of program personnel. In these workshops, different participants along the marketing chain will have the opportunity to share their experiences in the production and marketing of primary, semi-processed and processed products. Finally, an attempt will be made to promote alliances among primary or secondary processors and domestic wholesalers or importers of wood products in other countries (with an emphasis on certified timber). This is to promote the participation of SMEs and large companies (domestic wholesalers or international importers of certified timber products).

- 3.16 Alliances already exist in the three program countries, especially among primary forest producers. A considerable number have formed cooperatives or other such community enterprise groups. In these cases, the activities of the program will concentrate on consolidating and strengthening these horizontal alliances and link them together vertically with primary or secondary processors and with buyers on domestic and international markets. The idea is to develop and implement action plans for six of the strongest alliances. These alliances will be selected on the basis of criteria such as an alliance's experience with working in partnership, agreements signed with the companies, and ability to contribute resources.
- 3.17 These alliances among enterprises will be promoted through participation at national and regional fairs, such as events for forest products and construction/furniture materials. The alliances that take part in these fairs will be selected by the program director according to the number of products offered and their variety. In addition, an attempt will be made to open showrooms on the regional and/or national level. In order to permanently maintain the showrooms in each country, participation will be sought from national forestry and/or wood industry business groups, exporters associations, governmental and nongovernmental organizations, etc. The showrooms will serve as windows and links to domestic and international markets.
- 3.18 In order to create new business opportunities and establish alternative marketing channels it is critical to provide updated market information, such as the prices of inputs and products, aggregate supply and demand, and the providers of related goods and services. In the context of the program, support will be given to developing a website where important marketing information may be accessed: the legal framework for business and exports; specific requirements; prices, volume and standards for wood and nonwood forest products; pertinent bibliography; links to other websites; and a website for buying and selling forest products.
- 3.19 Since the political and legal framework also affects markets and the marketing of forest products, the program will provide the opportunity to observe directly the

effect of the current political/legal framework on these commercial activities. These experiences will be applied in a series of publications on market and marketing factors for forest products as a means of improving the political/legal framework in each country. The publications will be created through a participatory process among beneficiary enterprises and will be distributed through organizations that represent the sector in the political sphere.

IV. EXECUTING AGENCY AND EXECUTION MECHANISMS

A. Executing agency

- 4.1 El Centro Agronómico Tropical de Investigación y Enseñanza [Tropical Agricultural Research and Training Center] (CATIE) will be the executing agency for this program and will be responsible for providing the local counterpart contribution. CATIE is a regionally-oriented international institution of a scientific, technical and educational nature. Its main purpose is research, post-graduate training, and technology transfer in the field of agricultural sciences and renewable natural resources applied to the tropics. CATIE's mission is to improve the wellbeing of the Central American people through scientific research, technical cooperation and post-graduate training for the development, conservation and sustainable use of natural resources.
- 4.2 CATIE was created in July 1973 through an agreement between the Instituto Interamericano de Ciencias Agrícolas [Inter-American Institute of Agricultural Sciences] (IICA) and the Government of Costa Rica. In 1985, the member countries decided to amend the CATIE agreement, bringing it into line with the new needs of the region as well as the developments that had recently been taking place within the Center itself. The underlying philosophy of CATIE's activities is "to produce by conserving and to conserve by producing," means that the generation and transfer of science and technology and the development of human resources seek a balance between producing with environmental awareness and conserving nature while producing goods and services that improve the quality of life for the region's inhabitants. Although CATIE's headquarters is located in Costa Rica, it has offices in the three program countries. CATIE has acquired considerable experience with projects it has carried out in the region in cooperation with institutions such as the GEF/World Bank, DANIDA, and USAID. One project of special note for the present operation is the TRANSFORMA program which was financed by COSUDE (of Switzerland) with the support of forestry SMEs in Nicaragua and Honduras. The TRANSFORMA program seeks to integrate the principle of sustainable management of natural woodlands into the local economics of Central America.

