



# THE MISUNDERSTOOD MIDDLE

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The Role of Intermediate Firms and Responsible Investors in Increasing Conservation Enterprise Impact



**USAID**  
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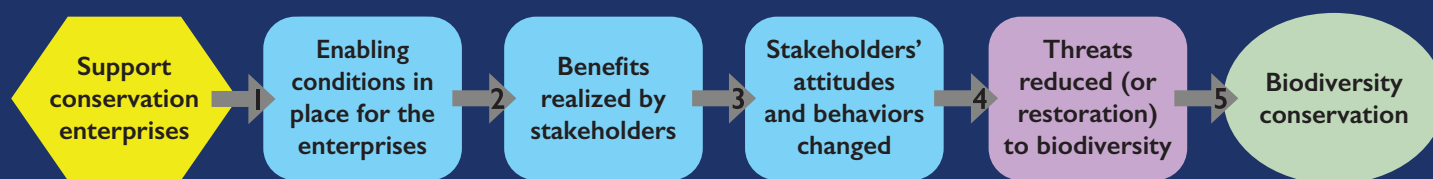
USAID DDI/BIODIVERSITY  
**Conservation Enterprises**  
COLLABORATIVE LEARNING GROUP

In March 2021, USAID's Conservation Enterprise Learning Group hosted a [webinar](#) on intermediate firms. The webinar included a discussion with two experts, [Ann Koontz](#) of Relief International and [Dietmar Stoian](#) of World Agroforestry, and gathered input from participants. This brief is a summary from those interviews with examples of intermediate firms and responsible investors and their role in scaling conservation outcomes.

Given the urgency to address the biodiversity and climate crises,<sup>1,2</sup> the [Conservation Enterprise Collaborative Learning Group](#) is interested in how support to individual or community-level enterprises can more quickly and effectively scale to achieve greater benefits, behavior change, threat reduction, and biodiversity conservation along the conservation enterprises theory of change.

A 20-year retrospective evaluation of United States Agency for International Development (USAID) support for enterprise approaches at six sites found that implementing partners often evolve from initially supporting the enabling conditions for individual or community-level enterprises to then becoming or engaging intermediate firms further along the supply chain. This allowed enterprises to reach a larger market and increase sales, resulting in increased benefits to stakeholders, which were intended to ultimately scale conservation outcomes.

### Conservation Enterprises Theory of Change



During the webinar, participants shared efforts to scale their enterprise approach. Some USAID activities are helping farmers establish cooperatives to achieve the scale needed to meet the demand of buyers, while others are linking producers to restaurants that will buy directly from the farm. One USAID biodiversity conservation activity is working with tourism companies to better understand which services are in demand by high-end tourists so USAID can support communities in developing services that generate greater income.

1 IPCC. 2021. [The Working Group I Contribution to the Sixth Assessment Report, Climate Change 2021: The Physical Science Basis](#).

2 IPBES. 2020. [IPBES Special Report – IPBES Compilation for UN Nature Summit](#).

**Cover Photo:** In 2017, McCormick & Company made a commitment to [100 percent sustainably sourced](#) vanilla and other spices by 2025. By buying directly from farmers, the company is increasing its supply chain efficiency while helping farmers access better prices and services. For more than 30 years, McCormick has partnered with USAID to combine development and business goals. Madagascar produced about 40 percent of the global supply in 2019.<sup>3</sup> The vanilla orchid plants grow up the trunks of trees and need the forest for humidity and shade. Therefore, sustainably grown vanilla has the potential to protect forests and mitigate climate change, while providing the farmers with much-needed income. Photo credit: NCBA CLUSA.

3 UN Food and Agriculture Organization Corporate Statistical Database (FAOSTAT). 2019. [Vanilla production quantity in 2019; Crops/Regions/World Regions/Production Quantity](#) (pick lists).



**FORESCOM** is an enterprise formed by a group of community forest concession organizations operating in the Maya Biosphere Reserve in Guatemala. FORESCOM aggregates timber from various organizations and produces value-added Forest Stewardship Council-certified products, such as these lattices. This second tier organization supports the scaling of forest conservation by community conservancies for the majority of the reserve's buffer zone. Photo credit: Jason Houston for USAID

## What are intermediate firms?

Intermediate firms are the supply chain actors between the individual or community-level producers or service providers and the ultimate consumers. In other words, intermediate firms are the midstream segment of the supply chain. They might include aggregators, processors, wholesalers, or retailers.

Some intermediate firms are referred to as “second tier” enterprises.

### Second Tier Firms

- Owned and operated by a collection of individual or community-level enterprises
- Commonly used for community forestry enterprises, but sometimes also used for marine products and tourism enterprises
- Examples include Himalayan Bio Trade, FORESCOM, NATRIPAL

Some are considered [lead firms](#).<sup>4</sup>

### Lead Firms

- Are not community-owned
- Set the terms of trade (e.g., quality standards and price) when partnering with individual or community enterprises
- May provide access to global markets
- Include high-profile companies, such as McCormick & Company

<sup>4</sup> USAID. 2008. Working with Lead Firms Within the Value Chain Approach.

