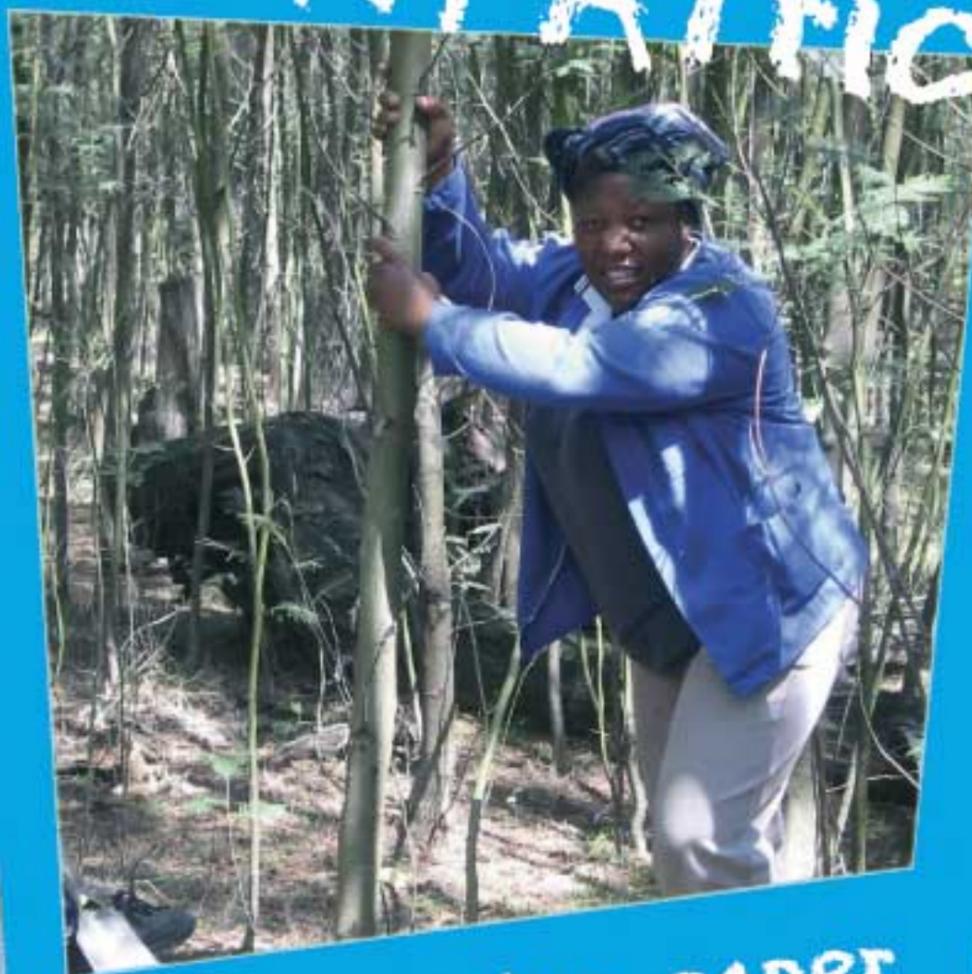


Small and medium forest enterprise

South Africa



A discussion paper

Fonda Lewis
Juana Horn
Mike Howard
Steven Ngubane

Discussion paper

Small and Medium Forest Enterprise in South Africa

Fonda Lewis, Juana Horn, Mike Howard, Steven Ngubane

2004

**Institute of Natural Resources
Forestry South Africa and Fractal Forests**

in collaboration with

International Institute for Environment and Development



Institute of Natural Resources



**International
Institute for
Environment and
Development**

Contacts:

Institute of Natural Resources
Private Bag X01
Scottsville 3209
Tel: +27 (0)33 – 346 0796, Fax: +27 (0)33 – 3460 895, Email: lewisf@nu.ac.za

Forestry and Land use programme
International Institute for Environment and Development (IIED)
3 Endsleigh Street, London WC1H 0DD, UK
Tel: +44 207 388 2117, Fax: +44 207 388 2826, Email: james.mayers@iied.org

Citation:

Lewis, F. Horn, J. Howard, M. and Ngubane, S. 2004. *Small and medium forest enterprise in South Africa*. Institute of Natural Resources. Pietermaritzburg and International Institute for Environment and Development, London, UK.

Small-medium forestry enterprises for poverty reduction and sustainability

This study is part of a cross-country initiative coordinated by the International Institute for Environment and Development (IIED) with the above title.

Most international attention in forestry has been given to improving the conditions for large-scale or micro-scale forestry, and much less to the 'messy middle' - which produces a high proportion of forest product and involves huge numbers of people. Ways need to be found by which small and medium-scale forestry enterprises can better contribute to reducing poverty and improving the prospects for sustainability.

IIED, with partners in Uganda, South Africa, India, Brazil, Guyana and China have been investigating these issues. Country diagnostics show that the small and medium forestry enterprise "sector" is of major significance for livelihoods in these countries – the net effect of myriad small players represents a substantial part of local economies. Yet, these are largely "invisible" economies, and the SME sector is almost completely ignored in most policy and programme developments. Raising the sector's visibility such that its impacts can be better assessed, and then going on to explore how the positive links to sustainability, livelihoods and poverty-reduction can be enhanced, is a major challenge to which this initiative seeks to rise.

Hard copies of the reports in the series are available from IIED on request, and are downloadable from www.iied.org/forestry. The series includes initial analyses of small medium forestry enterprise issues in:

- Brazil
- China
- Guyana
- India
- South Africa
- Uganda

For a wide range of published reports from IIED's previous 3-year initiative on *Instruments for sustainable private sector forestry* see www.iied.org/psf/publications_def.html

CONTENTS

1	EXECUTIVE SUMMARY	5
2	INTRODUCTION TO FOREST BASED SMEs IN SOUTH AFRICA	6
3	MAPPING OF CURRENT STRUCTURES AND RELATIONSHIPS IN THE FORESTRY SME SECTOR	7
3.1	Characteristics of the NTFP sector.....	9
3.2	Key players in the plantation sector.....	10
3.2.1	Large corporate groups.....	10
3.2.2	Medium scale grower operators.....	11
3.2.3	Small scale grower groups.....	11
3.2.4	Contractors.....	13
3.2.5	Saw mills.....	14
3.2.6	Government.....	15
3.2.7	Private sector associations.....	17
3.2.8	Non-government organisations.....	17
3.2.9	Education.....	17
3.2.10	Finance.....	18
4	ANALYSIS OF CURRENT INFLUENCES ON SME DEVELOPMENT AND INITIATIVES TO ADDRESS THEIR IMPACTS	19
4.1	Influences on SMFEs based on NTFPs.....	19
4.2	Influences on SME development within the plantation forestry sector.....	20
4.2.1	Influences on development of contracting SMEs.....	21
4.2.2	Influences on saw milling SMFEs.....	22
4.3	Generic influences on SME development in South Africa.....	22
4.3.1	Financial constraints.....	22
4.3.2	Policy and regulations.....	23
4.3.3	Government and semi-government institutions.....	24
4.3.4	Private Sector Support Systems.....	26
4.3.5	Training and capacity building support.....	26
4.3.6	Internal processes and systems.....	27
4.4	Evaluating SME development and promotion initiatives to date.....	27
5	CHALLENGES AND RECOMMENDATIONS FOR A WAY FORWARD	30
5.1	Key challenges and possible interventions.....	30
5.2	Need for policy review.....	31
5.3	Summary of recommendations.....	32
6	REFERENCES	33
	APPENDIX 1	35
	APPENDIX 2	37
	APPENDIX 3	40
	APPENDIX 4	48

ABBREVIATIONS / ACRONYMS

CBO	Community Based Organisation
CSBP	Centre for Small Business Promotion
DANCED	Danish Co-operation for Environment and Development
DEAT	Department of Environmental Affairs and Tourism
DFID	(UK) Department for International Development
DLA	Department of Land Affairs
DTI	Department of Trade and Industry
DWAF	Department of Water Affairs and Forestry
FE	Forest Enterprise
FIETA	Forestry Industry Education and Training Association
FSA	Forestry South Africa
ID	Identification
IDP	Integrated Development Plan
IIED	International Institute for Environment and Development
INR	Institute of Natural Resources
LED	Local Economic Development
LH	Livelihoods
M&E	Monitoring and Evaluation
NGO	Non-Governmental Organisation
NTFP	Non-Timber Forest Products
PDI	Previously Disadvantaged Individual
PFM	Participatory Forest Management
PPP	Public Private Partnership
PRA	Participatory Rural Appraisal
R&D	Research and development
SAFCA	South African Forest Contractors Association
SANParks	South African National Parks
SEE	Social, economic and environmental
SFM	Sustainable forest management
SH	Stakeholder
SME	Small and Medium Scale Enterprise
SMME	Small, Medium and Micro Scale Enterprise
SMFE	Small Medium Forest Enterprise
ToR	Terms of Reference
UIF	Unemployment Insurance Fund
VAT	Value Added Taxation

ACKNOWLEDGEMENTS

This work has been carried out as joint initiative of the International Institute for Environment and Development (IIED) in UK and the Institute for Natural Resources (INR). It follows previous collaboration on issues of sustainability and contributions to livelihoods of private sector forestry. Fonda Lewis of INR and James Mayers of IIED set the scope of the work in consultation with others, and INR led the team which investigated the issues and produced this report. The work was carried out during 2002 and 2003.

The authors would like to thank Mike Murphree for reviewing the document. Detailed comments on an earlier draft were made by James Mayers. Financial support for this project was provided by the UK Department for International Development (DFID).

The opinions in this paper are those of the authors alone and not necessarily those of IIED, INR or DFID.

1 EXECUTIVE SUMMARY

In South Africa there is a plantation resource of approximately 1.5 million hectares, a natural forest resource of approximately 400 000 ha, and natural woodlands of approximately 23 million hectares. While the numbers and descriptions of the small and medium scale enterprises (SMEs) operating in the formal plantation sector are relatively well documented, there is little information on the SMEs operating in the less formal non-timber forest products (NTFP) sector in natural forests and woodlands. Furthermore, while the numbers and scales of SMEs in the plantation sector are relatively stable, there is a high rate of attrition characterising the SMEs in the NTFP sector. This together with the fact that there has been relatively little integrated and large scale investigation and analysis of the SMEs founded on resource utilisation from natural forests and woodland, means that there is little information available describing the scale, value and trends in this sector of SMEs.

The report highlights that SME opportunities within the forestry sector hold great potential for job and income generation particularly among the rural poor in South Africa. However, current policy, institutions, and financing arrangements in particular do not create an enabling environment for SME establishment among the rural poor:

- Current policies provide a contradiction between supporting the establishment of small businesses (National Small Business Act of 1995) and creating stringent regulations pertaining to contracting out work to independent contractors who are generally SMEs (Labour Relations Act of 2002).
- Despite the establishment of a number of government institutions to support (Ntsika) and improve access to finance (Khula Enterprises) to SMEs, there is little evidence to support the effectiveness of these initiatives.
- The Forestry Industries Education and Training Authority makes available funding for training and capacity building of participants within the forestry sector, however there are very few applications and allocations from these funds to SMEs.

There is a strong rationale for a project intervention to stimulate and guide the formation of an enabling environment, necessary skills and business expertise:

- Many of the current logistical and strategic constraints can be relatively easily overcome through direct intervention.
- The development of sound natural resource management practices and associated enterprise opportunities is critical in view of the current macro-economic environment, which is not providing the employment and income generating opportunities necessary to address the poverty problem in South Africa. SMEs do however offer a significant channel to address these challenges.
- A SME development programme could significantly increase the human and social capital within poor rural communities in South Africa, through the establishment of networks and partnerships between important role players and stakeholders in the sector.
- The establishment of forest based enterprises would contribute to the creation of a conservation ethic within poor rural communities in particular, which would play an important role in promoting the sustainable use and management of natural resources in South Africa.

The recommended interventions can be summarised into the following five areas:

- **Building the knowledge base** – Dissemination and understanding of opportunities for and management of SMFEs is generally poor among rural poor communities, particularly in the non-plantation based sector. A knowledge base needs to be built among the potential entrepreneurs, as well as among the facilitators, financiers and authorities.
- **Improving the enabling environment** – Positive policy instruments need to be installed and barriers to SME development need to be removed or ameliorated in order to harness

the potential that SMEs hold for reaching the poorest through stimulating local economies and generating sustainable income earning opportunities.

- **Organising for bargaining power** – Organisation of SME participants to improve representation of the sector would greatly assist collective bargaining and lobbying to present the interests, challenges and needs of the sector.
- **Developing capability** – Development of capacity and entrepreneurial skills to informal survivalists and to improve the efficiency and sustainability of SMEs.
- **Shaping markets and financing systems** – Transform financing systems to accommodate and suite the characteristics of SMEs rather than only larger enterprises, and shape markets to recognise and harness the potential within SMEs to efficiently supply commodities and services to the markets.

In spite of the many constraints to SME development highlighted in this report, there is a strong motivation for the implementation of a programme to bridge the gap between better big business and small livelihoods enterprise in forestry, with the aim to improve the contribution of forestry enterprise for sustainable livelihoods in South Africa.

INFORMATION BOX 1 DEFINITION OF SMEs

In this context an enterprise is defined as a business operation aimed at generating cash incomes. A forestry enterprise is one that has a primary focus on making a profit from a forest product or service. The resources used include both timber and non-timber forest products, from natural forests and woodlands, as well as plantations.

A small or medium scale forest enterprise (SMFE) is a term for segmenting businesses that are somewhere between the sole proprietor and large enterprise and are defined based on the scale of operation in terms of turnover, number of full time employees and gross value of assets (Appendix 1). As can be seen from Appendix 1, the actual SME segmentation is dependent on the industry. The definition of an SME also varies from country to country. Most of the enterprises operated by individuals in rural areas, founded on non-timber forest products, tend to be the small and micro scale enterprises. Those operating in the more formalized plantation sector tend to be the small to medium scale enterprises.

2 INTRODUCTION TO FOREST BASED SMEs IN SOUTH AFRICA

Forest, woodland and plantation resources are central to the livelihood systems of millions of rural dwellers throughout South Africa, and provide them with a wide range of goods and services, including:

- Woodfuel
- Wild foods (honey, mushrooms, nuts, fruit, insects and small mammals)
- Medicines
- Fodder
- Fibre
- Timber for building

Many of these resources offer the opportunity of income generating enterprises, mainly in the form of small and medium scale enterprises (see definitions in Appendix 1 and Information Box 1). Commercial forestry in South Africa focuses on commercial cultivation of wattle, eucalypts and pines. These operations, in addition to the opportunities offered by the natural forests, contribute to rural livelihoods by offering a variety of commercial and non-commercial resource use opportunities. Various arrangements between private sector/government and communities (or individuals within these communities) for taking advantage of these opportunities have emerged, including:

- Out-grower schemes
- Joint venture schemes between a collective community and a private company
- Land rental for tree growing paid by commercial companies to communities
- Non-timber forest products enterprises (e.g. honey production, mushroom and medicinal plant harvesting, and craft production)
- Eco-tourism enterprises
- Contracting enterprises

Previously disadvantaged¹ rural black communities and individuals can benefit from the economic opportunities offered by forest based SMEs by taking effective control and responsibility for the management of these forest assets. This report therefore focuses on an analysis of opportunities and constraints for SMEs development primarily among the poor rural black communities located in relatively close proximity to plantations and forests or forest based industries. The objective is to identify what is required for creating a sustainable and enabling environment within the forestry sector for the establishment of SMEs to address the challenges of employment creation, economic growth, livelihoods enhancement and equity in South Africa.