B. Execution mechanism

- 4.3 For program execution, CATIE will hire a program director, an executive technician and an administrative specialist, all of whom will all be based in Nicaragua. The reason that Nicaragua, not Costa Rica, was chosen for the program headquarters is to have the program director in one of the program countries. The director will be in charge of: (i) coordinating program activities in accordance with the plan of action; (ii) contracting goods and services; (iii) supervising the consultants hired; (iv) oversight of operations and budget management in accordance with the established procedures; (v) processing requests for disbursement of Bank resources; (vi) preparing application of funds statements; (vii) presenting management and technical reports to the Bank; (viii) selecting participants for various program activities; and (ix) coordinating the necessary actions with partners in institutions and other agencies working in the field. The program director will be supervised by CATIE's Executive Director.
- 4.4 While CATIE has a presence in each country through its branches, for the purposes of the program it is important to ensure the involvement of representative agencies of the forest enterprises. Therefore, CATIE will coordinate program activities in each country with a partner (host) agency having ties with the primary forest sector and another agency that is more related to the forest-product processing. These national host agencies will provide logistical support, including the use of their offices, administrative assistance and general services. To ensure coordination, CATIE will sign cooperation agreements with each host agency (see Annex VIII for agreement model).
- 4.5 **Progress reports:** CATIE will be responsible for drafting semiannual progress reports that will document the activities undertaken over the previous six months. It will also prepare a working plan and disbursement schedule for the subsequent period according to the indicators in the program's logical framework. These reports will be presented to the Bank's Country Office in Nicaragua within 60 days after the end of each six-month period. Similarly, the Country Office will be responsible for providing the MIF with a report three months after the end of the program, showing the results for the period.
- 4.6 The execution period will be 36 months, and the disbursement period 42 months. The Bank will set up a revolving fund for a maximum of 10% of the total amount approved, based on program expenses that CATIE will submit for the Bank's approval. CATIE will proceed with the procurement of goods and services and the engaging of the necessary consulting services for program execution, in accordance with the Bank's and the MIF's standard procedures and policies.
- 4.7 **Accounting and auditing.** CATIE will maintain adequate internal accounting and financial oversight of the program funds. The accounting system will be organized to provide the necessary documentation, allow for verification of transactions and

facilitate the timely drafting of financial statements and reports. The program files will be organized to: (i) identify the sums received from existing sources; (ii) provide information related to program expenses in accordance with the chart of accounts approved by the Bank, segregating MIF contributions and funds from other sources; and (iii) include the necessary details to identify goods procured and services contracted, as well as the use of said goods and services. CATIE will also: (i) open separate bank accounts specifically for managing the MIF contribution and the local counterpart funds; (ii) process disbursement requests and the respective expense justifications, in accordance with the Bank's procedures regarding disbursements; and (iii) submit to the Bank the final financial statements audited by an independent firm acceptable to the Bank, and the semiannual financial statements on the status of the revolving fund.

- 4.8 **Readiness.** The program participants were brought into the process of preparing the design, budget, and activities envisaged. CATIE is moving forward with different preparatory activities for the program. In addition, during program preparation an assessment was performed of the current situation in the forestry sector in each country that will serve as a basis for the program. In coordination with the project team, CATIE has prepared an initial draft of the program work plan and the interagency agreements that will be signed. Also, all of the entities that are partners in the program (see paragraph 4.4) have expressed a desire and a willingness to help carry out the activities in the countries.

V. COST AND FINANCING

- 5.1 The total cost of the program has been estimated at US\$2,471,460, broken down as follows: (i) US\$1,684,200 from the Bank with nonreimbursable MIF resources (Small Enterprise Development Facility: Window III-A); and (ii) US\$787,260 in counterpart funds to be contributed by CATIE, of which at least one half will be in cash. A summary of the major cost and financing items for the program is provided below. The detailed budget is found in the program's technical file.

