

Small-medium Forestry Enterprises for Poverty Reduction and Sustainability¹

Partners of the International Institute for Environment and Development (IIED) have been working in Brazil, China, Guyana, India, South Africa and Uganda to identify approaches by which Small and Medium-sized Forest Enterprises (SMFE) can better contribute to sustainable livelihoods. Six diagnostics reports identify policy and institutional gaps caused by the predominant international focus either on large-scale or micro-scale community forestry. An ongoing programme of work is seeking to redress this imbalance.

SMFEs make up a significant proportion of the forest sector in any country – usually in the range of 80-90 per cent (e.g. 92 per cent of the production volume of forest industries in the Brazilian Amazon) – except in high-tech capital intensive operations such as pulp and paper manufacture. They also employ significant proportions of the labour force (often exceeding 50 per cent) and thus contribute substantial amounts of income through formal channels. But, particularly at the small end of their size spectrum, SMEs also contribute a substantial amount into the informal economy – an estimated 41 per cent of gross national income in developing countries with evidence to suggest that the forestry sector is no exception.

There are three distinct reasons why a specific focus on SMFEs might be important for biodiversity:

- (i) pragmatism – their sheer numbers and proportion of production;
- (ii) pessimism – whether or not they offer the best solution to biodiversity concerns, they are currently failed by markets and institutions and this deserves specific redress;

1. Case study provided by Duncan MacQueen, Senior Research Associate, IIED Forestry and Land Use Programme



(iii) optimism – SMFEs, by dint of their small scale, have the potential to form part of an alternative, more humane and environmentally sustainable future.²

The potential contribution of SMFEs to biodiversity conservation lies in four areas: (i) patterns of ownership, related profit motives and local accountability (ii) patterns of tenure resulting in a geographical ‘patchwork’ at the landscape level (iii) patterns of investment setting limits on the technological ascendancy over nature and (iv) patterns of supply and demand that often cater to diverse and culturally distinct product and service types.

The geographical dispersal of SMFEs, however, and their administrative informality create considerable transaction costs for those seeking to engage with SMFEs – not least those seeking to promote biodiversity conservation. Options to reduce these costs have varied from measures progressively to eliminate SMFEs (e.g. in Mozambique) to those fostering SMFE associations (e.g. in Guyana). Co-ordination into such associations is an important step in improving information flows, introducing scale-efficient and biodiversity-friendly production techniques and redressing power imbalances.

The multiple forces of globalisation have led to examples of both massive failure among some categories of SMFE and (less often) rapid growth among others. The evolution of value chains often maintains SMFEs in lower production and processing tiers where low entry requirements, fierce competition and pressure from powerful buyers combine to keep both standards and profits low. The transition from low to high competition markets has often put additional pressure on the institutional structures governing resource access and use, to the detriment of SMFEs’ impact on biodiversity.

Global pressures for biodiversity-friendly and equitable trade have resulted in many new standards, which themselves have faced difficulties in overcoming the transaction costs associated with small scale. Corporate responsibility among SMFEs is in its infancy and greater freedom from economic survivalist imperatives will be required for it to become widespread. Underlying the fragile state of many SMFEs is an implicit or explicit prejudice against small-scale operation on account of their poor social and environmental record and frequent invisible contribution in relation to the formal economy. While there is solid evidence behind the scepticism about SMFEs, ongoing work suggests that there is often a correlation between the responsibility of SMFEs and the trust placed in them as demonstrated by the creation of an enabling environment. This will be the key to their future success or failure.

2. This latter approach is argued for in Macqueen D.J. and Mayers, J. (2004) *Desirably diminutive: revisiting the main issues pertaining to small and medium forest enterprises*. International Institute for Environment and Development, Edinburgh (unpublished draft) – drawing on the SME reports to be found at http://www.iied.org/forestry/research/projects/sm_med_entprise.html