3 MAPPING OF CURRENT STRUCTURES AND RELATIONSHIPS IN THE FORESTRY SME SECTOR

The forest based SME sector can be divided into two primary categories:

- *Enterprises founded on the use of mainly non-timber forest products (NTFPs) and operating largely in the informal sector.*
A large number of poor rural people engage in NTFP extraction both for personal use and for sale in order to earn cash incomes for the household. The primary focus of SMEs in this sector is the generation of cash incomes for the household, from the direct harvesting of the natural resources, and in some cases primary processing prior to sale.
- *Enterprises founded on services to the largely formal plantation forestry industry.*
SMEs increasingly carry out specialized activities, which cannot be carried out optimally on a large scale, or can be sub-contracted to them, and therefore complement large firms (SBP 2002). There are a large number of well established and emergent² SMEs that provide a range of services to the formal forestry sector. These well established SMEs include mainly saw millers and contractors. Many of the medium and large scale operations are secure and well established, however the small and emergent scale enterprises are marked by high closure and bankruptcy levels, low levels of skills and capacity, and relatively poor employment conditions.

In general, the development of SMEs relies heavily on partnerships with key actors namely private sector (forestry industry, financial institutions and businesses), public sector, NGOs, and education and research institutions. Figure 1 outlines the relationships within the plantation sector.

¹ Since the advent of democracy in South Africa, the term previously disadvantaged has been applied to refer to people from races or genders that were discriminated against during the apartheid era in South Africa. Previously disadvantaged individuals are recognized to include those who are currently economically disadvantaged as a result of this discrimination. The tendency is to widely target and, as far as possible, to give preference to these individuals and communities in initiatives to stimulate employment and income generation.

² The term emergent is used to refer to those entrepreneurs and enterprises that are evolving from subsistence level operations to those that generate surpluses and provide opportunities for economic growth.

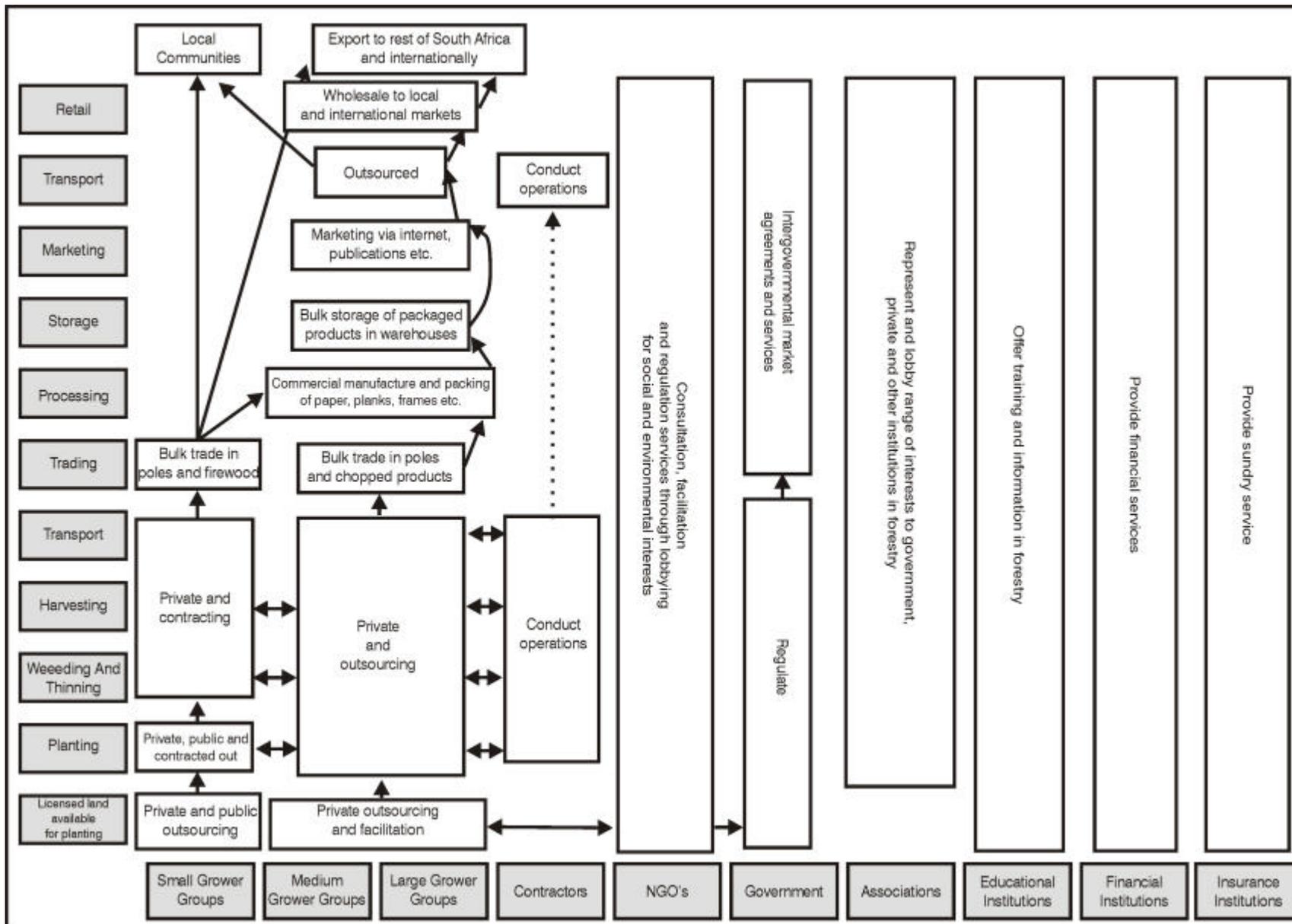


Figure 1: Current structures and relationships in the plantation sector

3.1 Characteristics of the NTFP sector

Many of the poorest households depend on forest resources to meet subsistence needs for staple and supplemental foods, construction materials, fuel, medicines, cash and local ecosystem services (e.g. water production), as well as farm inputs such as animal feed. Many households also earn valuable cash incomes from the harvest and sale of non-timber forest products. The most common SME operations within the sector include:

- Craft production
- Fruits and foods (including a relatively large number of honey harvesting and production SMEs, see Information Box 2)
- Charcoal production (recent development)
- Medicinal plant harvesting

INFORMATION BOX 2 SAPPI'S FOREST HONEY PROJECT

A forest honey project was started as a Sappi-assisted rural development programme at the Sutton Plantation near Ixopo, in KwaZulu-Natal. The project is aimed at fostering community-based beekeepers, and the initial intake in 2001 introduced 12 participants to the project. A further 12 participants were accepted for the 2002 intake. The first harvest in 2001 earned the first group of honey farmers in excess of R12 000, which was nearly doubled in the second harvest in 2002.

The concept was introduced as a response to the problems of traditional honey collection. The Eucalyptus plantations are a unique source of wild, pure honey, and neighbouring communities would smoke out the bees to collect the honey. The smouldering fires left behind caused numerous forest fires.

Sappi developed the Forest Honey Project, which would ensure sustainable and safe utilisation of the resource. A partnership was formed with Woodland Apiaries, a local commercial bee-keeping concern, the Department of Agriculture, and the communities of Mashakeni and Chibini, to create a commercial bee-keeping project. The honey is harvested several times a year and sold to a bulk supplier at market-related prices. Additional hives can be purchased with the profits.

Some rural households also supplement household incomes through small scale processing of forest products like furniture, baskets and tools. However, due to the informal nature of the SMEs operating in the NTFP sector, there is little data available on these SMEs to provide an overview of the size and value of the sector. However forest and woodland resources play a critical role in the livelihoods of poor households. The results from an assessment of the medicinal plant sector (Mander *et al*/2003) can be used to demonstrate the potential scale of the SME operations in the NTFP sector (see Information Box 3).

While many rural poor establish enterprises founded on the utilisation of NTFPs to increase income generation opportunities and livelihoods enhancement, it is often not the poorest that engage in these activities. Poor rural households are not homogenous, for example the poor are not exclusively concerned with inadequate incomes and levels of consumption. Achieving other goals such as security, independence and self-respect are regarded as just as important (Woolard 2002). Furthermore, rural households suffering from chronic poverty are unlikely to be able to take advantage of whatever opportunities may arise for escaping poverty (Aliber 2001). Therefore, within poor rural communities there might be the emergence of elites who are able to secure the rights to resource utilisation and the establishment of associated small and medium scale forestry enterprises (SMFEs). While tribal authorities do generally act against individuals' acquiring large tracts of land or exclusive rights to high value resources, an elite group of resource users could develop through astute use of the mechanisms of land allocation, purchase and sharecropping. For example, conflicts have been reported to arise in areas where tribal authorities are awarding

large tracts of land for forestry or resource use households, and interest groups within communities are starting to compete for land.

**INFORMATION BOX 3
TRADE IN NATURAL MEDICINAL PLANTS**

It is estimated that there are 28 million users of medicinal plant products and 255 000 traditional healers in Southern Africa (SADC). It is estimated that approximately 20 000 tonnes of medicinal plants are traded nationally per year, with an estimated value of approximately R60 Million (Mander *et al* 2003). There are approximately 16 000 harvesters operating in KwaZulu-Natal, predominantly rural Black women. The harvesters collect plants from the wild. They then supply these raw products in bulk, with little or no processing, to the urban informal street markets. The only processing that may be carried out by the harvesters is simple drying or chopping of plant material such as bark, before packing it into old 50 kg bags for transport to the markets. There are approximately 1200 street traders operating in KwaZulu-Natal, with 600 trading from the informal street markets in Durban. Between 80% to 90% of the street traders are women.

Approximately 4500 tonnes of medicinal plant resources are traded per annum in KwaZulu-Natal alone. Most of these resources are harvested within the province. The supply of plants in the traditional medicine sub-sector is declining as wild stocks are systematically depleted. The combination of buoyant demand and declining supply clearly show that there is both a need and opportunities for cultivating indigenous medicinal plants (Mander *et al* 2003). The cultivation of general forest species, scarce woodland and grassland species are likely to be the only alternatives available, and are at present an opportunity for the establishment of SME initiatives in rural areas. A number of initiatives are currently underway to commercially cultivate high value medicinal plants that are either extinct or are near extinction in the wild. However these initiatives are largely undertaken by large commercial farmers. Recently however a number of government funded interventions have focused on promoting the commercial cultivation of scarce and high value medicinal plants in rural areas and the establishment of associated enterprises. None of these have however reached a stage of being self-sustaining.

3.2 Key players in the plantation sector

3.2.1 Large corporate groups

These are large scale enterprises (often companies) that are involved throughout the timber value chain and include:

- Masonite Africa (forestry)
- Mondi Forests
- Sappi Forests
- Global Forest Products
- Hans Merensky (Pty) Ltd.
- Singisi Forest Products
- Siyaqhubeka (Pty) Ltd
- SA Forestry Co Ltd
- Safcol Ltd
- Hinteregger SA (Pty) Ltd

The two largest players are Sappi Forest Products, which owns and manages approximately 490 000ha of plantations, and Mondi, which manages and owns approximately 440 000ha of plantations (Mayers *et al* 2001). These large groups generate a significant percentage of the SME opportunities within the forestry sector by contracting out forestry functions. Between 33% and 95% of the growing, harvesting, tending and transport activities have been contracted out (see section 3.2.4). In addition, the large corporate companies have a range of social responsibility programmes, which include initiatives aimed at establishing SMEs such as honey production and craft production enterprises among local rural communities.

3.2.2 Medium scale grower operators

The definition for medium scale operations applied by Forestry South Africa (FSA) is 'non-corporate' operations, or those that are family owned. There is a significant difference in the scale of operations between the large and medium operations. There are estimated to be approximately 1300 medium scale operations (of which only 800 are members of FSA), which are primarily white owned private commercial grower operations. They are estimated to own approximately 364 000ha (Mayers *et al* 2001).

These medium scale operations primarily market their timber through co-operatives or marketing companies that include:

- NCT Forestry Cooperative
- NTE Cooperative Ltd
- CTC Cooperative

A significant percentage of the growing, harvesting, tending and transport activities have been contracted out within these medium scale operations and cooperatives, thereby stimulating the establishment of smaller contracting enterprises.

3.2.3 Small scale grower groups

This group includes small- and micro-growers (ranging from less than a hectare to less than 100 hectares) that are either part of corporate outgrower schemes³ or cultivate timber independently (Information Box 4). Very few are involved in downstream value adding activities, such as saw-milling or chipping. It is estimated that 18 550 individual smallholders are involved in tree-growing schemes with company support, and the total area of land planted is 43 200 ha (FSA 2003). While there is a significant difference in the scale of operation between large and medium scale operations, it is more difficult to differentiate between the medium and small scale operations. Medium scale growers may own as little as 10ha of timber, while those defined as typical small growers may own much more than 10 ha. The definition of small growers as defined by FSA therefore primarily applies to black farmers who are running small and low intensity managed plantations.

The South African outgrower schemes operate in KwaZulu-Natal, although they are starting to expand to the Eastern Cape. Sappi and Mondi, the two largest timber companies in South Africa, run the main schemes (Information Box 5). The South African Wattle Growers Union and Natal Cooperative Timbers have also introduced outgrower schemes of their own (Table 3.1) (Mayers *et al* 2001).

³ Outgrower schemes are formalised partnership arrangements and involve legal contracts between two or more parties combining land, capital, management and market opportunities. The relationship can vary, where in some instance the company pays the market price on delivery but exercises little control over the production, or in the other extreme the prices are fixed and the company exercises constant and rigorous control over all aspects of production (Mayers 2000).

Table 3.1: Outgrower schemes in KwaZulu-Natal (Mayers *et al* 2001)

Sappi: Project Grow	10 000 growers 15 000 ha under plantation 56 000 tonnes timber per annum R10 million total investment (loans) R17.5 million total value
Mondi: Khulanathi	2 854 growers 5 904 ha under plantation 40 000 tonnes per annum Investment (pending) Returns (pending)
South African Wattle Growers Union: Woodlot Development	3 000 growers 4 760 ha under plantation 4 800 tonnes bark per annum 24 000 tonnes timber per annum R1200/ha loan R18 000/ha return after 8 years
Natal Cooperative Timbers: Outgrower Scheme	700 growers 4 000 to 8 000 ha under plantation Volumes: not known R100 000 total investment (loans) Return (pending)

It is estimated that the small grower cultivation operations currently generate incomes of approximately R12 000/ha over a six to eight year rotation (LHA 2003). This indicates an increase from the figures of R8 912/ha reported by Mayers *et al* (2001).

**INFORMATION BOX 4
GROWER MOTIVES FOR JOINING OUTGROWER SCHEMES**

The major incentive for joining an outgrower scheme is to obtain cash income at harvest, as well as annual payments. Forests provide fuelwood and other goods for households. These products can also be sold for additional income. By entering into an outgrower scheme, individuals can secure their rights over unutilised land, increasing security of tenure (especially a motivation for widows whose rights to land become insecure after the death of their husbands). Some communities and individuals are impressed by the reliability of yield, and find that the management of trees is easier than the management of food crops. Often trees can be planted where land is unsuitable for food crops.

