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Advancement through association: Appropriate support for associations of small and medium forest enterprises

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I. INTRODUCTION

Small-scale enterprises are vital to the lives of a high proportion of poor people around the world. Associations among such enterprises can strengthen their position – by reducing costs, amplifying benefits and putting small-scale businesses in a position where they can effectively engage with big business and governments. In this chapter, the focus is primarily on the forest sector, and small- and medium-scale forest enterprises (SMFEs). SMFEs are often defined as enterprises with fewer than 100

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Both well-being and its converse – poverty – have several dimensions. Well-being is defined here in terms of six dimensions: material subsistence, security, relational equity, creativity and fulfilment at work, intellectual discernment, and cultural identity

employees⁽²⁾, yet this definition is so broad, and the overlap with larger enterprises so extensive, that it blurs many useful insights. Therefore, the interest in this chapter lies primarily with enterprises of fewer than ten employees. Many of these may involve only a single person or one family. Despite the focus on forest enterprises, most of what follows is applicable to small and medium enterprise and associations in other sectors. Indeed, some of the examples include agricultural or artisanal enterprise in partially forested landscapes.

The aim in this chapter is to assess how SMFEs and their associations can contribute to broad human well-being, and to suggest what kinds of external support could enhance their capacity to maximize these benefits. Both well-being and its converse – poverty – have several dimensions. Well-being is defined here in terms of six dimensions: material subsistence, security, relational equity, creativity and fulfilment at work, intellectual discernment, and cultural identity. The Millennium Development Goals (MDGs) set out internationally agreed targets that implicitly link to some of the dimensions of broad well-being. For example, the eradication of extreme poverty and hunger in MDG1 places a strong emphasis on material subsistence. Efforts to provide primary school education (MDG2) and to improve child, maternal and adult health (MDGs 4–6) are also critical preconditions for enhancing material subsistence and for intellectual discernment. The goal of gender equality and women’s empowerment (MDG3) also requires relational equity. Similarly, the goal of environmental sustainability (MDG7) requires a broader approach that takes security, and intellectual discernment, into account. The goal to develop a global partnership for development (MDG8) requires explicit attention to creativity and fulfilment at work – through a focus on youth and making available the benefits of new technologies.

A significant omission in the MDGs is the failure to be explicit about the protection of cultural identity and human



rights (e.g. the rights of indigenous peoples and minorities⁽³⁾). There is little mention of security other than broad environmental security. There is also an undeniable weakness in how the MDG framework separates out economic, social and environmental targets⁽⁴⁾ rather than taking a more integrated approach to sustainability. Yet, for all their weaknesses, the MDGs do provide a clear set of targets. What is less clear is detail on how these targets are to be achieved. For example, there is nothing explicit about building and supporting local institutions for service delivery.

At the smaller scale, SMFEs often provide examples of self-initiated and self-maintained routes to a better standard of living. For example, families and small entrepreneurs collect and sell timber for fuelwood, charcoal or carpentry products, or non-timber forest products such as forest fruit and bushmeat, medicinal plants, craft-work species, honey, gums, oils and resins. Some may also sell services, such as those related to tourism and to conservation. The conditions under which such enterprises operate may not always be ideal. They may not offer much in the way of individual remuneration, and may present serious risks in terms of occupational health and safety. When unregulated, they may also lead to local social conflicts and environmental degradation. Yet, in many cases, they are the only options available to poor people. And before SMFEs are characterized only as options of last resort, it is worth noting that locally governed SMFEs provide many examples of excellent social and environmental impact.⁽⁵⁾

This chapter explores a set of questions around how external agencies might understand and support SMFEs to deliver the best outcomes to locally owned development. How might local institutions like SMFEs and their

For all their weaknesses, the MDGs do provide a clear set of targets. What is less clear is detail on how these targets are to be achieved

3. Corpuz, V T (2005), *Making the MDGs Relevant for Indigenous People*, statement presented to the ECOSOC, 16–17 March, from the UN Permanent Forum on Indigenous Issues (available at: http://www.un.org/esa/socdev/unpfii/news/MDGs/Corpuz_ECOSOC_MDGs.doc).

4. Roe, D (2004), *The Millennium Development Goals and Conservation. Managing Nature's Wealth for Society's Health*, IIED, London, UK.

5. Durst, P B, C Brown, H D Tacio and M Ishikawa (2005), *In Search of Excellence – Exemplary Forest Management in Asia and the Pacific*, Food and Agriculture Organization of the United Nations (FAO) and Regional Community Forestry Training Centre for Asia and the Pacific (RECOFT), Bangkok, Thailand.