Budget (US\$)

Components	MIF	Local	Total	%
1. Strengthening of business management and technical capacity of the forestry SMEs	705,680	394,040	1,099,720	44.5
2. Marketing of forest products	593,450	228,880	822,330	33.3
Administration	211,070	164,340	375,410	15.2
Evaluation	75,000	-	75,000	3.0
Financial Audit	15,000	-	15,000	0.6
Contingencies	84,000	-	84,000	3.4
TOTAL	1,684,200	787,260	2,471,460	100.0
Percentage	68.1%	31.9%	100%	

- 5.2 **Sustainability.** This program has many features that will favor sustainability. First, the skills of the business people, professionals and technical specialists participating in this program will be improved over the long term. This will be the result of a substantial program of technical assistance and training in the area of competitiveness of the forestry SMEs (management, quality control, product development, exchanges and strategic alliances, and marketing). Second, the focus on training the trainers will ensure that the technical specialists among the service providers and producers selected as trainers will be able to replicate the training activities without the program's support. Third, the implementation of a payment mechanism for services offered under the program will create an ongoing supply and demand base for these services. The way in which SME contributions are gradually made, based on the incremental benefits received, will establish a natural, viable mechanism for augmenting the ability and willingness to pay on the part of the enterprises concerned. Lastly, given that this program will be executed in coordination with a group of partners in each country, it is expected that they will be strengthened during this process and will be in a position to continue with the activities once the program has ended.

VI. MONITORING AND EVALUATIONS

A. Oversight and monitoring

- 6.1 The Bank's Country Office in Nicaragua will be responsible for oversight of this program. CATIE will be responsible for compiling and analyzing the relevant information for performing continuous tracking of the main indicators established in the logical framework in Annex I. The Bank will use these indicators to oversee and evaluate the Program, considering semiannual progress reports as well as the midterm and final evaluations. A base line study will be performed at the beginning of the program using the diagnostic reports on the forestry SMEs drafted during program preparation, supplemented by surveys and data compiled on the current

situation of the beneficiary enterprises. The study will serve to monitor impact during the midterm and final evaluations.

B. Evaluations

- 6.2 The Bank will hire external consultants with program funds to perform two evaluations. A midterm evaluation will be performed approximately 18 months after the program has been declared eligible for disbursements, or when 50% of the funds have been disbursed, and a final evaluation upon completion of the project. The terms of reference for performing these evaluations will be prepared by the Bank with CATIE's collaboration.
- 6.3 The midterm evaluation will analyze the rate of progress and the general success of the program, with special emphasis given to: (i) the improvement of production efficiency; (ii) the functioning of the workshop training; (iii) the degree of satisfaction among users of program services; (iv) the increase in the products marketed and/or their diversification; (v) the economic development of the beneficiary enterprises; and (vi) the program's environmental and social impact. Based on the results of the analysis, recommendations will be on any adjustments that need to be made to the use of remaining funds.
- 6.4 For the final evaluation, the external consultants will compile the information required for evaluating the program's impact through a comparison with the data in the base line. This information will be supplemented by an evaluation of the direct results of the workshops, exchanges and other program activities compared with the expectations in the logical framework (Annex I) or a version modified by mutual agreement with the Bank and the executing agency. CATIE and its partners will provide access to all the necessary information and documents to complete the evaluations.
- 6.5 The Bank's Country Office, with the support of the program team and CATIE, will review the program's annual performance and the extent to which the program's objectives have been fulfilled. These reviews will determine annual counterpart needs, and whether the program should be continued, suspended or cancelled.

VII. JUSTIFICATION AND RISKS

A. Justification

- 7.1 The program's main benefits are the following: (i) increase in the competitiveness and profitability of forestry SMEs through better business and environmental management; (ii) diversification of marketing channels for forest products; (iii) institutional strengthening at various levels, such as horizontal networks, horizontal and vertical alliances, and other entities in the forestry sector in the three countries, including local service providers; (iv) promotion of forestry certification

as a marketing tool for forest conservation; and (v) focusing on decision-making policies through publications and active participation in trade associations for the formulation of standards in sustainable forest management.