INFORMATION BOX 5
COMPANY MOTIVES FOR INITIATING OUTGROWER SCHEMES

Sappi initiated their outgrower scheme, PROJECT GROW, as a social responsibility programme. Mondi initiated their outgrower scheme, KHULANATHI, as a business venture. Both companies have benefited from the outgrower schemes as they have secured more land closer to their pulp mills. Much of the land surrounding the pulp mills falls under communal tenure and was previously inaccessible for lease agreements or purchase. With the outgrower schemes, companies are able to secure operating environment. Further to this, most of the communally owned areas in the coastal zone have a very high potential for forestry, with mean annual increments of 25 – 30 m³/ha/annum.

The costs of administering the schemes per tonne of fibre produced appear to be higher than those incurred per tonne from commercial plantations. In Mondi's case however, these costs are covered by an unspecified higher margin from the timber sourced from the schemes. It is likely that considerable savings are made by the schemes; especially as the land rentals paid on commercial plantations are saved. The outgrower schemes also generate an additional fibre supply needed for maximising economies of scale and meet broader company objectives to contract out forestry,

Furthermore, these outgrower schemes importantly present a progressive company image, and even provide political benefits gained from demonstrating engagement of black South Africans and creating employment and income generating opportunities for poor rural black farmers.

3.2.4 Contractors

These are SMEs contractors offering services throughout the plantation timber value chain. It is critical to note that, though they feature at almost every level in the value chain, they are concentrated in the initial stages of the value chain.

The South African Forest Contractors Association (SAFCA) reports there to be 300 contractors in the forestry industry, 240 of whom are members of SAFCA. In addition, there are a number of contractors operating in the informal sector, i.e. those who do not have formally registered companies, but rather operate on a more informal basis. These contracting businesses are mainly micro-enterprises, which have very little capacity and skills to compete in the formal sector.

A large percentage of the SME opportunities are created by the large growers and companies contracting out activities such as (LHA 2003):

- Harvesting and transport (95% contracted out)
- Silviculture (33% contracted out)
- Fire protection (33% contracted out)

In addition they contract out a range of other activities including forest security, depot handling, weed spraying and road maintenance (Table 3.2).

Table 3.2: Range and characteristics of contracting SMEs (Mayers *et al* 2001).

CONTRACTORS	CATEGORY	ESTIMATED NUMBER	WAGE
Planting and weeding	Very poor/labour deficient households.	60 contractors	Low (R20-R25/day)
Chainsaw operators	Very poor households Often ex-forestry employees who have progressed to form labour teams	70 operators	Low (R35/day) Labour team operators may earn R6000/month above expenses
Transport operators	Emerged from local business and sugar industry.	40 short haulage transporters. (Sappi – 4 small-scale long haulage transporters).	Rates are organised by companies (Sappi and Mondi), however the operators are reported to struggle to make profits.

There is a high level of competition within the contracting sector and a highly volatile climate currently prevails in the forestry contracting market (Crickmay 2002a). Of the 240 contractors who are members of SAFCA it is estimated that:

- 50 are large scale operations employing between 200 to 1500 people, with an average turn over of approximately R7 million per annum.
- 130 are medium scale operations employing between 30 - 80 people, with an average turn over of approximately R1 million per annum.
- 60 are small scale operations employing between 20 – 50 people, with an average turn over of less than R500 000 per annum.

The balance of the contractors (approximately 60) is small survivalist⁴ operations experiencing high levels of attrition. They generally have very low levels of business expertise and little access to vital information on costing in order to develop viable and competitive tenders for contracts (Crickmay⁵ *pers comm.* 2003).

3.2.5 Saw mills

There are approximately 278 sawmills operating in South Africa, ranging from large operations to small bush mills. The total soft wood lumber sales for the formal sawmills increased by 26% between 2001 and 2002, indicating a growing market opportunity. While the large and medium scale sawmills provide lucrative business ventures, the small low cost mills and bush mills (making up approximately 27% of the market) are often marginal operations that are largely dependent on external factors for their survival (Crickmay 2002a).

The saw-milling market can be broken down into three categories (Crickmay *pers comm.* 2003):

- *Large scale saw mills*
There are currently approximately 52 large scale saw mills (69% of total market) which process on average approximately 1.5 million m³ of timber per annum.

⁴ In this context, survivalist is used to define marginal enterprises that generate returns that are only sufficient to sustain the enterprise, but do not provide enough income for economic growth of the enterprise. These enterprises are also very vulnerable to externalities with even small increases in operating costs resulting in bankruptcy or dissolution of the enterprise.

⁵ Andrew Crickmay: Crickmay, Erasmus and Associates. Adding Value to the Forest Industry Programme. Tel: 033 – 3454516.

- *Low cost saw mills*
There are approximately 126 low cost saw mills (20% of total market), which process approximately 500 000m³ of timber per annum on average. These mills are location bound and will require capital equipment worth approximately R1 million for effective operation. It is estimated that low cost mills are approximately 20% Black owned.
- *Bush mills*
There are approximately 100 bush mills (7% of total market), which process approximately 175 000m³ of timber per annum on average. Bush mills are movable, as opposed to the location bound low cost mills.

Small scale mills (most low cost and bush mills) are normally more prominent in areas that are far removed from major pulp mills and other operations consuming pulpwood. The small scale mills mainly take in the thinnings and small class logs that are normally not considered suitable for the larger mills. The small scale saw mills report gross profit margins of between 10-15%, however the profitability of this sector largely depends on the flexibility of the mill and their low costs structures. The majority of the timber produced from these small scale mills is ungraded and is supplied to the formal and informal building sectors (LHA 2003).

A study of small scale sawmills in the Eastern Cape (Horn 2000) has also identified the following characteristics:

- Approximately 85 small scale sawyers each employ approximately 25 people; using a conservative estimate of 7 people per household, these operations therefore provide the only source of income and benefits to almost 15,000 people.
- Most operations are not formally registered, although they are permanent enterprises, not opportunistic and mobile.
- The majority of small scale mills have been in existence for many years and represent long-standing family operations, but most sawyers have received no formal training.
- These mills produce only wet off-saw timber – no other value-added processing is undertaken.
- Most of the sawn logs are used locally, but there is a rigid seasonal pattern to local consumption, resulting in an extended 'lean' period between January and July.
- Sales to local people and formal markets are cash-based and take place on an *ad hoc* basis.
- Even within these very small operations, social stratification is evident – gender, racial and class equity has not been achieved – women and children suffer the greatest privation as a result of these inequalities.
- The paradox emerged during this study that support to the slightly bigger operations (almost entirely white-owned at the time of the study) runs the risk of putting these marginal small-scale sawyers (mainly black-owned) out of business.

3.2.6 Government

Though management of forestry is primarily the responsibility of the Department of Water Affairs and Forestry (DWAF) (Information Box 6), a number of other national government departments' policies and regulations have effect on forestry operations and enterprises. In addition a range of provincial and local government departments regulate forestry and associated enterprises within their areas of jurisdiction, while Traditional Authorities play a key role in forestry operations in areas under traditional authority.

The main national government authorities regulating and promoting activities within the forestry industry include:

- Department of Water Affairs and Forestry (Information Box 7)
- Department of Trade Industry (DTI)
- National Department of Agriculture (NDA)
- Department of Environmental Affairs and Tourism (DEAT)

- Department of Health (DoH)
- Department of Labour (DoL)
- Department of Land Affairs (DLA)
- Department of Tradition and Local Government Affairs

Contradictory legislations and policy from these government departments is sending mixed signals to SME development in South Africa. On the one hand small business development is being supported (e.g. National Small Business Development Act of 1996) while on the other hand stringent employment regulations govern the appointment and use of contractors (Labour Relations Act, 12 of 2002). These issues are discussed in detail in section 5.

INFORMATION BOX 6
LEGISLATIVE SUPPORT FOR RURAL DEVELOPMENT FORESTRY

The South African National Forests Act (Act 84 of 1998) addresses all components of the forestry sector, including indigenous forests and woodlands, industrial forestry and community forestry. For example, the Forestry Restructuring Programme as set out in the National Forests Act, involves privatisation of state plantations. The programme identifies how adjoining communities can benefit from the process of privatising state plantations. Bidding companies are expected to prepare proposals as to how they will facilitate the involvement of communities in accessing resources in the plantations. The programme is based on the principles of:

- Resource conservation
- Attention to community interests and land claims
- Generation of rural employment
- Promotion of industrial development through sustained wood production
- Reducing public expenditure.

The National Forestry Action Plan is a South African policy guideline document, and identifies objectives for Rural Development Forestry including:

- Putting in place measures to ensure that institutions, services, technologies and policies promote and support a self-sustaining forestry.
- Establishing a co-ordinated system through which government and non-government institutions offer efficient, effective and complimentary support services for community forestry.
- Putting in place measures that will ensure that end-users receive appropriate and integrated support services to promote self-sustaining community forestry.
- Implementing measures that support the creation of an enabling environment for sustainable community forestry development in rural South Africa.
- Effectively supporting self-sustaining urban forestry initiatives that secure economic, environmental and social benefits for urban dwellers.

INFORMATION BOX 7
DEPARTMENT OF WATER AFFAIRS' PARTICIPATORY FOREST MANAGEMENT PROGRAMME

The Department of Water Affairs and Forestry has been implementing its Participatory Forest Management (PFM) programme in state forests/woodlands in line with its restructuring goals. PFM is intended to promote co-management of forests with local stakeholders and to ensure that PDIs benefit from increased access to forest resources and benefits. Some of the major challenges facing DWAF in this ambitious exercise are:

- The need for major institutional transformation which requires no less than a complete paradigm shift from scientific forestry to developmental forestry
- Serious lack of capacity within DWAF at all levels to implement this new paradigm
- Legislative and administrative requirements (such as the requirement for proposed projects to be subjected to tedious, complicated and time-consuming Private Public Partnership (PPP) processes, and Central Treasury regulations which require that monies generated on state land be returned to state coffers)
- Lack of clarity about tools available to enable local stakeholders to benefit from SMFE development, for example, appropriate selection and use of permits, licenses, community forestry agreements

DFID and DANCED are both providing support to DWAF for its reorientation and restructuring exercise. The possibility of this project providing support to SMFEs in indigenous forests should not be excluded. At present, not many formal agreements have been concluded with local stakeholders. Two examples from the Southern Cape, however, are noted:

- i) Various licenses were given to an existing eco-tourist enterprise for the launch of new products (e.g. Tree Top Canopy Tours), and
- ii) An agreement was reached with the Rastafarian community in Knysna for the sustainable harvesting of 'rooi wortel' (red carrot) for commercial purposes.

3.2.7 Private sector associations

A range of private sector associations and organisations represent the interests of different enterprises, including a large number of SMEs in the forestry value chain:

- Forestry South Africa (FSA) – represents the interests of its member timber producers. FSA was formed through the amalgamation of the Forest Owners Association, South African Timber Growers Association and South African Wattle Growers Association, to form a unified and national representative body for all member growers, regardless of their scale of operation.
- South African Forestry Contractors Association (SAFCA) – represents the interests of contractors particularly in negotiations with the timber producers through the FSA.
- Forest Fire Association (FFA) – co-ordinates efforts for fire prevention and control.
- SA Lumber Millers Association (SALMA) – represents the interests of lumber millers in negotiations with timber producers and lumber buyers.

These organisations promote, assist and regulate SMEs in the plantation sector.

3.2.8 Non-government organisations

A number of non-governmental organisations (NGOs) are service providers for the establishment and operation of a range of SMEs, including playing support roles in the identification and establishment of potential SMEs.

3.2.9 Education

Education encompasses educating, training, research and development within the forestry industry. The main institutions within this sector include:

- Universities, including Stellenbosch, Natal and Pretoria
- Technikons (Saasveld)

- Fort Cox College
- SA Forestry Training College
- Forest Engineering SA (FESA)
- Institute for Commercial Forestry Research (ICFR)
- Council for Scientific and Industrial Research (CSIR)
- SA Institute of Forestry (SAIF)
- SA Wildlife College
- Forestry Industry Education and Training Association (FIETA)

All employers within South Africa are compelled to contribute 1% of their annual payroll via the Department of Labour to the Skills Education and Training Association (SETA). The money is then distributed proportionately (according to the amounts contributed) to the various sectors within the economy. The forestry industry funds are channeled to the Forestry Industry Education and Training Association (FIETA), where it can be claimed by industry contributors for skills development and training of their employees. While big companies are reported to be claiming back a significant proportion of their contributions, there are little or no claims being submitted by the SME sector. There is little understanding on why the SME sector is not taking advantage of these funding opportunities, particularly when considering the need for training in this sector. FIETA has therefore developed a SME programme that aims at development of both technical and business skills within the SME sector (see section 4.3.5).

3.2.10 Finance

Finance institutions provide a range of financial services to the forestry sector. However lack of financing opportunities for SMEs has been identified as one of the key constraints to SME development in South Africa (see section 4.3.1). International organisations also provide valuable financial services within the sector. The major SME development and financing organisations include:

- Land Bank
- Ithala Bank
- Development Bank of Southern Africa (DBSA)
- Enterprise Management & Innovation (Agribusiness Project II)

4 ANALYSIS OF CURRENT INFLUENCES ON SME DEVELOPMENT AND INITIATIVES TO ADDRESS THEIR IMPACTS

The historical past in South Africa made the situation difficult for emergent black entrepreneurs, particularly entrepreneurs in rural areas and women. With the emergence of the democratic South Africa, there was an understanding that South Africa has a vast, largely untapped potential resource base of entrepreneurs, encompassing all races, and all sectors. What was needed to address historical lack of support for the SME sector was a major policy thrust to initiate national support for small business initiatives (Thomas nd). In an attempt to address this, the new Government, through the Ministry of Trade and Industry, initiated a process to develop a strategy for small business development in South Africa. A number of SME development initiatives were started since the installation of the democratically elected government in April 1994. The government saw SMEs as a window of opportunity to address the challenges of job creation, economic growth and equity in South Africa. The starting point for the process of small business development was to create an enabling environment (Ladzani 2001).

Yet despite the belief that SMEs are an underdeveloped opportunity to stimulate job and income generation opportunities among rural black communities, the SME sector in general, including the forestry industry, remains largely undeveloped. Those SMEs that have been established by black people in rural areas are mainly micro-scale enterprises that provide little more than employment for the business owners themselves. While a range of investigations have been conducted on the constraints and challenges to SME development and operation in South Africa, very little information is available on the challenges and constraints to forestry SMEs in particular. A review of the general information however clearly indicates that these generic issues are directly relevant to the forestry sector.

4.1 Influences on SMFEs based on NTFPs

There is a high rate of attrition among SMEs in this sector (Vermeulen *et al* 2003), with most of the SMEs being low-return NTFP based activities that scarcely have prospects beyond short-term existence. Profitability of SMEs in this sector is generally not viewed by the participants in the traditional sense of income off set against costs such as labour etc. Due to the limited income earning opportunities in rural areas, any cash earned is often perceived as positive and the enterprise is continued. Some of the main constraints to the development of these SMEs include:

- Difficulty in securing legal access to harvesting the NTFP resources. For example most of the medicinal plant harvesting operations take place without the permits required for the harvesting of indigenous, often protected, medicinal plants.
- Most NTFP enterprise opportunities are characterised by ease of entry, i.e. access to the “free NTFP resources”. However in the case of those activities that do require some access to skills, technology or capital, the poor find it difficult to take advantage of market opportunities.
- Small scale forest product enterprises are prominent where there are dispersed rural markets for simple, low cost products and where high transport costs protect against competition from urban suppliers.