What kinds of external support could help poor people to develop their own capacities to capture the economic, social and environmental benefits of small-scale enterprise?

associations contribute to (or undermine) the achievement of the MDGs? Might they have anything additional to offer to well-being, such as strengthening of human rights and supporting cultural identity? What conditions enable or prevent the effective functioning of SMFEs? What kinds of external support could help poor people to develop their own capacities to capture the economic, social and environmental benefits of small-scale enterprise? We consider these questions in turn in the following sections.

II. THE IMPORTANCE OF SMALL AND MEDIUM FOREST ENTERPRISES (SMFEs) AND THEIR ASSOCIATIONS

SMFEs account for a significant proportion of all forest businesses and jobs. Most statistics on these enterprises fail to differentiate between those with under 10 employees and those with 10–100 employees. Fisseha⁽⁶⁾ estimated that in Bangladesh, Egypt, Honduras, Jamaica, Sierra Leone and Zambia, SMFEs of up to 100 employees made up 37–80 per cent of forest enterprises and 42–63 per cent of forestry employees. In Brazil, May et al⁽⁷⁾ note that SMFE forest-harvesting operations, wood-processing enterprises and furniture manufacturers make up 98–99 per cent of enterprises and 49–70 per cent of employees. In Guyana, Thomas et al⁽⁸⁾ record that SMFEs make up 93 per cent of enterprises and 75 per cent of employment.

In many countries, a substantial proportion of SMFEs may be “informal” and their work and numbers not captured in official business statistics.⁽⁹⁾ For example, Saigal and Bose⁽¹⁰⁾ describe widespread under-reporting of employees in the

6. Fisseha, Y (1987), “Basic features of rural small-scale forest-based processing enterprises in developing countries” in FAO (editor), *Small-scale Forest-based Processing Enterprises*, Forestry Paper 79, FAO, Rome, Italy.

7. May, P H, V G Da Vinha and D J Macqueen (2003), *Small and Medium Forest Enterprise in Brazil*, Small and Medium Forest Enterprises Series, No. 3. Grupo Economia do Meio Ambiente e Desenvolvimento Sustentável (GEMA) and International Institute for Environment and Development (IIED), London, UK.

8. Thomas, R, D J Macqueen, Y Hawker and T DeMendonca (2003), *Small and Medium Forest Enterprise in Guyana*, Small and Medium Forest Enterprises Series, No. 5, Guyana Forestry Commission (GFC) and International Institute for Environment and Development (IIED), London, UK.

9. Chuta, E (1987), “Growth and dynamism among rural small-scale enterprises: information gaps” in FAO (editor), *Small-scale Forest-based Processing Enterprises*, Forestry Paper 79, FAO, Rome, Italy.

10. Saigal, S and S Bose (2003), *Small-scale Forestry Enterprise in India*, Small and Medium Forest Enterprises Series, No. 6, Winrock International India (WII) and International Institute for Environment and Development (IIED), London, UK.



SMFE sector in India, to avoid compliance with India's detailed labour laws. From a government perspective, SMFEs are often difficult to deal with and collect revenues from. SMFEs may remain in the informal economy because the burden of administrative formality is too high, because the skills and technologies available to them do not allow compliance, or because they may have to cut social and environmental corners to remain competitive with larger-scale enterprise. Such practice reduces security and opportunity, stifling creativity and social and environmental responsibility – the classic “race to the bottom”.

Yet SMFEs can often represent dynamic individuals and communities improving their livelihoods and their environment. For example, in Guyana the North Rupununi District Development Board of the Makushi Indians has helped to develop a very successful eco-lodge at Surama village, from where tourists can see giant otters. In Malawi, a local community in Salima district developed a profitable tree nursery to sell seedlings to adjacent community reforestation projects. In the Philippines, local farmers plant up the sloping hills or *muyongs* between rice paddy with species that can be collected and sold for fuelwood, construction, carving, basket making, food, medicinal plants and natural insecticide.⁽¹¹⁾

In many cases, the small initial investment needed to set up SMFEs make them accessible to poor people. Entry into the market place can diversify the economic portfolio of poor rural households, increasing livelihood security. The equity of opportunity in small-scale enterprise can strengthen networks and alliances, and emerging business skills allow specialization. Such creativity can generate a patchwork of production activities that offers greater diversity than either uniform small-scale subsistence options or large-scale monoculture alternatives. Local specialization can also enhance a positive cultural identity – if geared towards local market preferences. But policy and market environments

In the Philippines, local farmers plant up the sloping hills or *muyongs* between rice paddy with species that can be collected and sold for fuelwood, construction, carving, basket making, food, medicinal plants and natural insecticide

11. Rondolo, M T (1999), “The changing Ifugao woodlots: implications for indigenous plant knowledge and diversity”, PhD thesis, Australian National University, Canberra, Australia, 214 pages.