- 7.2 The direct benefits for the participating SMEs in the program include: (i) greater economic efficiency resulting from better management of forest resources; (ii) exchange of technical and business information between the SMEs; (iii) increased opportunities for marketing their products in domestic and international markets.
- 7.3 The successful execution of this project will have a positive impact on the rational use of natural resources. It would also establish a web-based Market Information System specifically for forestry products and create an **innovative**, ongoing service for producers/processors and buyers of forest products, as well as service providers. It would also have a **demonstration effect** in terms of promoting the creation of strategic alliances and more transparent relations in the value chain, which should have an enduring effect.
- 7.4 **Beneficiaries.** The main beneficiaries of the program are small and medium-sized forestry enterprises in the selected localities that will directly participate in the activities of business promotion and production development. The program as a whole will also benefit the local communities, several of which have indigenous populations. It will support the development of competitiveness within these territories by fostering business development and cooperation in the public sector, production, and civil society. At the same time, it will support the strengthening of public and private institutions, as well as municipal offices, with the strategic role of promoting competitiveness in the territory.

B. Risks

- 7.5 The program could face the risk that future demand for the services offered is less than projected due the financial constraints on forestry SMEs and their inability to pay for the services. This risk will be mitigated by focusing on subject areas according to demand, with event registration fees set on a sliding scale. This would spur interest in the program among enterprises, with a low initial cost for familiarizing themselves with the program's benefits. More importantly, once the skills of the local professional training personnel and the supply for these services have been strengthened, it is expected that the cost incurred by the enterprises for technical assistance will gradually decrease. Another mechanism to minimize this risk is that CATIE will coordinate the program activities with organizations representing the private sector in the three countries. To ensure their cooperation, CATIE will sign cooperation agreements with each organization (see paragraph 4.4).

C. Environmental viability

- 7.6 The project will have positive environmental impacts, because: (i) it promotes the use of environmentally sustainable production and processing technologies through the training in sustainable forestry production and forestry certification; and (ii) it promotes sustainable production that is financially feasible on forested lands. The project will also have favorable social impacts because: (i) it promotes economic benefits among the indigenous and rural populations through local small and medium-sized forestry enterprises; (ii) it seeks to improve socioeconomic benefits for the local population and labor welfare for employees of forest enterprises through forestry certification; and (iii) it will promote equal employment opportunities for members of both sexes and through the benefits developed by the project.

VIII. EXCEPTIONS TO BANK POLICIES

- 8.1 There are no exceptions to Bank or MIF policies.

IX. SPECIAL CONTRACTUAL CONDITIONS

- 9.1 Within three months after commencement of the program, CATIE will be required to present, to the Bank's satisfaction, the work plan for year one of the program.

LOGICAL FRAMEWORK

DESCRIPTIVE SUMMARY	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
the productivity and competitiveness of the forestry SMEs better business and environmental management	<ul style="list-style-type: none"> Increase in domestic sales and exports of forest products in the three countries 	<ul style="list-style-type: none"> Reports and domestic and regional economic statistics Base line study and monitoring 	<ul style="list-style-type: none"> Political framework not impede the functioning of forestry SMEs
SE improve the management and technical skills of the forestry SMEs and increase opportunities for merchandising of forest products with a view to the long term	<p>By the third year of the project</p> <ul style="list-style-type: none"> 70% of the beneficiary SMEs have improved their competitiveness indicators: efficiency, quality, profitability and opportunity. Increase in the number of forest producers with quality commercialization Increase in the local capacity to provide technical assistance and training to SMEs 	<ul style="list-style-type: none"> Base line study and monitoring Sales records Registration of local consultants Letters of understanding between producers, processors and buyers 	<ul style="list-style-type: none"> Corruption and illegal logging do not hinder development of the forestry sector Market conditions maintained or improved for forest products and services
OUTCOMES strengthening of technical skills	<p>With respect to management skills:</p> <ul style="list-style-type: none"> 360 representatives of forestry SMEs trained in business management 150 SME producers have the basic know-how and capabilities to develop products and manage quality 75 SME producers have benefited from the experiences of similar enterprises, enhancing producer-to-producer transfer <p>With respect to technical capacity:</p> <ul style="list-style-type: none"> 570 representatives of forestry SMEs trained in certification, benefiting from low impact or technical aspects of management 	<ul style="list-style-type: none"> Registration of training sessions Project evaluations Project reports 	<ul style="list-style-type: none"> Social and political situation allows for the organization of events