Nevertheless, a large percentage of rural households are contributing to their incomes through forest resource based enterprises. There are a number of important issues that constrain the opportunity and potential value of NTFP-based SMEs (Vermeulen *et al* 2003):

- Proximity to markets is one of the most important factors determining the profitability of SMEs based on NTFPs, and therefore one of the most limiting factors for commercialisation initiatives.

- The profitability of SMEs based on NTFP extraction is highly dependent on multiple costs including labour and transport, which are rarely fully quantified in project studies.
- Rising NTFP prices can have a variety of ecological consequences, including resource depletion, changes (positive or negative) in biodiversity and changes in resource quality.
- Since demand curves for NTFPs are often extremely elastic, models assuming an inelastic demand curve can result in misleading predictions, and many SME developments overestimate the potential value of NTFPs because they assume an unlimited market demand.

Most emerging forest based small businesses face similar challenges and constraints. Whether they are manufacturing crafts, selling firewood, or supplying raw resources (e.g. medicinal plants), they all struggle with accessing the market and increasing their productivity to meet growing demand. The latter implies that they are facing operational constraints such as technical know how, infrastructure limitations, inadequate business knowledge / information, problems with accessing finance, etc. This is largely why government, donors and NGOs adopted a supply-oriented and subsidy driven approach in their efforts to stimulate the growth of the SMME sector. Focus is largely on the inputs (skills, finance, etc.) and outputs (sales and market growth) are commonly neglected. For example, it is reported that the success rate of promoting new SMEs by providing the unemployed with training in basic business skills alone is one in one hundred (Vermeulen *et al* 2003).

4.2 Influences on SME development within the plantation forestry sector

Emergent forestry entrepreneurs face similar constraints to their counter-parts in any other business sector. Among the aspects particularly relevant to SME start-up businesses in forestry are the following:

- A common entry point for SMEs into the forestry sector is through contracting services. Profitability in the forestry contracting business is low and the competition for work high, with the result that new entrants often discount their prices and forfeit profit to secure work.
- New forestry contractors typically move into contracting after having worked for some time as employees of established forestry companies rather than migrating from other business activities. They seldom have the necessary track record or business skills that would qualify them for loan finance with any of the formal financial institutions.
- Basic financial services, such as a current account and cheque facilities, are seldom granted to the start-up SME by the commercial banks. This reluctance of the banks to provide SMEs with these services relates to their financial profiles and absence of business experience. Bank charges are high and most start-up forestry SMEs cannot afford these given their low margins. They seldom budget for these transactional costs, which lead to further cash flow problems.
- New forestry SMEs find it difficult to comply with existing legislated requirements regarding contributions to UIF, district municipality levies, training levies and other deductions. They seldom can afford the luxury of suitable office facilities, their “offices” usually comprising a briefcase and box file kept behind the seat of their pick-up. Physically making the payments requires driving into town and being away from their workers for most of the day. This being both directly expensive in terms of their time and transport costs but also indirectly in terms of workers being without supervision.
- VAT management poses particular challenges. Contractors need to recoup the VAT on their capital investments and therefore need to register as VAT vendors. However, the monthly payment of VAT based on amounts invoiced, often before they have received the cash from their principal, further exacerbates their cash flow problems. It is common for SMEs to run foul of the Receiver and end up having to pay very expensive penalties. Even just calculating VAT and physically making the payment on time provides the start-up forestry SME with some logistical challenges.

- Forestry based new businesses require investments largely in semi-durable, movable assets such as pick-up trucks, tractors, trailers, herbicide application equipment, chainsaws and such like. In contrast to a farmer or plantation owner, the forestry SME seldom owns land or a crop that could be used as collateral to secure the finance required to purchase equipment. The large corporate forestry companies commonly own Land and the forestry SME only provides a contract service.
- Start-up forestry SMEs seldom have the necessary skills or facilities to prepare and present business plans that meet the requirements of the finance houses.
- Most forestry contracting is labour intensive with more than 50% of the operational cost being spent on this component. The balance of the operational costs, are made up of repayments on hire purchase loans for equipment, overhead costs and remuneration for the contractor. For micro operators, substantial sums are spent on maintenance and ongoing repairs of obsolete and poorly functioning equipment. Both wages and loan repayments are required to be promptly paid at the end of each month while the principal typically only pays the contractor some 30 to 60 days thereafter. This arrangement leads to a requirement for a large amount of working capital. This working capital is especially difficult to source as it has no asset base.
- New forestry contractors are seldom granted contracts of more than a year's duration while the financing of equipment and vehicles is typically carried out over a 3 to 5 year period. This discrepancy between contract periods and repayment periods makes it very difficult for the new entrant to start off.
- Forestry is seen by many finance houses as being a particularly risky investment due to the time that it takes from establishment to harvesting. They appear to focus on the uncertainties associated with a long time period rather than the experience of foresters who have been successfully growing and harvesting trees in plantation form in SA for over 100 years. It is difficult for the emergent grower to convince finance houses to grant them long term loans based on trees especially where the grower does not have title to the land.

4.2.1 Influences on development of contracting SMEs

The main constraints and contributing factors to the instability in the contracting sector are (Crickmay 2002a):

- Mills make frequent changes to their timber orders, resulting in cash flow problems by contractors, unnecessary hiring and firing of labour by contractors, and underutilisation of assets (equipment and labour) when orders are cut. Many contractor SMEs are failing under these stop start conditions. While it is generally accepted by contractors that fluctuations will occur, it is believed that many of the fluctuations are as a result of poor planning by the mills.
- Work contracts are too short to give contractors adequate business certainty.
- The old mind-set among growers/processors still prevails, i.e. a master servant attitude towards contractors. Contractors have little or no influence over prices paid, which is compounded by the high level of competition within the sector.
- There are no mechanisms in place to adjust the rates paid to contractors so as to match fluctuating work volumes, i.e. wages are not linked to productivity.
- The desperate financial situation of many contractors.

An important issue of concern within the contractors sector that has been raised by SAFCA is the impact of HIV/Aids on the sustainability of the contracting SMEs (Crickmay *pers comm.* 2003). A survey undertaken by SAFCA has indicated that the infection rate among contractor employees could be as high as 40%. While current rates of mechanization are relatively low, decreasing productivity of labour could swing trends towards increasing levels of mechanization. This could have two important impacts:

- Decreasing employment levels, particularly for unskilled labour, within the sector.
- Increasing costs of establishing and operating contracting enterprises, associated with the purchase and maintenance of machinery.

Given the already high level of competition within the sector and the high levels of attrition particularly among the micro and small scale contracting enterprises, it is probably inappropriate to establish new small contractor SMEs. A more appropriate intervention within this sector is bringing about improvements in efficiency and the sustainability of existing small contractors through improved business skills, information and access to financing so that they may develop into more stable and viable medium scale enterprises (Crickmay *pers comm.* 2003).

4.2.2 Influences on saw milling SMFEs

The greatest constraints to the smaller scale saw mills are:

- Lack of secure access to logs, arising from short term contracts for fixed volumes of wood. Lack of access to increased volumes of timber limits the ability of sawmills to expand their operations and returns from increasing economies of scale (von Maltitz *et al.* 2000).
- Lack of access to information that will assist them in competing locally and internationally, and in obtaining prices commensurate with the quality of lumber being produced (Crickmay 2002b).
- Lack of organisation and collective bargaining power

As in the case of the contractors, it is unlikely that there are significant opportunities for new saw milling SMEs. Appropriate interventions are more likely to be those that focus on developing skills and capacity among the smaller saw milling enterprises so that they may improve the efficiency and viability of their enterprises. Interventions should also focus on generating appropriate information for these small scale enterprises, and improving access to existing information, so that they may negotiate and tender for the purchase of timber and sale of lumber more effectively.

4.3 Generic influences on SME development in South Africa

It is widely acknowledged that small businesses face a wider range of constraints and problems than big businesses do, even in effective functioning market economies. The constraints mainly faced by black entrepreneurs, who were disadvantaged during the apartheid era, wishing to start SMEs are (Ladzani 2001):

- Limited access to finance
- Unconducive legal and regulatory environment
- Lack of institutional support
- Difficulty in accessing markets
- Difficulty in the acquisition of skills and expertise
- Continued exclusion of members of poorest households, and of women

In the following six sub-sections, the attempts of various initiatives to address these constraints are outlined and, in section 4.4, evaluated.

4.3.1 Financial constraints

Small to medium scale businesses with a turnover in excess of R5 million per annum can have access to debt financing (usually in the form of bank credit), whereas an SME with a turnover of, for example, R150 000 per annum remains crucially dependent on loan finance or equity they can access in their personal capacity such as private loans from the informal sector. Many emerging entrepreneurs are under-skilled and lack business experience, with the result that they cannot gain access to capital (Task Group of the Policy [nd]). Furthermore, in South Africa most poor rural households do not own their land. Instead it is held in trust, or is owned communally. This means that the land itself cannot be used as collateral to secure loans, and emerging entrepreneurs trying to establish SMEs are therefore even further disadvantaged.

Financing institutions further suggest that the Aids epidemic creates major financial risks that have to be part and parcel of the total risk evaluation process of creditors. Specifically in a small business where the owner/manager plays such a crucial role, the impact of Aids is bound to be far more serious than for larger companies where management and labour are more flexible. Despite all the good intentions to improve the market for SME finance, Aids may have a seriously adverse effect in the coming years (Task Group of the Policy Board for Financial Services and Regulation [nd]), including increased dependence by affected households on direct access to natural resources for survival.

4.3.2 Policy and regulations

A number of policies currently shape and regulate the establishment and operation of forestry SMEs in South Africa. These primarily include:

- National Small Business Act
Promotes the establishment of small businesses, providing institutional and financial support through the establishment of the National Small Business Council, Ntsika Enterprise Promotion Agency and Khula Enterprises (see section 4.3.3.1).
- Labour Relations Act
Provides strict guidelines on the definition of employees and taxation of employees, which restricts the appointment of contractors rather than employing full time employees.
- Occupational Health and Safety Act
Provides very stringent regulations governing health and safety in the workplace, which are often difficult for small scale operations to meet. For example, employees of micro to small operators in the Eastern Cape, even when working with the saws, wear no protective clothing at all.
- National Forests Act
Promotes the sustainable use of forests for a range of purposes including economic opportunities. The Act also promotes greater participation in all aspects of the forestry industry by those excluded from actively participating in aspects of the industry during the apartheid era.

Policy pressures to increase subcontracting may be productive when the economics of it make sense. These policies and regulations do not however always achieve an enabling environment for the promotion of SME development in the forestry sector. In some cases the regulations are inappropriate or contradictory. However policy in South Africa is currently contradicting. While the National Small Business Act (1996) promotes the establishment of SMEs, the Labour Relations Act (2002) introduces **increasing restrictions on employment protection measures** that inhibit restructuring or discourage firms from subcontracting many activities. **Inappropriate regulation** creates obstacles to the establishment of SMEs by raising the costs of business entry and growth. In particular, inappropriate regulation governing property rights requirements for securing loan finance create barriers to the transition from the subsistence and very small-scale economy to the modern more productive sector. Inappropriate regulations have to date acted as a barrier to SME development by keeping a large proportion of the population out of the formal economy, while inappropriate regulations reinforce the tendencies of SMEs to remain informal (SBP 2002).

Value Added Taxation (VAT) is a particular problem to SMEs, as the present system requires that tax payment is made when goods or services are invoiced and often long before payment is in hand, and small business cash flows are often unsustainably stressed (SBP 2001).

The White Paper in March 1995 and the discussion document *Strategies for the Development of an Integrated Policy and Support Program for Small, Medium and Micro Enterprises in South Africa* on the strategy and policy for SMMEs led to the National Strategy for the Development and Promotion of Small Business in South Africa that was passed by the government in March 1995, and the National Small Business Act of 1996. This Act led to the establishment of a range of institutions to support the development and implementation of small businesses, particularly among black entrepreneurs disadvantaged during the apartheid era. The effects of these have however been limited (see section 4.3.3).

4.3.3 Government and semi-government institutions

4.3.3.1 Government

Government's role is to create and implement an enabling environment. This is, in part, about making markets work. Government therefore attempts to overcome inappropriate legislation, regulations and administrative operations that prevent markets from operating effectively. The enormous challenge of upgrading the position of disadvantaged rural SMMEs cannot be resolved by local government alone. Rural SMMEs require an integrated, targeted, and strategic set of interventions, which will require support from national, provincial as well as local levels of government (SBP 2002). The government, through the Department of Trade and Industry (DTI), established the Centre for Small Business Promotion (CSBP) at national level to promote the establishment of SMEs in South Africa. This centre gave birth to Ntsika Enterprise Promotion Agency and Khula Enterprise Finance Limited. These are the main statutory bodies established to support and assist SMEs.

- **Centre for Small Business Promotion**

The **Centre** for Small Business Promotion (CSBP) is a Chief Directorate that falls directly under Department of Trade and Industry. It is responsible for all policy related to the SMEs and supports programs that are directly and indirectly assisted by government. The centre also coordinates the implementation of the framework within central government, to mobilize the necessary funds and supervise the establishment of other new institutions, proposed in the White Paper. The Centre for Small Business Promotion gave a directive to all nine provinces to form Provincial SMME Desks at provincial level. Staff members who were attached to the Department of Economic Affairs by then constituted these divisions. The divisions were the first point of contact of small business people with the government. The purpose of these divisions is to give SMME support in all the provinces (Ladzani 2001).

- **Ntsika Enterprise Promotion Agency**

The Ntsika Enterprise Promotion Agency (NEPA) was given the mandate to provide a wide range of non-financial services to local service delivery groups on a 'wholesale' basis, meaning delivery of resources to local providers that work directly with SMMEs. These services that are offered by accredited local service providers include institution building of these organisations, training programs for entrepreneurs, mentoring of individual firms, marketing, procurement advice and technology assistance. Examples of local service provider groups are the Local Business Services Centres (LBSCs), Non-Governmental Organisations (NGOs), Educational Institutions and Community Based Organisations (CBOs) (Ladzani 2001):

- **Local Business Service Centre (LBSC)**

The LBSCs, defined in terms of their functions, are owned by the local business people and managed by the local people. Their services include training, marketing and linkages, counseling and referrals and information gathering and dissemination. The major challenges to these centres are in developing SMMEs in rural communities. These SMMEs operate in a sea of poverty and unemployment; most of them are survivalist enterprises; there is poor infrastructure, outflow of wealth to larger urban centres and reduced access to markets.

- **Tender Advice Centre (TACs)**
Tender Advice Centres provide non-financial support to small businesses in the area of market access and procurement. They provide information about government tenders, counseling and support services to entrepreneurs. Examples of this support include assistance in the completion of tender documents and the provision of advice and information on tender opportunities. These services are made available to SMMEs through workshops and seminars about tendering procedures. The TAC program is run by accredited organisations around South Africa (http://www.brain.org.za/SUPPORT/tender_advice.html).
- **Manufacturing Advisory Centres (MACs)**
These centres provide information and advice to small and medium manufacturing firms.

- **Khula Enterprise Finance Limited**

Khula Enterprise Finance Limited was established in 1996 under the Companies Act, in terms of a Department of Trade and Industry initiative. It is an independent, limited liability company, with its own board of directors and is dedicated to improving access to finance for the SMMEs. This implementing agency for providing capital for small business is a response to the seeming inability of banks to support small enterprises, especially those in disadvantaged communities. Khula took over the credit guarantee facility from the former Small Business Development Corporation (now Business Partners).