Farmers in Yunnan province, China, have no idea that their forest activities count as “small enterprises”, and such activities are often only part-time or seasonal. But their impact on the forest, and their need for collective action to regulate activity and improve their options, is huge

often squander these positive attributes when they work against, rather than encourage, small-scale entrepreneurial activity.

To counter marginalization by market and policy decision makers, SMFEs often band together. Associations based on mutual interest often form spontaneously, but they also normally require some form of external support along the way. Of note is that many SMFEs do not perceive themselves as enterprises. For example, in China there are millions of small-scale farmers who depend on China’s large collective forests (in Yunnan province, more than 70 per cent of the forest is in collective hands). The farmers have no idea that their forest activities count as “small enterprises”, and such activities are often only part-time or seasonal. But their impact on the forest, and their need for collective action to regulate activity and improve their options, is huge. Reaching these more ephemeral SMFEs and sensitizing them to the benefits of association may require considerable outside support.

III. THE CONTRIBUTION OF SMFES TO THE MILLENNIUM DEVELOPMENT GOALS (MDGS)

SMFEs have the potential to contribute positively to several of the MDGs – but also to undermine them. Table 4.1 identifies some examples of both positive and negative impacts, using the six dimensions of human well-being (material subsistence, security, relational equity, creativity and fulfilment at work, intellectual discernment and cultural identity).

What is striking from a review of such case studies is the critical role of the policy environment in determining positive or negative outcomes. In an enabling environment, SMFEs offer unique opportunities to the poor. Such opportunities can be economically, socially and environmentally sustainable. For example, the Ugandan Nyangole B Community Forest Management Association (in the Tororo Municipal Council) used its collective bargaining power to access 16 hectares of forest land from the National



Forest Authority. The association comprises 132 members (50 women and 82 men) who plant eucalyptus trees for fuel and building materials, trained by the National Forest Authority. The supportive policy environment has allowed the association to flourish. In disabling policy environments, especially where political forces such as taxation or regulation favour large-scale commerce, SMFEs frequently cut social and environmental corners or fade into informality to avoid administration costs.⁽¹²⁾

It is clear that the ability of SMFEs to contribute to achieving the MDGs and other development aims is strongly affected by scale effects. There are both pros and cons of being small-scale (Table 4.2). Without external intervention, the disadvantages of small scale can outweigh any commercial advantages, threatening the survival of SMFEs. The problem is that much external intervention does not provide appropriate policy and assistance but actually tips the balance even further on the side of large-scale enterprise. In the following section, some examples are given of how the “rules of the game” work against, or are made to work against, SMFEs.

IV. RULES OF THE GAME: TIPPING THE BALANCE AGAINST SMFEs?

Table 4.2 charts some of the passive scale effects that bring about positive and negative effects for enterprises of different sizes. These constitute the basic “rules of the game”, which sometimes inflict passive discrimination on SMFEs. But in many instances policy- and decision-makers actively alter these rules, creating active discrimination against SMFEs and in favour of large-scale enterprise. SMFEs that are aware of these policy problems will want to do what they can to influence both government and industry to weight the rules of the game more fairly. However, experience shows that passive or active discrimination is often combined with a deliberate exclusion of small-scale

The problem is that much external intervention does not provide appropriate policy and assistance but actually tips the balance even further on the side of large-scale enterprise

12. Schneider, F (2002). *Size and Measurement of the Informal Economy in 110 Countries around the World*, paper presented at the Workshop of Australian National Tax Centre, 17 July, University of Linz, Linz-Auhof, Austria.