## What are impact investors?

Impact investors, sometimes also known as responsible investors, also play an important role in scaling conservation outcomes from an enterprise approach.

### Impact Investors

- Seek financial returns from investments
- Are concerned with the environmental and social performance of their investments (as measured through the Environment, Social, and Governance criteria)
- Include [Mirova Natural Capital](#), among others

## What role do intermediate firms play?

To support enterprises to scale development and conservation outcomes, intermediate firms:

**Reinforce conservation outcomes.** Reinforcement may be done informally, such as by generating positive attitudes of community pride in conservation, or through more formal reinforcement such as certification and only sourcing from those individuals or communities who meet certain sustainability standards such as those of the [Forest Stewardship Council](#) and [Marine Stewardship Council](#). Intermediate firms, investors, and community enterprises that work together should be aligned in their social and conservation values so they can support each other's missions.

**Aggregate products or services.** Effective supply chains need sufficient total area from which to sustainably harvest the necessary volume of raw material or to provide the necessary services. Therefore, intermediate firms generally aggregate products or services from across many individual or community enterprises. In this way, they help to ensure that supply chain demand is met without any given area being overharvested or overused.



**NATRIPAL** is an Indigenous Peoples' organization of 63 local associations spread across the island of Palawan in the Philippines. It purchases, aggregates, refines, bottles, and sells wild honey that is sustainably harvested from the ancestral lands of its member associations, promoting forest conservation by Indigenous Peoples' organizations across the island. Photo credit: Jason Houston for USAID



Himalayan Bio Trade is a natural product processing and marketing company owned by a consortium of community-based forest enterprises in Nepal. It collects Forest Stewardship Council-certified products from many community enterprises, such as handmade paper. The company then adds to its value, such as by cutting and dyeing the paper to make these flowers. This second tier organization supports the scaling of forest conservation by community groups nationwide. Photo credit: Jason Houston for USAID

**Add value to products and services.** Many times intermediate firm will purchase raw material from individual enterprises and then turn that material into a value-added product, which allows them to generate greater revenues. They may also support individual or community enterprises to add value to their products and services. For example, they might support communities in processing raw materials (e.g., bark to handmade paper).

**Provide linkages to broader and more reliable markets.** Intermediate firms often develop business relationships with communities through long-term contracts, which reinforce the incentives for sustainably producing goods and services. Long-term and trusting relationships between partners are often as much of an incentive for communities to engage in the enterprise as the prices received for goods and services.

**Provide financing and capacity building.** Intermediate firms and responsible investors provide the continuous support needed to sustain and expand participation over the longer term, especially when enterprises were initially established as part of a time-limited project. For example, they might provide credit or financing to improve equipment, infrastructure, or transportation. They often pay the cost and facilitate the process of meeting needed quality standards or certification for sustainability standards.

**Ensure adequate and explicit mechanisms for sharing information, benefits, and risks.** Perceptions of equitable distribution of benefits and risk are critical for a trusting relationship. The amount of the benefits (e.g., price received for a product) may be important for communities, but so are the reliability, timing, and frequency of benefits. For example, paying for an enterprise's products right before school fees are due could provide crucial help to enterprise members, even if the price is not as high as they might have gotten at a different time in the year.

## How can USAID's conservation enterprise activities support intermediate firms?

To support intermediate firms as a means to scale biodiversity outcomes, USAID activities can:

**Play a key role in linking individual or community enterprises with intermediate firms and responsible investors** that share the same conservation vision and mission. USAID can help negotiate the terms of the agreements by ensuring they are equitable in sharing both the benefits and risks associated with the business arrangement.

**Ensure a sufficient amount of product and services are available to meet the demand of intermediate firms.** For example, USAID activities can conduct assessments to help determine what levels of harvest or service are sustainable within a given area. They can bring together the number of individual or community-level enterprises that sustainably harvest or provide services within an area that are required to supply an intermediate firm. This might involve supporting individual or community-level enterprises in obtaining the resource use rights to a given area or areas, especially in situations where there may be competition for high-value resources.

**Support capacity building.** USAID activities can ensure that local and community-level enterprises get the support needed from intermediate firms to build their capacity to meet the business requirements of the enterprise, but also the conservation aspects. Meeting certification requirements and passing periodic audits can be daunting for the inexperienced.

U.S. Agency for International Development  
1300 Pennsylvania Avenue, NW  
Washington, DC 20523  
Tel: (202) 712-0000  
Fax: (202) 216-3524  
[www.usaid.gov](http://www.usaid.gov)