The other main activity of Khula is to provide 'wholesale' finance to the NGOs that offer micro loans to starter entrepreneurs. This is done through the development of Retail Financial Intermediaries (RFIs) that are financially sound, with the commitment and the capacity to serve the SMME sector:

- **Retail Financial Intermediaries (RFIs)**
Khula does not lend money directly to the small and micro business people. It makes finance available to the SMMEs through three of its lending programs. These programs are the Credit Guarantee Scheme, the Retail Financial Intermediaries (RFIs) and the Micro Credit Outlets (MCOs). The RFIs borrow money from Khula to lend to the SMMEs, who must repay the loan to these organisations according to the agreed terms and conditions of the loan. Small business operators can borrow amounts of R5 000 to R50 000. Micro Credit Outlets (MCOs) lend money to very small entrepreneurs, mostly in the rural areas and informal settlements in urban areas (Directory of Retail Financial Intermediaries).
- **KhulaStart**
KhulaStart is an intervention strategy by Khula Enterprise Finance Ltd, whose objective is to promote greater access to micro credit in rural areas. It is a group-lending scheme for the lower end of the micro-enterprise market. It targets communities historically disadvantaged during the apartheid era, particularly women in rural areas and informal sectors. KhulaStart is based on a United Nations Development Program (UNDP) initiative called MicroStart, and has been adapted to suit the conditions prevailing within rural South Africa (KhulaStart Brochure).
- **Credit Guarantees**
Khula Credit Guarantee provides a range of guarantee products to banks in the private sector whereby Khula will assume a portion of the risk associated with lending into the SMME sector. In order to raise capital to acquire assets or for working capital, banks may require applicants to provide guarantees to secure the loan. Khula will furnish these guarantees to approved applicants with three products: Individual, Institutional and Portfolio Guarantees. Loans of between R60 000 and R600 000 can be guaranteed through this scheme. (<http://www.khula.org.za/credit.htm>).

4.3.3.2 Semi-Government

Semi-government organisations also offer assistance to SMMEs. The Industrial Development Corporation (IDC) for example, assists in tourist development, venture capital, low interest empowerment and emerging entrepreneur schemes. The South African Bureau of Standards (SABS) through its “missing link” programme, offers quality assistance and awareness to SMMEs and the Council for Science and Industrial Research (CSIR) through their National Manufacturing Centre provides product improvement and manufacturing assistance to SMMEs. There are also small business units in many banking institutions and companies that assist small businesses in one way or another.

The semi-government institutions like the Development Bank of Southern Africa (DBSA), the Small Business Development Corporation (SBDC) and the Industrial Development Corporation (IDC) developed as financiers and SMME-support agencies. The regional development corporations whose focus was to a large extent to develop black entrepreneurs made a limited impact. It is still very difficult (if not impossible) for newly established businesses to enter the public tendering system.

4.3.4 Private Sector Support Systems

While the government plays the role of a facilitator (not implementer), small business support programs are best implemented by institutions that most closely reflect the entrepreneurship and risk characteristics of small business themselves. Such institutions are typically small localised non-governmental organisations (NGOs), private consultancies, partnerships and companies (White Paper 1995:8). However university-based small business units, private and NGO sectors are often not effective in their overall impact. They are often uncoordinated and in competition with each other.

4.3.5 Training and capacity building support

As described in section 3.1.9, there is a significant training intervention programme aimed at skills development for the establishment and improvement of SMEs in the forestry sector. FIETA has recognized that there is very little claim to the training and education funding by SMEs. FIETA has therefore developed a SME programme that aims at development of both technical and business skills within the SME sector (Weston *pers comm.* 2003). Four projects have been established:

- *Training of contractors*
Approximately R2.3 million is being allocated over a two year period to the training of contractors with particular focus on the development of supervisory skills and the operation of chainsaws. The funding is being channeled through SAFCA, which means that only SAFCA members will be eligible to benefit from this training.
- *Paper recycling*
A project is being established with R6 000 funding to train black entrepreneurs from disadvantaged backgrounds on operating a paper recycling operation.
- *Charcoal production*
FIETA, together with joint funding from an international donor and Mondi Forests has formed an organisation called “Black Gold” which will oversee the establishment and operations of a charcoal manufacturing enterprise. Communities surrounding plantations in the southern Mpumalanga and northern KwaZulu-Natal regions will “scavenge” residual wood from felled or tended (pruned) plantations and supply this wood to a number of strategically located kilns, where the charcoal will be processed. A contract has also been signed with a large charcoal marketing and wholesale agent to purchase all the charcoal produced. The project is currently at the stage where a training needs assessment is being undertaken so that community participants can be trained to effectively participate and benefit from the project.
- *Furniture production*
Approximately R100 million has been allocated by the National Skills Development Fund and FIETA to design compact wooden furniture for low cost housing. The project will then

train people from disadvantaged backgrounds to establish SMEs and to manufacture and market the furniture.

4.3.6 Internal processes and systems

The SMME economy (both formal and informal) is marked by the majority of the SMEs being micro and survivalist enterprises. The few medium-sized SMMEs that exist are responsible for most of SMME employment (Kesper 2000). Only a small segment of the SME economy develops the capacity to create employment and these enterprises are usually run by highly educated or experienced entrepreneurs and utilise mostly skilled labour (SBP 2001). Surveys conducted across Southern Africa indicate that less than one per cent of firms 'graduate' from the micro enterprise seedbed and become established enterprises employing more than 10 workers (SBP 2002). There is therefore much room for support to assist the smaller enterprises to 'upgrade' to the next level, increasing efficiency, and hopefully resulting in increased employment opportunities and/or better working conditions for employees.

Wage and working conditions in emerging SMMEs are poor both for owners and their employees (Kesper 2000), and wage jobs (if available), additional education, and job training are still viewed by the poor as the most common paths out of poverty. Few poor people will use self-employment (e.g. via SME establishment) to escape poverty. The increase in the number of people who would start small firms if they had access to micro-enterprise programmes is probably about 1 per 100 for the unemployed and about one per 1,000 for those who have public assistance (Schreiner 1999). This is largely because:

- Most poor rural households are risk averse and rather seek waged employment than risk investment of scarce financial resources into self-employment.
- There is a lack of access to information and finance to start SMEs.
- There is a lack of capacity and expertise among poor rural households for them to start their own SMEs.

4.4 Evaluating SME development and promotion initiatives to date

While a range of institutions have been established to assist SME development, there is little evidence of their effectiveness on the ground, particularly in poor rural areas. Poor communication channels, low literacy levels and lack of awareness appear to be the primary reason that, despite the Ntsika and Khula initiatives, access to financing and business assistance remains out of reach of the rural poor. Most poor people who are using micro-enterprise programs are not among the poorest. Rather, they have the most assets, the most years of school, the most skills and experience, the strongest support networks, and one or more wage jobs (Schreiner 1999).

Many of the disappointing early results can be attributed to South Africa's dearth of entrepreneurial tradition and culture among the black population that was disadvantaged during the apartheid era, as well as the lack of basic education and management experience needed to run successful businesses. These factors alone will mean the progress is slow, regardless of the resources committed to these efforts. In addition, the fundamental restructuring currently being undertaken in the forest sector must be seen in the context of the enormous challenges facing South Africa as it undergoes a complete paradigm shift, with new values, goals and methodologies. In other words, these initiatives are in their early days and long-term support for institutional transformation will be required.

The following shortcomings have been identified in the national Government's strategy to address small business development (SBP 2001):

- ***The Strategy has ‘failed’ to ‘segment its market’***
Examples are: The Strategy does not differentiate between the ability of the different target groups (micro, small, and medium) to create jobs. Most job potential is in the ‘small business’ category and in manufacturing, not in micro/survivalist and retailing activities. Small businesses (between 10 – 50 employees) have not benefited greatly from the Strategy’s efforts to improve their access to finance.
- ***The National Strategy is seen as leaderless and not effectively coordinated***
For example, there is no coordination between Ntsika, Khula and the CSBP; very limited communication or policy coordination between the CSBP, Ntsika and Khula; coordination between CSBP and other government departments working with small business is rare.
- ***Ntsika does not effectively link training programs (both business and technical)***
There is no (1) aftercare and mentoring of trainees, and (2) market opportunities.
- ***Ntsika is largely unsuccessful in marketing services to target groups***
There is very little awareness among target groups of the strategy and the support services it provides. Fewer than one quarter of small companies have heard of the Khula and Ntsika support and incentive schemes and only 10% of this quarter have actually used them (2,5% of all existing formal SMEs).
- ***Khula’s programs have fallen short of their objectives, despite an efficient and professional internal organisation***
For example, Khula is too risk averse, too conservative for an organisation with strong development objectives; Khula’s design is flawed, requiring that Retail Financial Intermediaries (RFIs) lend to the ‘unbankable’ and yet be self-sustaining at the same time. RFIs are not commercial banks, yet Khula’s charter requires them to function as such; Khula’s success is dependent on whether the commercial banks wish to lend to small business, which, in general, they do not; the credit guarantee program has thus fallen far short of its objectives, serving principally medium-size white-owned businesses (estimated at 62%).

A number of strategic initiatives directed at addressing some of the challenges faced by small forest enterprises are currently being undertaken. These include:

- Recognition and legitimisation of some traditional systems into South African legislative environment, for example, Communal Land Rights Bill, which will create the opportunity for the recognition of individual land rights of households residing on land under traditional authority.
- Establishment of focused support services, for example, SME Support Programme undertaken by the KwaZulu-Natal Directorate Local Economic Development (Department Economic Development and Tourism), and the Forestry Enterprise Development initiative within the Community Forestry Programme in DWAF.
- Establishment of small grower structures for direct representation in local, provincial and national lobbying. For example, FSA Small Grower Group proposed organisational structure.

There are a number of projects that are currently looking at a range of factors regarding SME development and enhancing benefits from forest based resources to improve the livelihoods of the poor. These include:

- Making forest markets work for the poor – DFID funded (2002 – current)
- Public private partnership opportunities - Development Bank of Southern Africa (DBSA) funded (2003 – current)

- Forestry Contractors Index - Crickmay and Associates funded by contractors and industry (2000 – current)
- South African Lumber Index - Crickmay and Associates funded by millers (2001 – current)

5 CHALLENGES AND RECOMMENDATIONS FOR A WAY FORWARD

5.1 Key challenges and possible interventions

Some of the biggest challenges faced by potential entrepreneurs from poor rural communities, wishing to establish SMEs include:

- Lack of supportive environment to facilitate development of SMEs. This condition relates to communication, coordination, participation in key decision-making fora and others
- The small scale forestry sector is not well organised. This makes it difficult to reach and or communicate with role players. As a result, their needs, priorities and requirements are less understood and appropriate interventions are more difficult to identify and implement.
- There is a serious lack of capacity on the part of most stakeholders to i) develop business and financial plans so as to be in a position to secure start up capital, and ii) engage in multi-stakeholder interactions.

The following interventions are recommended interventions for reducing failure and speeding up SME development, especially at provincial and local level where actual implementation takes place:

- Once a SME contract has been awarded, and especially SMEs operated by black previously disadvantaged individuals, there needs to be a system of ongoing support which would include judicial information, technical training, capacity development for multi-stakeholder interactions, and access to finance to overcome cash flow problems during the completion of a contract.
- Incentives should be implemented to encourage large corporations to subcontract a certain percentage of their awarded tenders to black owned SMEs and to train them so that these SMEs supply the required quality and quantity (Berry *et al* 2002).
- Clarity is needed on exactly who target beneficiaries of SME establishment should be (i.e. primary stakeholders) for the greatest potential of unlocking the economic growth opportunities offered by SMEs. For a variety of reasons (e.g. reports that marginal households tend to remain marginalized by development initiatives) trends towards working with targeted individual households rather than communities should be encouraged so as to concentrate support and increase effectiveness of SME initiatives. This would mean that initiatives, whilst providing livelihoods-enhancement support to existing small- or medium-scale players, should also actively target resource-poor marginal and excluded households in the establishment of new SMEs.
- Small business development strategies should be assessed on a continuous basis so that revisions can be implemented if required. As South Africa approaches its first decade under democracy, many of the forestry development issues needing attention have already been identified by a multitude of research reports and accumulated experience. What is crucial at this point is to focus on operationalisation of initiatives, such as implementing SMFEs, at local level. Although there remains scope for additional and ongoing research, emphasis should be placed on addressing issues already identified (including those contained in this paper), and on building capacity for sustainable implementation.
- Possibilities for additional investigation (action research) arising from the identification and analysis of key issues in the body of this paper, are listed below:
 - Awareness and skills creation
 - ❖ Identification by stakeholders of policy, legislation, regulatory and/or administrative issues constraining SMFE development, and development of lobbying strategies to challenge these.
 - ❖ Evaluation of micro and small operators' awareness of, and capacity to access, claims system for skills development
 - ❖ Examine financing opportunities, mechanisms and channels for SMFE development

- ❖ Investigate market opportunities for SMFE products, particularly niche markets, and value-added opportunities
- ❖ How to facilitate access for new entrants to public tendering system
- ❖ Design an information-dissemination programme for established SMEs
- Intervention and integration needs
 - ❖ Although forest resources play an important role in the lives of many resource-poor rural people, it is known that South Africa's limited forest and plantation resources cannot alone be the foundation of local economic development. This makes an integrated approach to forest sector and broader rural development of critical importance. Research on integrated rural development could be undertaken to look at lessons learned, conditions for success and future opportunities.
 - ❖ Development of criteria for identification of targeting and selection of entrepreneurs for engaging in SMEs
- Incentive creation
 - ❖ Investigate incentives to large corporations for subcontracting to, and/or the provision of training for, black owned SMFEs
 - ❖ Evaluate effects of tax system on SMFEs, and identify potential for tax incentives for establishment and growth of SMEs
 - ❖ Identify conditions that promote viability and sustainability amongst SMEs, and how best to support expansion and growth of small enterprises to the next level
- Follow-up and support needs
 - ❖ Research after-care support needs to promote sustainability of newly established SMEs
 - ❖ Identify SME operators' need for support from business partners/managers and ways of communicating these to latter group
 - ❖ Evaluate impact and identify mitigation strategies for HIV/Aids on forest resource needs and use, and establishment and sustainability of SMFEs
- A need exists to transfer entrepreneurial skills to informal survivalists SMEs, in order to develop their capacity for the operation of sustainable SMEs that can stimulate job creation from within the ranks of the poor. Creative solutions are urgently required to bridge this skills gap, and new approaches are needed to harness the skills and experience of formal small business while engaging survivalists in opportunities that enable them to acquire the skills to effectively engage in the market themselves. Training is essential but if there is no after-care the process will continue to be invisible. Do not over-invest in training at the expense of after-care services.

5.2 Need for policy review

The following considerations need to be incorporated in a review of policy (SBP 2002):

- Opportunities for establishment of new SMEs
 - Allow scope for flexible employment contracts to be negotiated within SMEs, with remuneration arrangements and working conditions that are well adapted to the needs of dynamic enterprises.
 - Relax employment protection measures that inhibit restructuring or discourage firms from subcontracting certain activities to SMEs.
 - Review and simplify the registration procedures required to create an SME.
 - Widen the target population for entrepreneurship programmes to attract the participation of women, the young and minorities, particularly among poor rural communities.