Table 4.1: Example contributions of small and medium forest enterprises (SMFEs) to the Millennium Development Goals (MDGs)

Dimension of well-being / MDGs	Example of a positive SMFE contribution to well-being	Example of a negative SMFE contribution to well-being
Material subsistence – MDGs 1, 2, 4, 5, 6	The Chinese forest sector employs 1.06 million people. SMFEs within the sub-sector of furniture and wood-based building materials account for 90% of the value in that sub-sector. There is often a contrast between larger state firms and non-state SMFEs. SMFEs are particularly important in China's poor mountainous counties. For example, in Liaoning Province 1,450 non-state firms employ 13,000 people, and in Hengreng county the industry accounts for 35% of "agricultural" production. ^a	The Sumo and Miskito indigenous cultures of Nicaragua engage in boom-and-bust enterprises associated with national and international trends in pine lumber, banana and rubber. ^b Temporary economic growth followed by collapse reduces people's capacity to survive and degrades the resources on which that survival depends.
Security – MDG7	There are an estimated 500,000 SMFEs in Uganda comprising small-scale tree farmers and fuelwood users, NTFP* collectors and processors, nursery operators, brick, lime and smoked fish producers, and pastoralists. Most are family-based, seasonal and need only limited investment – vital to the livelihood security of the rural and urban poor. ^c	In South Africa, the SMFE sector is overshadowed by large firms that outsource work to small contractors or buy timber from small outgrowers. High levels of competition are deliberately maintained – leading to many financial stresses, high levels of insecurity and business failure. ^d
Relational equity – MDG3	Zimbabwean women have traditionally run the majority of micro- and small enterprises (67%), tending to concentrate in certain sub-sectors such as mat and basket making, beer brewing and food processing. Small-scale enterprises with flexible working hours are suited to people who need to look after children. ^e	The production of matches by small business was encouraged by Indian government size-restricted excise incentives. But this has not stopped more powerful vested interests from taking over. Currently just 18 families, known as the "Match Kings of India", control 67% of production. ^f
Creativity and fulfilment at work – MDG8	In Nepal, the Shree Binayak Pimidanda Community Forest is not only an exemplary sustainable forest operation but also involves hundreds of local households in the manufacture of hand-made paper – one of the best-managed community enterprises in the country. Valuable administrative, technical, management and business skills have been acquired too. ^g	In China, the lack of clarity over property and resource-use rights, forestry taxes and fees that discriminate against private enterprise have created a sub-sector dominated by large state firms offering few creative opportunities. Only recently have new joint venture and partnership arrangements emerged to encourage small village and household enterprise. ^h
Intellectual discernment – MDG7	Indigenous peoples in the southern states of Mexico, angered by watching their forests degraded by outsiders, fought a successful campaign against imposed concessions and won rights to operate their own micro-enterprises adhering to their own environmental values. ⁱ	In Brazil, timber-extraction SMFEs at the forest frontier have to compete with land-use alternatives such as agricultural and forest plantation – and with the flood of cheap timber coming from illegal agricultural settlement. In remote Amazonian locations, social and environmental values have been sacrificed in the search for profit. ^j
Cultural identity	The Makushi people in Guyana have developed local tourism enterprises that promote local language, dance and weaving. When self-assessing the most important assets within their communities, the Makushi identified culture as a key resource – based in no small part on their sustainable interaction with surrounding forest resources. ^k	Among the North American First Nations, not all believe that the technological advances associated with new SMFEs are positive. For example, the gradual tying in with the seasons of the commercial fur trade has disrupted traditional cultural life in the forest-based communities of Quebec in Canada. ^l