DESCRIPTIVE SUMMARY	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
	<ul style="list-style-type: none"> 30 local training staff members trained to provide training and technical assistance 30 technical specialists expand their capabilities in management and business operations 		
Commercialization of forest products and services	<ul style="list-style-type: none"> Innovative strategies for commercialization and marketing of forest products that important in the regions Three alliances between sellers and three alliances between sellers and processors formalized 200 SME representatives are familiar with domestic and international market demands and requirements 	<ul style="list-style-type: none"> Business plans Letters of understanding Project reports 	<ul style="list-style-type: none"> Markets for forest products will continue to grow SMEs remain interested in the mechanisms that allow them to improve performance and competitiveness through alliances
ACTIVITIES			
<ul style="list-style-type: none"> Business management skills courses Designing and printing of modules Training in product quality and management Interchange between SMEs Training of trainers Designing and maintaining a database of service providers Technical assistance/follow-up for forestry SMEs Designing and printing fact sheets for politicians 	<ul style="list-style-type: none"> 24 business management workshops for SMEs, with the participation of model SMEs and others 8 modules prepared 12 courses (15 participants per course; 180 participants in total) Exchanges between SMEs for 75 persons for a minimum of 50 SMEs 30 training staff members trained Web site including link to data base 9 model SMEs assisted, involving 30 other participant SMEs 6 fact sheets published and disseminated 	<ul style="list-style-type: none"> Minutes, training materials Modules Minutes, training materials Reports Registration of training staff Database Reports Fact sheets 	

DESCRIPTIVE SUMMARY	INDICATORS	MEANS OF VERIFICATION	ASSUMPTION
Training of entrepreneurs in forestry certification Technical Courses Diversified Management Course Support in the development of standards and policies for sustainable forest management	<ul style="list-style-type: none"> 6 workshops on certification with 20 participants each 36 events with an average of 15 persons each 3 international courses for a total of 30 services providers 3 workshops per country 	<ul style="list-style-type: none"> Report Report Report Minutes 	
Evaluation of opportunities for existing markets Identification of products, markets and means of marketing Training in the development of business plans Training of business people in international markets and trade Technical assistance for entrepreneurs in international markets and trade Creation and consolidation of strategic alliances Representation at national forest product fairs Promotion in the marketing of forest products Designing and printing of fact sheets for political representatives on forest product markets and marketing	<ul style="list-style-type: none"> 6 regional workshops for a total of 120 participants, with follow-up A market study covering the three countries 6 regional workshops for a total of 120 participants, with follow-up 6 events with 20 participants each One annual visit per region with ongoing follow-up 30 SMEs involved in six strategic alliances Support for an annual fair in each country Establishment of a market information system Six fact sheets oriented toward decision-making 	<ul style="list-style-type: none"> Minutes, report Minutes, report Minutes, report Reports Reports Letters of understanding Reports Web site Fact sheets 	

PROPOSED RESOLUTION

**REGIONAL. NONREIMBURSABLE TECHNICAL COOPERATION TO BOOST THE
COMPETITIVENESS OF SMALL AND MEDIUM-SIZED FORESTRY-BASED
ENTERPRISES**

The Donors Committee of the Multilateral Investment Fund

RESOLVES:

1. That the President of the Inter-American Development Bank or such representative as he shall designate is authorized, in the name and on behalf of the Bank, as Administrator of the Multilateral Investment Fund, to enter into such agreements as may be necessary with the Centro Agronómico Tropical de Investigación y Enseñanza (CATIE), and to take such additional measures as may be pertinent for the execution of the project memorandum contained in Document MIF/AT-_____ with respect to a technical cooperation to boost the competitiveness of small and medium-sized forestry-based enterprises.
2. That up to the amount of US\$1,684,200, or its equivalent in other convertible currencies, shall be authorized for the purpose of this resolution, chargeable to the resources of the Small Enterprise Development Facility of the Multilateral Investment Fund.
3. That the above-mentioned sum is to be provided on a nonreimbursable basis.