- Operation of SMEs
 - Examine the cost of complying with government-imposed administrative or regulatory requirements pertaining to SMEs and identify where reductions could be made.
 - Examine the overall effects of the tax system on entrepreneurship, and identify features that discourage entrepreneurs or the financing of entrepreneurial activity; ensure that the tax system is transparent and that compliance is straightforward.
 - Ensure that personal bankruptcy legislation provides an appropriate balance between encouraging risk-taking and protecting creditors.

5.3 Summary of recommendations

The recommended interventions can be summarised into the following five areas:

- **Building the knowledge base** – Dissemination and understanding of opportunities for and management of SMFEs is generally poor among rural communities, particularly in the non-plantation based sector. A knowledge base needs to be built among the potential entrepreneurs, as well as among the facilitators, financiers and authorities.
- **Improving the enabling environment** – Positive policy instruments need to be installed and barriers to SME development need to be removed or ameliorated in order to harness the potential that SMEs hold for reaching the poorest through stimulating local economies and generating sustainable income earning opportunities.
- **Organising for bargaining power** – Organisation of SME participants to improve representation of the sector would greatly assist collective bargaining and lobbying to present the interests, challenges and needs of the sector.
- **Developing capability** – Development of capacity and entrepreneurial skills to informal survivalists and to improve the efficiency and sustainability of SMEs.
- **Shaping markets and financing systems** – Transform financing systems to accommodate and suit the characteristics of SMEs rather than only larger enterprises, and shape markets to recognise and harness the potential within SMEs to efficiently supply commodities and services to the markets.

6 REFERENCES

- Aliber, M. (2001) *Study of the incidence and nature of chronic poverty and development policy in South Africa: An overview*. Unpublished Paper. University of the Western Cape. Cape Town.
- Auren, R. and Krassowska, K. (2003) *Small and medium forestry enterprises in Uganda: How can they be profitable, sustainable and poverty reducing? A review of key issues*. Draft Report. International Institute for Environment and Development, London
- Berry, A. von Blottnitz, M. Cassim, R. Kesper, A. Rajaratnam, B. and van Seventer, D. (2002). *The Economics of SMMEs in South Africa*.
- Crickmay, A. (2002a) *Root causes of the crisis in contracting*. SA Forestry. March/April/2002.
- Crickmay, A. (2002b) *South African Lumber Index*. November 2002.
- DFID (2001) *Poverty: Bridging the gap – Guidance notes*.
- DFID (2002) *Southern Africa Strategy Paper*.
- DWAF (2003) *CSIR Report on woodlands classification in South Africa*. Unpublished Report.
- DWAF (1997) *South Africa's National Forestry Action Programme*. Department of Water Affairs and Forestry, Pretoria.
- FSA. 2003. Forestry South Africa. (<http://www.foretrysa.com>)
- FSC. (2002) *SLIMFs Review Committee Briefing: Increasing access to FSC certification for small and low intensity managed forests*. Briefing 3. Issue 3.
- Gumede, V. (2000) *Growth and exporting of small and medium enterprises in South Africa; Some thoughts on policy and scope for further research*. In TIPS Forum 2000: Paths to Growth & Employment in South Africa, Forum Proceedings.
- Horn, J. (2000) *The Role of Small-Scale Sawmilling in Household and Community Livelihoods: Case Studies in the Eastern Cape*. Unpublished report for DWAF/DfID-SA.
- Horn, J. and Clarke, J. (2002) *A Training Needs Assessment and Training & Development Strategy for Participatory Forest Management*. Unpublished report for DWAF/DANCED.
- Howard, M.D. (2002) *The concept of a hardwood fibre chain in the Eastern Cape*. Unpublished presentation. Transkei rapid impact project, ECSECC, Bisho.
- IIED (2000) *Instruments for sustainable private forestry. South Africa: Outgrower schemes with livelihood benefits* (<http://www.iied.org/psf/>). International Institute for Environment and Development, London
- IIED. (2003) *Instruments for sustainable private sector forestry: South Africa*. (CD-Rom containing Mayers *et al*, 2003 *op cit*. and 20 sub-studies). International Institute for Environment and Development, London.
- Kesper, A. (2000) *Failing or not aiming to grow? Manufacturing SMMEs and their contribution to employment growth in South Africa*. In TIPS Forum 2000: Paths to Growth & Employment in South Africa, Forum Proceedings.

- Ladzani, W. (2001) *Small business development in South Africa under the majority rule*. 14th Annual Conference of Small Enterprise Association of Australia and New Zealand. Wellington, New Zealand.
- LHA (2003) *A baseline survey to assess levels of participation in the forestry sector*. Unpublished draft report. Louis Heyl and Associates, Pretoria.
- Mander, M. Lewis, F. Todd, M. and Ngubane, S. (2003) *Natural Medicinal Products: Sub-sector analysis*. Unpublished report. Institute of Natural Resources. Pietermaritzburg.
- Mayers, J. Evans, J. and Foy, T. (2001) *Raising the stakes: Impacts of privatisation, certification and partnerships in South African forestry*. Instruments for sustainable private sector forest series. International Institute for Environment and Development, London.
- Mayers, J. (2000) Company-community forestry partnerships: a growing phenomenon. *Unasylva* 200, Vol 51, p33 – 41.
- Sappi Honey. (2003) *Sappi 's Forest Honey Project*. Sappi Public Affairs. Sappi Limited.
- Schreiner, M (1999) *Self-Employment, Micro-enterprise, and the Poorest* Centre for Social Development, Washington University, St Louis.
- Schreiner, M. (2001) *Micro-enterprise in the First and Third Worlds*. Centre for Social Development, Washington University, St Louis.
- SBP (2001) *SME Alert*. Small Business Project. September 2001 Vol. 5(1)
- SBP (2002) *SME Alert*. An enabling environment for private sector growth. November 2002
- Scherr, S. White, A. and Kaimowitz, D. (2002) *Making Markets work for forest communities*. Forest Trends. Washington D.C.
- SLSA South Africa Research Briefing. (2001) *Natural Resources and Sustainable Livelihoods in South Africa: Policy and Institutional Framework* (<http://www.uwc.ac.za/plaas/>).
- South African Census Data. (1996) (<http://www.demarcation.org.za>)
- Task Group of the Policy Board for Financial Services and Regulation. *SMEs' Access to Finance in South Africa*.
- Thomas, W. (no date). *The evolution of South Africa's SME support policies 1994 – 1997*. SME Policies and Policy Formulation in SADC Countries. FES. (<http://www.fes.de>)
- Van der Zel, D. (1996) *South African national forestry action plan*. Partial framework plan: Commercial forestry. Unpublished Report.
- Vermeulen, J. Burke, M and Ngwenya, A. (2003) *Options study for Department of Water Affairs and Forestry: Enterprise and public private partnership opportunities*. Draft unpublished report. ITSD Consulting, Johannesburg.
- Von Maltitz, G. Heyl, L. Evans, J. and Segole, R. (2000) *Issues and opportunities for small scale sawmilling in South Africa: An Eastern Cape case study*. CSIR. Pretoria.
- Woolard, I. (2002) *An overview of poverty and inequality in South Africa*. Working Paper prepared for DFID (SA)

APPENDIX 1
DEFINITION OF SMALL BUSINESS
NATIONAL SMALL BUSINESS DEVELOPMENT ACT (1995)

Sector or sub-sectors in accordance with the Standard Industrial Classification	Size or class	Total full-time equivalent of paid employees <i>Less than:</i>	Total annual turnover <i>Less than:</i>	Total gross asset value (fixed property excluded) <i>Less than:</i>
Agriculture	Medium	100	R 4.00 m	R 4.00 m
	Small	50	R 2.00 m	R 2.00 m
	Very small	10	R 0.40 m	R 0.40 m
	Micro	5	R 0.15 m	R 0.10 m
Mining and Quarrying	Medium	200	R30.00 m	R18.00 m
	Small	50	R 7.50 m	R 4.50 m
	Very small	20	R 3.00 m	R 1.80 m
	Micro	5	R 0.15 m	R 0.10 m
Manufacturing	Medium	200	R40.00 m	R15.00 m
	Small	50	R10.00 m	R 3.75 m
	Very small	20	R 4.00 m	R 1.50 m
	Micro	5	R 0.15 m	R 0.10 m
Electricity, Gas and Water	Medium	200	R40.00 m	R15.00 m
	Small	50	R10.00 m	R 3.75 m
	Very small	20	R 4.00 m	R 1.50 m
	Micro	5	R 0.15 m	R 0.10 m
Construction	Medium	200	R20.00 m	R 4.00 m
	Small	50	R 5.00 m	R 1.00 m
	Very small	20	R 2.00 m	R 0.40 m
	Micro	5	R 0.15 m	R 0.10 m
Retail and Motor Trade and Repair Services	Medium	100	R30.00 m	R 5.00 m
	Small	50	R15.00 m	R 2.50 m
	Very small	10	R 3.00 m	R 0.50 m
	Micro	5	R 0.15 m	R 0.10 m
Wholesale Trade, Commercial Agents and Allied Services	Medium	100	R50.00 m	R 8.00 m
	Small	50	R25.00 m	R 4.00 m
	Very small	10	R 5.00 m	R 0.50 m
	Micro	5	R 0.15 m	R 0.10 m
Catering, Accommodation and other Trade	Medium	100	R10.00 m	R 2.00 m
	Small	50	R 5.00 m	R 1.00 m
	Very small	10	R 1.00 m	R 0.20 m
	Micro	5	R 0.15 m	R 0.10 m
Transport, Storage and Communications	Medium	100	R20.00 m	R 5.00 m
	Small	50	R10.00 m	R 2.50 m
	Very small	10	R 2.00 m	R 0.50 m
	Micro	5	R 0.15 m	R 0.10 m
Finance and Business Services	Medium	100	R20.00 m	R 4.00 m
	Small	50	R10.00 m	R 2.00 m
	Very small	10	R 2.00 m	R 0.40 m

	Micro	5	R 0.15 m	R 0.10 m
Community, Social and Personal Services	Medium	100	R10.00 m	R 5.00 m
	Small	50	R 5.00 m	R 2.50 m
	Very small	10	R 1.00 m	R 0.50 m
	Micro	5	R 0.15 m	R 0.10 m

APPENDIX 2

OUTLINE OF A WORK PLAN FOR A POTENTIAL INTERVENTION TO STIMULATE SME DEVELOPMENT IN THE FORESTRY SECTOR IN SOUTH AFRICA

Introduction to proposed preliminary work plan

Preliminary work plans have been developed for:

- SMFE development interventions
- Capacity building and research programme

Appendices 3 and 4 present two outlined work plans to address:

- Stakeholder engagement, monitoring and learning mechanisms
- Collaborative action-research on key forestry SME issues
- Capacity building of specific stakeholder groups in the sector

Appendix 3 presents an outlined work plan for pursuing forestry SME implementation in South Africa, and includes information on likely capacity requirements throughout the implementation process, as well as suggested applied research possibilities. The capacity requirements have been extracted from Appendix 3 to form the basis of a more detailed work plan for the proposed capacity building and action research programme developed in Appendix 4, which suggests phase- or activity-specific capacity and/or research needs. Additional action research needs that arise from the analysis in the body of this report, or are relevant to the wider project, rather than to specific phases or activities in the outline work plan, are presented in a list in Appendix 4.

The work plans should be seen as a framework to address a range of issues that may arise in a project of support to SMFEs. They are not intended to be prescriptive, nor to function as a blueprint. Stakeholders should be encouraged to adapt these frameworks according to their own needs. It is widely understood that successful and sustainable project outcomes depend on full stakeholder cooperation and participation being secured from project inception. Accordingly, the draft work plans have been designed to promote participation by all stakeholders and stakeholder groups throughout the project cycle.

The project terms of reference separated the processes of stakeholder engagement, research and capacity building. For the sake of discussion and analysis, to some extent these divisions have been retained. However, in reality, these aspects are inextricably linked and are likely to take place as concurrent rather than sequential aspects of the project. For example, capacity building is likely to be required for even initial stages of stakeholder engagement.

The assumption has been made that capacity building is optimally achieved through alternating phases of applied, experiential learning, and ongoing reflection and revision. Both work plans have been designed to promote completion of this action (adult) learning cycle. Stakeholders⁶ (SHs) have been divided into two groups:

- Primary stakeholders are the two groups targeted for intervention by the project: resource-poor local people (from previously disadvantaged backgrounds) who will be targeted for support to forest enterprise (FE) development and operation by this project, and business partner/s with whom they will work.
- Secondary stakeholders: refers to all other stakeholders having a stake, or playing a role, in the project, which role should be to provide support/input to the two primary stakeholder groupings for the purpose of achieving project objectives. This group would include, for example, local and regional government (to ensure integrated development planning, and because local government is responsible for local level land use planning and local economic development (LED)), national government (DWAFF, DEAT, DTI) traditional leaders, etc. (A comprehensive stakeholder list is presented in Section 3 of the report).

The proposed capacity building programme has been designed around a central component, completion by stakeholders of operational guidelines, lessons learned, resources, best practice examples, and

⁶ For convenience sake, the term 'stakeholder' will cover both those who have a stake in project outcomes, and those who have a role to play in the project.

debates, for inclusion in a 'Forest Enterprise Development Toolkit', which should be distributed to stakeholders during the project and on completion to ensure internalisation of learning.

As far as possible, capacity building should be provided by internal stakeholders who are qualified to do so. If internal expertise is unavailable, external support should be contracted in.

Where external facilitation services are required, especially in earlier project phases, a service provider should be selected who is committed to skills transfer through the development of facilitation and related skills in stakeholder groups.

Experience across sectors and with various stakeholders shows that numerous development projects have struggled with the challenges posed by participatory processes in which all stakeholders have equal decision-making power, and with issues such as stakeholder mobilisation, openness and accountability, and conflict management. Accordingly, emphasis has been placed in the work plan on capacity building for multi-stakeholder engagements.

Capacity development will also be required in the following areas, and is not less important:

- Project and business management
- Management and leadership
- Technical aspects of particular SMFEs – for example, small-scale saw milling, eco-tourism, bee farming, or seedling propagation

In addition to the capacity building programme outlined in Appendix 2, it is recommended that regular on-site mentoring is provided by appropriately qualified experts. It is proposed that two days/month is allocated to each pilot site in Year 1, followed by one day/month in Years 2 and 3. To avoid duplication, 'on-site mentoring' has not been repeated throughout Appendix 2.

It is also recommended that a conference be held during Year 3 during which contents of the Toolkit and other important information is shared with stakeholders

A project cycle of **seven participatory phases over thirty-six months** is proposed. A brief explanation of each phase follows:

- **Phase 1: Scoping.** This report serves as an initial scoping exercise. However, the contents of the report need to be debated, negotiated, amended and adopted by primary stakeholders. The participatory scoping process is intended to further identify stakeholders, issues, forest enterprise (FE) opportunities, research requirements, available and required resources and skills, and to jointly agree on interim project structures and processes.
- **Phase 2: Strategic Visioning and Planning.** This phase entails the participatory development by primary stakeholders, with support/input from secondary stakeholders where necessary, of a short-, medium- and long-term vision with corresponding plans. During this phase, agreement needs to be reached on ongoing project structures and mechanisms. Also, a post-project sustainability plan and exit strategy should be agreed to by stakeholders.
- **Phase 3: Feasibility Assessment.** During this phase plans will be subjected to a feasibility assessment on the basis of goals and targets set by primary stakeholders.
- **Phase 4: Finalisation of Plans in Line with Feasibility Assessment Outcomes and Participatory Project Preparation.** Plans will be finalised on the basis of the feasibility assessment outcomes. Capacity building should ideally have been ongoing since project inception. This phase also creates additional space for capacity building for the development of particular forest enterprises, for the development of a constitution and/or establishment of a legal entity if required, and so that outstanding issues can be attended to prior to the implementation of a programme of support to selected SMFEs.
- **Phase 5: Operationalisation of Project Support to SMFEs.** Forestry enterprises receiving the support package provided by this project.

- **Phase 6: Participatory Monitoring and Evaluation, Reviews, and Re-Planning.** Ongoing monitoring and evaluation (M&E) and review and evaluation systems are implemented and functioning.
- **Phase 7: Project Closure.** Exit strategy and sustainability plan are implemented.

Issues arising and proposed way forward

- Structures and processes for roll-out of the wider project need to be decided on, and put in place.
- A decision needs to be taken about the administration, management and co-ordination of the project itself, and of capacity building initiatives (see Appendix 1, Phase 1 for some 'Driver Options').
- It is recommended that of the project sites, at least one will be designated as a 'best practice' site – one at which small-scale FE development is working well, and can therefore provide models of structures and processes to guide implementation at other sites.
- Terms of Reference (ToR) for external service providers required in initial phases should be drafted, and selection/appointment finalised.

Project funding needs to be sourced. The (UK) Department for International Development (DFID) is presently providing support for institutional transformation to the Department of Water Affairs and Forestry (DWAF); the Danish Co-operation for Environment and Development (DANCED) is providing support to DWAF for the building of capacity to operationalise participatory forest management (PFM) at regional and local level. Both organisations could be approached for funding and/or other co-operation possibilities.

APPENDIX 3

AN OUTLINE FOR A POTENTIAL WORK PLAN FOR PURSUING SMFE WORK IN SOUTH AFRICA

The following definitions apply to the headings used in the Table below:

- Activity: the activity in which project participants will engage for project set-up and roll-out
- Purpose: the purpose which each activity is intended to achieve
- Who: identifies stakeholders or stakeholder groups to which a particular item in the Table refers
- Time Frame: the recommended time period during which the activity in question should occur
- Likely Capacity Requirements: an assessment by the team of the capacity required to engage in a particular activity or process and/or to achieve a particular purpose
- Checklist/Options: issues which need to be given consideration by stakeholders, or a set of options for a particular issue

Outline of Work Plan

PHASE 1: PARTICIPATORY SCOPING PROCESS ⁷ - MONTHS 1 - 3					
ACTIVITY	PURPOSE	WHO	TIME FRAME	LIKELY CAPACITY REQUIREMENTS	CHECKLIST / OPTIONS
1.1 Identification (ID) of stakeholders (SHs), SH needs and interests, and definition of primary and secondary SHs	For all activities in this phase: 1.1 Shared understanding and vision of wider project and forestry enterprise (FE) development	1.1 Driver Options: Small team (of SHs) operating as interim steering committee (SC) ⁸ Project manager and/or co-ordinator Facilitator until ongoing project structures agreed to	1.1 Immediate, iterative and ongoing throughout project cycle to capture new SHs and emerging issues	Focus on primary SHs, but all SHs: 1.1 Understand institutional framework including policy and legislation, tools and mechanisms for SMFE dev., culture-specific issues, gender and youth related issues, dev. trends and debates ⁹	1.1 Ensure understanding of multiple livelihoods strategies of poor rural people
1.2 ID and prioritisation of issues	1.2 SHs take ownership of and responsibility for project	1.2 Primary SHs provide basis and receive support and input from other SHs in this process, which should be intended to capture needs and aspirations of	1.2 Entire phase completed within months 1-3 of project cycle	1.2 Can engage in group processes according to democratic principles to	1.2 Ensure understanding of role of local govt in local level planning and integrated development planning (IDP)
1.3 ID of Small & Medium Forestry Enterprises (SMFEs) opportunities	1.3 Internalisation of experience and learnings through active participation				
1.4 Participatory ID of project and 'best practice' site/s					1.3 Ensure inclusion

⁷ Although this report and other project related documentation should be sufficient to provide a working framework from which to proceed, it is crucial that stakeholders themselves actively participate in the finalisation and 'fine-tuning' of the framework

⁸ until all stakeholders are on board and come to final agreement about project management and co-ordination structures and processes

⁹ For example, whether to work with community groups or individual households

¹⁰ Not limited to this phase, but ideally undertaken early

¹¹ Such as fluid institutional framework, lack of access to rural finance

PHASE 1: PARTICIPATORY SCOPING PROCESS ⁷ - MONTHS 1 - 3					
ACTIVITY	PURPOSE	WHO	TIME FRAME	LIKELY CAPACITY REQUIREMENTS	CHECKLIST / OPTIONS
<p>1.5 ID of existing resources/skills of SHs, and of capacity building requirements</p> <p>1.6 ID and prioritisation of initial research requirements</p> <p>1.7 Agree to interim structures and processes</p> <p>1.8 SHs begin to compile FE Toolkit: operational guidelines, process issues, emerging lessons, best practice examples and resource list</p>	1.4 Inclusiveness	primary SHs, and clarify roles, rights and responsibilities of each SH/SH group		<p>ensure openness, transparency and strict adherence to accountability requirements eg. minute-taking, report-back, M&E</p> <p>1.3 Participants can capture, interpret and accommodate in planning and implementation lessons learned and responses to these</p> <p>Capacity Building for specific SH groups¹⁰</p> <p>Business: Basic understanding of multiple rural LH strategies and challenges to successful livelihood outcomes¹¹</p> <p>Municipal / district government: Role of forestry in LED; forestry as a land use option; incorporation of project land use changes into IDP; support required by SMFEs and how to provide this support</p> <p>Provincial government: Incorporation of forestry as land use into provincial planning frameworks</p> <p>DWAF (National): Has clarity on mechanisms such as Community-Public-Private Partnerships (CPPPs) and</p>	<p>of marginal individuals and/or households</p> <p>1.4 Ensure clarity on wider (national) and local level project (FE) structures and processes, with clear co-ordination and integration mechanisms</p> <p>1.5 Ensure recording of operational guidelines, etc for Toolkit</p>

PHASE 1: PARTICIPATORY SCOPING PROCESS ⁷ - MONTHS 1 - 3					
ACTIVITY	PURPOSE	WHO	TIME FRAME	LIKELY CAPACITY REQUIREMENTS	CHECKLIST / OPTIONS
				can inform SHs of how to select and operationalise if necessary	

PHASE 2: PARTICIPATORY VISIONING AND PLANNING – MONTHS 4 - 10					
ACTIVITY	PURPOSE	WHO	TIME FRAME	LIKELY CAPACITY REQUIREMENTS	CHECKLIST / OPTIONS
<p>2.1 Development of five-year vision and plan that includes: Goals, strategy, activities, roles and responsibilities, available and required resources and capacity, time frames, M&E and review mechanisms, social, environmental and economic (SEE) targets, criteria and indicators, better business targets, criteria and indicators, budget, dispute resolution mechanisms, funding sources, resource list</p> <p>2.2 Design and institutionalise project structures and processes (national and local levels)</p> <p>2.3 ID specific SMFEs at local level which will receive project support</p> <p>2.4 Develop two-year plan showing broad objectives of individual projects/project clusters</p>	<p>2.1 SHs develop shared understanding, vision and goals, and jointly define way forward</p> <p>2.2 Organisational framework for project implementation in place</p> <p>2.3 Completed preliminary plans available</p> <p>2.4 Clear understanding among SHs of finitude of project support; this taken into account and planned for</p> <p>2.5 Foundation for project sustainability built from project inception</p>	<p>2.1 Strategic visioning and planning to be undertaken by primary SHs only, but other SHs may be brought on board for one reason or another (e.g. to develop capacity)</p>	<p>2.1 Initially in this phase, but with ongoing M&E, review and re-planning (action learning)</p> <p>2.2 Phase completed within months 4-10</p>	<p>2.1 Strategic visioning and planning</p> <p>2.2 The 'how-to' of SMFE development, operation and management; and assessment of options</p> <p>2.3 Participatory decision-making, conflict management and negotiations skills to ensure that all SHs can engage on equal terms in final selection of implementation options, terms of agreements, etc.</p> <p>2.4 Compilation of business plans</p> <p>2.5 Can define and plan for achievement of social, environmental and economic (SEE) goals</p> <p>2.6 Understanding of legal, legislative, regulatory and administrative requirements, including whether or not a constitution and / or legal entity need to be formed,</p>	<p>2.1 Ensure clarity on respective SHs' roles, rights and responsibilities</p> <p>2.2 Update Toolkit</p>

PHASE 2: PARTICIPATORY VISIONING AND PLANNING – MONTHS 4 - 10					
ACTIVITY	PURPOSE	WHO	TIME FRAME	LIKELY CAPACITY REQUIREMENTS	CHECKLIST / OPTIONS
2.5 Develop one-year operational plan 2.6 Jointly develop clear exit strategy and time-frame 2.7 Jointly develop post-project sustainability plan				and how to appropriately select from options 2.7 Participatory / action research skills	

PHASE 3: PARTICIPATORY FEASIBILITY ASSESSMENT – MONTHS 10 - 12					
ACTIVITY	PURPOSE	WHO	TIME FRAME	LIKELY CAPACITY REQUIREMENTS	CHECKLIST / OPTIONS
<p>3.1 Subject vision and plans to reality check through commissioning of feasibility assessments based on following targets and criteria developed in Phase 2, Visioning and Planning: SEE criteria</p> <p>Anticipated LH-enhancement outcomes</p> <p>Anticipated better business outcomes</p>	<p>3.1 Assess plans for sustainability and success in achieving desired project outcomes</p> <p>3.2 Thereby enable informed selection of implementation options</p>	<p>3.1 Primary SHs, external input / expertise likely to be needed</p>	<p>3.1 This phase, but all plans should be seen as flexible working documents to be modified continuously in line with emerging lessons learned</p> <p>3.2 Phase 3 to be completed within months 10-12</p>	<p>3.1 Technical¹²: Project management Business development and management, including financial and human resource management (HRM) Sustainable Forest Management SFM (social, environmental, economic aspects) Skills specific to particular enterprise e.g. outgrower scheme</p>	<p>3.1 Different SHs may be well suited to provide internal capacity building, e.g. business could assist with research & development (R&D), production, processing and marketing strategies</p>

¹² It is likely that at least some aspects of this feasibility assessment will be undertaken by external SHs; for this reason, this phase could concentrate on capacity building for this and the next two phases

PHASE 4: PARTICIPATORY FINALISATION OF PLANS IN LINE WITH FEASIBILITY ASSESSMENT OUTCOMES AND PARTICIPATORY PROJECT PREPARATION – MONTHS 12 - 14					
ACTIVITY	PURPOSE	WHO	TIME	LIKELY CAPACITY REQUIREMENTS	CHECKLIST / OPTIONS
4.1 Finalise plans in line with feasibility assessment outcomes	4.1 Finalisation of plans in readiness for operationalisation	4.1 Primary SHs	4.1 In this phase, but ongoing adaptive mgt should be practised throughout project cycle	4.1 Understanding requirement for legal entity and different options available ¹⁵ ; how to select a legal entity; likely losses and benefits, and for whom; appropriateness of a particular legal entity for the SMFE in question; legal and administrative requirements for legal entity formation; alternatives to establishment of a legal entity; establishing and managing a legal entity	4.1 Ensure all SHs have been included, and clarity on roles and responsibilities developed
4.2 If required,(where formal organisational structure formed) participatory development of constitution ¹³	4.2 Appropriate formal structures in place		4.2 Ongoing support necessary for remainder of project cycle		4.2 Ensure M&E ongoing
4.3 Establishment of selected legal entity if necessary	4.3 Mechanism for participatory processes in place		4.3 Completed within months 12-14		4.3 Review SH list, include new SHs if necessary
4.4 Capacity building ¹⁴	4.4 Required capacity developed				4.4 Revisit/add to list of research needs and commission such research
4.5 Ongoing development and recording of best practice examples e.g. model constitution, steps for legal entity formation	4.5 Internalisation of learnings				4.5 Update Toolkit

¹³ There may be circumstances in which a formal body and/or legal entity may not have to be formed – two examples being if a municipality were mandated by a community to administer community development funds according to an agreement between them, and if the project works at individual household rather than group or community level

¹⁴ Will have been ongoing but additional space created here for capacity required in next, implementation, phase

PHASE 5: PARTICIPATORY OPERATIONALISATION OF PROJECT SUPPORT TO SMFEs– MONTH 14 ONWARDS					
ACTIVITY	PURPOSE	WHO	TIME	LIKELY CAPACITY REQUIREMENTS	CHECKLIST / OPTIONS
5.1 Launch SMFEs	5.1 Individual or SMFE clusters operational	5.1 Primary SHs with support from other SHs as and when necessary on basis of rights, roles and responsibilities clarified in Phases 2 and 4 - Visioning & Planning	5.1 From month 14 onwards	5.1 Project mgt 5.2 Business / enterprise mgt 5.3 SFM and use 5.4 Skills for selected FE	5.1 Review support options, include new possibilities

PHASE 6: PARTICIPATORY MONITORING AND EVALUATION, REVIEW, ASSESSMENT AND RE-PLANNING ¹⁶					
ACTIVITY	PURPOSE	WHO	TIME FRAME	LIKELY CAPACITY REQUIREMENTS	CHECKLIST / OPTIONS
6.1 Ongoing M&E and review systems in place 6.2 Annual, two-year and five-year cycle of M&E and review takes place 6.3 Adapt plans on basis of M&E / review (completion of action learning cycle)	6.1 Ensure ongoing learning and internalisation through practical experience and review 6.2 Ensure accountability of all SHs through M&E of progress and delivery on agreements	6.1 Primary and secondary SHs	6.1 Short-term M&E should occur at six-monthly intervals 6.2 Review / evaluation to follow annual, two-year and five-year planning cycle	6.1 Participatory M&E / review skills 6.2 All SHs equally able to hold other SHs to account on basis of jointly agreed objectives and targets, may require targeted capacity building of less empowered and resourced SHs	6.1 Seek support from internal or external SHs for capacity building 6.2 SHs are clear about their rights

¹⁵ Caution must be exercised in selecting an appropriate legal entity – each option has particular advantages and disadvantages; some projects have failed because of insurmountable problems in how the legal entity operates, and the sequelae, particularly on social capital

¹⁶ M&E and reviews will be ongoing from project inception, this phase will therefore run concurrently with other phases

PHASE 7: PROJECT CLOSURE PHASE – MONTHS 33 - 36					
ACTIVITY	PURPOSE	WHO	TIME FRAME	LIKELY CAPACITY REQUIREMENTS	CHECKLIST / OPTIONS
7.1 Sustainability plan for local enterprises developed and implemented 7.2 Complete requirements of exit strategy.	7.1 Structures and mechanisms for sustainability in place and operational	7.1 Primary and secondary SHs, project structures (eg. project co-ordinator)	7.1 Months 33-36	7.1 Clarity on factors promoting or constraining social, economic and environmental sustainability and ways of operationalising and maintaining them	7.1 Ensure completion and distribution of Toolkit

APPENDIX 4

POTENTIAL WORK PLAN FOR THE BUILDING OF CAPACITY & ACTION RESEARCH FOR SMFE DEVELOPMENT

The following definitions apply to the headings used in this Table:

- Capacity Requirements: Details likely capacity, skills and/or training required to engage with processes resulting in forest enterprise (FE) development and operation of such enterprises.
- Delivery Options / Duration of Intervention: This column lists suggestions of how required capacity building could be delivered, for example, through workshops, and the number of days allocated to each intervention. Since some capacity building initiatives will arise or be clarified once the project has started, the number of days reflected in Appendix 3 does not constitute the total number of days required
- Who: Refers to which stakeholders should be targeted for specific capacity building
- Time Frame: Proposes a time schedule and sequencing for capacity building
- Expertise Required: Assesses the kind of expertise required for delivery of recommended capacity development
- Associated Research Options: This column lists research possibilities arising from particular capacity needs or related issues (note that additional suggestions for action research are presented in Section 6)

Proposed work plan for the building of capacity and action research for SMFE development

PHASE 1: PARTICIPATORY SCOPING PROCESS – MONTHS 1 – 3					
CAPACITY REQUIREMENTS	DELIVERY OPTIONS / DURATION OF INTERVENTION	WHO	TIME FRAME	EXPERTISE REQUIRED	ASSOCIATED RESEARCH OPTIONS
1. Understand institutional framework within which project embedded	<p>1.1 Facilitated participatory w/s, focussing on lived experience of primary SHs, 1 day</p> <p>1.2 Facilitated PRA exercises, 1 day x 3 over project duration</p> <p>1.3 On-site mentoring¹⁷</p>	<p>1.1 Focus on primary SHs but all other SHs should have exposure to at least basics</p> <p>1.2 Primary SHs, other SHs participate if/as necessary (e.g. municipalities could help with demographic information)</p>	1.1 First intervention within months 1-3 of project inception; annual review and update	<p>1.1 External facilitator, training institution or qualified internal SH</p> <p>1.2 Facilitator with PRA expertise</p>	<p>1.1 Policy and legislative scan including rights of SHs</p> <p>1.2 Location-specific issues – race, class, gender, politics, culture, HIV-Aids (impact on business, labour, household & community livelihoods)</p>
2. Understand how to set and plan for achievement of SEE criteria (see Table 5.1, Phase 2)	2.1 Facilitated PRA exercises with field trip to business partner and household/s/community of project participants, 2 days	2.1 Primary SHs	2.1 Months 1-3, and prior to Phase 2	2.1 External facilitator, or training institution	
3. Can engage in democratic group processes—capacity building for : leadership and chairing skills, especially for women and youth, and minute-taking, quorums, voting, etc.	3.1 Initial 1 day facilitated w/s, then target individuals for support throughout project, 1 day/month for first year, reduced to 1 day quarterly in 2 nd yr	3.1 Initial w/s: primary SHs, then ongoing support to targeted, least-empowered group	3.1 Initial w/s within months 1-3 followed by ongoing support as outlined	3.1 External facilitator	

¹⁷ Explained in point 2.10 above. It is included in this first box as a reminder, but will not be repeated in the rest of the table.

PHASE 1: PARTICIPATORY SCOPING PROCESS – MONTHS 1 – 3					
CAPACITY REQUIREMENTS	DELIVERY OPTIONS / DURATION OF INTERVENTION	WHO	TIME FRAME	EXPERTISE REQUIRED	ASSOCIATED RESEARCH OPTIONS
4. Understanding and monitoring of (multiple) rural livelihoods (LHs) strategies using PRA methods	4.1 4-day participatory and experiential w/s on sustainable livelihoods (SL) approach and potential role of FE dev in LHs enhancement, using PRA	4.1 Primary SHs 4.2 Other interested SHs (CBOs, NGOs, researchers, etc)	4.1 It would be optimal if the w/s takes place prior to Phase 2 (Visioning/Planning); it should not occur later than Phase 4 (Finalisation of Plans)	4.1 (For capacity building purposes only, i.e. not as external researcher): Facilitator, training institution or NGO with appropriate expertise	4.1 <u>Strongly recommended</u> : A facilitated longitudinal LHs analysis and monitoring with focus on benefits/losses to LHs from participation in project, and benefits/losses to business, undertaken by primary SHs – to provide baseline and project impact data

PHASE 2: PARTICIPATORY STRATEGIC VISIONING AND PLANNING – MONTHS 4 – 10					
CAPACITY REQUIREMENTS	DELIVERY OPTIONS / DURATION OF INTERVENTION	WHO	TIME FRAME	EXPERTISE REQUIRED	ASSOCIATED RESEARCH OPTIONS
1. Understand small & medium enterprise (SME) and forestry enterprise (FE) development: policy; legislative, regulatory, administrative requirements	1.1 Initial 2-day w/s followed by 1-day w/s annually for update and incorporation of emerging lessons	1.1 Primary SHs 1.2 Secondary SHs where appropriate, e.g. develop understanding in local govt. of SMFE development	1.1 Beginning of this phase, annually thereafter	1.1 Business partner or external technical expertise (Dept of Trade and Industry (DTI) may be able to provide useful input on SME dev; DWAF to provide input on forestry legislation, policy and regulatory and administrative requirements)	1.1 Role of FE development in local economic development (LED) 1.2 Develop and field-test production and processing systems 1.3 Analyse financial and organisational viability of different business models 1.4 How to ensure achievement of social, economic and

PHASE 2: PARTICIPATORY STRATEGIC VISIONING AND PLANNING – MONTHS 4 – 10					
CAPACITY REQUIREMENTS	DELIVERY OPTIONS / DURATION OF INTERVENTION	WHO	TIME FRAME	EXPERTISE REQUIRED	ASSOCIATED RESEARCH OPTIONS
					environmental (SEE) goals in FE development 1.5 Develop partnership with local govt structures and/or traditional leaders to research how different land tenure systems impact on SMFE dev.
2. Women, youth and members of other marginal households can engage on equal terms in visioning and planning process	2.1 Regular focus group sessions in areas such as leadership development; chairing skills, meeting procedures. Intensity of capacity building to decrease over project duration, Phases 1- 4 monthly, Phases 5 - 7 bimonthly	2.1 Selected marginal or excluded individuals/households ¹⁸ with findings and lessons communicated to business partner/s	2.1 Immediately after identification of SHs; minimum of three sessions prior to visioning and planning	2.1 Local CBO/s, NGO/s or external facilitator	2.1 Assessment of capacity/training needs of poorest households; monitoring of capacity building initiatives and impact on ability to engage in SMFE dev.
3. Can engage in participatory strategic visioning and planning	3.1 Facilitated participatory 2-day w/s prior to Phase 2	3.1 Initially primary SHs separately and then jointly, then include secondary SHs as necessary throughout project cycle	3.1 After consensus reached by SHs on accuracy of information generated in Phase 1 (Scoping)	3.1 External facilitator or NGO with strategic visioning and planning expertise	
4. Design and compilation of business plans	4.1 1 day participatory w/s	4.1 Primary SHs – business partner/s should participate in development of business plan, might also be able to provide training on how to	4.1 May also take place during Phases 3 or 4	4.1 Business partner, NGO, DTI agents	

¹⁸ Poorest and/or marginal/excluded households in Southern Cape identified by local stakeholders in Horn (2002) include women-headed households, those with HIV/AIDS sufferers, those with unemployed school-leavers, pensioners, domestic and farm workers, amongst others.

PHASE 2: PARTICIPATORY STRATEGIC VISIONING AND PLANNING – MONTHS 4 – 10					
CAPACITY REQUIREMENTS	DELIVERY OPTIONS / DURATION OF INTERVENTION	WHO	TIME FRAME	EXPERTISE REQUIRED	ASSOCIATED RESEARCH OPTIONS
		formulate a business plan			
5. Conflict management and communication and negotiation skills ¹⁹	5.1 Participatory w/s x 2 days x 2 (see WHO column)	5.1 Primary SHs, but recommended that capacity for this critical aspect of participatory processes is built separately in the two primary SH groups	5.1 As early as possible in process, but not later than Phase 4 – Finalisation of Plans	5.1 Facilitator, NGO or other appropriate external expertise (should not, for example, be conducted by either of the primary SH groups)	5.1 Longitudinal study over project cycle of impact of the project on social capital in primary SH groups

PHASE 3: PARTICIPATORY FEASIBILITY ASSESSMENT – MONTHS 10 – 12					
CAPACITY REQUIREMENTS	PROPOSED DELIVERY OPTIONS / DURATION OF INTERVENTION	WHO	TIME FRAME	EXPERTISE REQUIRED	ASSOCIATED RESEARCH OPTIONS
1. Development of : SEE criteria livelihoods -enhancement / wealth -creation goals better business goals 2. Ability to evaluate plans on basis of jointly developed criteria / goals	1.1 Participatory w/s, 1 x 2 days	1.1 Primary SHs	1.1 Capacity building should happen prior to or during this phase, ongoing monitoring to occur throughout project cycle	1.1 External facilitator/trainer, NGO or qualified internal SH with expertise in following areas: SFM SFE development social development environmental awareness	1.1 Longitudinal research by primary SHs on impacts of their activities on achievement of SEE goals

¹⁹ These have been linked so that capacity is built to engage in negotiations as one means of preventing, resolving or managing the conflict that will inevitably arise in multi-stakeholder processes, particularly around desired outcomes

PHASE 4: PARTICIPATORY FINALISATION OF PLANS IN LINE WITH FEASIBILITY ASSESSMENT OUTCOMES & PROJECT PREPARATION- MONTHS 12 - 14					
CAPACITY REQUIREMENTS	PROPOSED DELIVERY OPTIONS / DURATION OF INTERVENTION	WHO	TIME FRAME	EXPERTISE REQUIRED	ASSOCIATED RESEARCH OPTIONS
1. Capacity for this phase should have been developed in the preceding two phases, but ongoing support for the process should be made available to local participants	1.1 <i>In situ</i> mentoring or facilitation	1.1 Primary SHs	1.1 Plans should be seen as dynamic process working tools, reviewed and adapted regularly in line with emerging lessons – support should therefore be ongoing	1.1 Will follow from Phase 2	
2. If required, i.e. where formal organisational structure formed, participatory development of constitution ²⁰	2.1 Participatory w/s x 2 days	2.1 Local project participants	2.1 Once off during this phase	2.1 Facilitator or NGO	2.1 Source best practice or case studies to learn from previous processes

²⁰ There may be circumstances in which a formal body and/or legal entity may not have to be formed – two examples being if a municipality were mandated by a community to administer community development funds according to an agreement between them, and if the project works at individual household (rather than group or community level)

<p>3. Understanding of requirement for legal entity and different options; how to select a legal entity; likely losses and benefits, and for whom; appropriateness of a particular legal entity for the SMFE in question; legal and administrative requirements for legal entity formation; alternatives to establishment of a legal entity; ability to establish selected option or alternative choice; managing a legal entity</p>					
--	--	--	--	--	--

PHASE 5: PARTICIPATORY IMPLEMENTATION OF PROJECT AT LOCAL LEVEL – MONTH 14 ONWARDS					
CAPACITY REQUIREMENTS	DELIVERY OPTIONS / DURATION OF INTERVENTION	WHO	TIME FRAME	EXPERTISE REQUIRED	ASSOCIATED RESEARCH OPTIONS
<p>1. Technical FE development and implementation expertise</p>	<p>1.1 To be decided when nature of SMFE known</p>	<p>1.1 Primary SHs</p>	<p>1.1 Intense capacity development during this phase, thereafter regular ongoing on-site mentoring</p>	<p>1.1 Business partner, or facilitator / NGO with appropriate expertise</p>	<p>1.1 Value-added local processing: ID opportunities and SHs</p>
<p>2. Basic business skills including financial mgt & human resource mgt (HRM)</p>	<p>2.1 Participatory w/s x 4 days, with ongoing <i>in situ</i> support 1 day/month, reduced to 1 day quarterly for rest of project duration</p>	<p>2.1 Primary SHs- resource-poor participants</p>	<p>2.1 Prior to or during this phase, with ongoing support</p>	<p>2.1 Business partner (best option), facilitator or NGO</p>	<p>2.1 Various production and/or processing systems</p>

PHASE 6: PARTICIPATORY MONITORING AND EVALUATION, REVIEWS AND RE-PLANNING – THROUGHOUT PROJECT CYCLE					
CAPACITY REQUIREMENTS	PROPOSED DELIVERY OPTIONS / DURATION OF INTERVENTION	WHO	TIME FRAME	EXPERTISE REQUIRED	ASSOCIATED RESEARCH OPTIONS
1.1 Participatory M&E, internal reviews and evaluations: finalise M&E systems developed in Phase 2 – Planning; implement systems; develop clarity re accountability and reporting lines	1.1 Participatory w/s in line with systems designed by SHs	1.1 Focus on primary SHs (local level and wider national projects), but all active SHs should participate in M&E/review processes for individual local level projects as well as wider (national) project	1.1 First w/s prior to or during this phase	1.1 NGO, facilitator	1.1 Develop best practice operational guidelines over project cycle (for update to Toolkit)

PHASE 7: PROJECT CLOSURE - MONTHS 33 - 35					
CAPACITY REQUIREMENTS	DELIVERY OPTIONS / DURATION OF INTERVENTION	WHO	TIME FRAME	EXPERTISE REQUIRED	ASSOCIATED RESEARCH OPTIONS
1. Primary SHs able to continue competently without project support	1.1 Assess whether outstanding capacity building requirements, develop plan if yes – for this and 2. below, participatory w/s x 1 day	1.1 Focus on primary SHs, but also applicable to other SHs	1.1 Over last quarter of third and final year of project cycle	1.1 SHs should assess this themselves, through internal facilitated process	
2. Primary SHs (especially local people) able to source alternative support when project terminated ²¹	2.1 See 1.1 above	2.1 Primary SHs	2.1 Should have been ongoing, but finalise in this phase	2.1 SHs themselves	2.1 Completion of SMFE Toolkit

²¹ Should partly derive from ongoing resource list and operational guidelines of SMFE Toolkit developed since project inception

In South Africa, Small and Medium Forest Enterprises (SMFEs) vary with forest and product type. They are spread across the plantation sector and natural forests and woodlands. They involve both timber and non-timber forest products and services. Current policy, institutions, and financing arrangements do not generally create an enabling environment for SME establishment among the rural poor. Despite a number of government institutions to support (Ntsika) and improve access to finance (Khula Enterprises) to SMEs, there is little evidence to support the effectiveness of these initiatives in the forest sector. There is therefore a strong rationale for an SME development programme that could significantly increase the human and social capital within poor rural communities in South Africa. The establishment of networks and partnerships between important role players and stakeholders will be critical. This study lays out some steps toward that end.

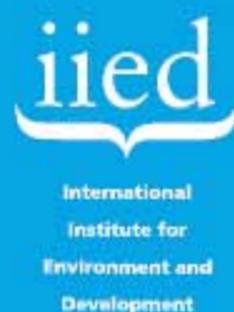
This study was commissioned as part of a cross-country initiative coordinated by the International Institute for Environment and Development (IIED) on Small and Medium Forest Enterprise. Most international attention in forestry has been given to improving the conditions for large-scale or micro-scale forestry, and much less to the 'messy middle' – which produces a high proportion of forest product and involves huge numbers of people. The aim of these studies is to raise the visibility of SMFEs and assess ways by which they can better contribute to reducing poverty and improving the prospects for sustainability.

IIED Small and Medium Forest Enterprises Series No. 7

ISBN number 1 84369 551 0



Institute of Natural Resources



International
Institute for
Environment and
Development