* NTFP: non-timber forest product

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- b. Limi-Nawah (2005), *About us*, online at: <http://www.limi-nawah.com/about.htm> (accessed June 2005).
- c. Auren, R and K Krassowska (2004), *Small and Medium Forest Enterprise in Uganda*, Small and Medium Forest Enterprises Series, No. 8, Uganda Forest Sector Coordination Secretariat and International Institute of Environment and Development (IIED), London, UK.
- d. Lewis, F, J Horn, M Howard and S Ngubane (2004), *Small and Medium Forest Enterprise in South Africa*, Small and Medium Forest Enterprises Series, No. 7, Institute of Natural Resources (INR) Forestry South Africa, Fractal Forests and International Institute of Environment and Development (IIED), London, UK.
- e. Daniels, L (1994), *Changes in Small-Scale Enterprise Sector 1991–1993: Results of a Second Nationwide Survey in Zimbabwe*, Development Alternatives, Bethesda, USA.
- f. Saigal, S and S Bose (2003), *Small-Scale Forestry Enterprise in India*, Small and Medium Forest Enterprises Series, No. 6, Winrock International India (WII) and International Institute for Environment and Development (IIED), London, UK.
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- i. PROCYMAF (2000), proyecto de coservación y manejo sustentable de recursos forestales en México. Informe y avance 1998–2000, Misión de evaluación de medio término, SEMARNAP, Mexico.
- j. May, P H, V G Da Vinha and D J Macqueen (2003), *Small and Medium Forest Enterprise in Brazil*, Small and Medium Forest Enterprises Series, No. 3, Grupo Economia do Meio Ambiente e Desenvolvimento Sustentável (GEMA) and International Institute for Environment and Development (IIED), London, UK.
- k. Mangal, S and J Forte (2003), “Case study – a culture sensitive participatory planning, monitoring and evaluation tool for marginalised indigenous resource managers”, unpublished draft, North Rupununi District Development Board (NRDDB), Rupununi, Guyana; see also Mangal, S and J Forte (2005), *Community Tradeoffs Assessment: for Culture-Sensitive Planning And Evaluation*, IIED Power Tools series, North Rupununi District Development Board (NRDDB) and International Institute for Environment and Development (IIED), London, UK (available at: http://www.policy-powertools.org/Tools/Understanding/docs/community_tradeoffs_tool_english.pdf; accessed June 2005).
- l. Samson, C, J Wilson and J Mazower (1999), *Canada's Tibet – the Killing of the Innu*, Survival International, London (available at: <http://astatine.webfusion.co.uk/~survival/files/books/InnuReport.pdf>; accessed June 2005).

Table 4.2: Commercial scale-related effects on SMFEs

Effect	Advantages	Disadvantages
Political influence	Impacts are significant at local scale and can be used to foster strong local alliances	Small unit impact increases the chance of being ignored by national policy makers
Economic bargaining power	Small volumes permit greater flexibility, reducing losses in changing circumstance	Small volumes result in unfavourable input and output prices
Labour specialization	Can become highly adapted to the needs of one particular group of clients	Limited staff numbers reduce chances of specialization in technical and business administration
Transaction costs	May deliberately bear transaction costs to reach clients that bigger firms might miss	Interactions between multiple small units can cost more than integrated larger enterprises
Access to information	Greater awareness of fluctuations in local demand	The dispersed nature of enterprise units raises costs of distant market information
Research and development	Engagement with immediate clients can allow specialization and local adaptation	Small units lack the surpluses required to engage in research and development



Experience shows that passive or active discrimination is often combined with a deliberate exclusion of small-scale enterprises from the processes by which the rules of the game are established

enterprises from the processes by which the rules of the game are established.

a. Passive scale effects against SMFEs

Many of the effects described in Table 4.2 tend to disadvantage SMFEs. For example, in the South African forest contracting services, profitability is low and competition is high. Many SMFEs cannot afford bank charges on their low profit margins. With few staff, SMFEs find it difficult to do all the paperwork relating to the Unemployment Insurance Fund, district municipality levies, training levies, licensing procedures or banking requirements. Having to pay VAT before receiving fees from contracts adds to their problems. Moreover, SMFEs are rarely granted contracts for more than a year's duration – while financing of vehicles and equipment is typically over a period of three to five years. Growers find it difficult to convince finance houses to grant them loans on trees where the land title is not secure.⁽¹³⁾ All of these subtle “rules of the game” conspire against SMFEs.

A similar picture emerges from Uganda. Microfinance institutions typically provide only short-term loans and small amounts of capital. Big financial institutions like banks deal only with large firms. In addition, SMFEs often have difficulty getting access to market information, such as on emerging markets for carbon offsets or commercial production of medicines using the bark of *Prunus africanum*. Land purchase or lease for processing facilities is often administratively beyond smaller firms – and the heavy bureaucratic demands for registration drive many SMFEs into informality.⁽¹⁴⁾

b. Active discrimination against SMFEs

Powerful decision makers may change the rules of the game to discriminate against SMFEs for pragmatic reasons. For

13. Lewis, F, J Horn, M Howard and S Ngubane (2004), *Small and Medium Forest Enterprise in South Africa, Small and Medium Forest Enterprises Series, No. 7*, Institute of Natural Resources (INR) Forestry South Africa, Fractal Forests and International Institute of Environment and Development (IIED), London, UK.

14. Auren, R and K Krassowska (2004), *Small and Medium Forest Enterprise in Uganda, Small and Medium Forest Enterprises Series, No. 8*, Uganda Forest Sector Coordination Secretariat and International Institute of Environment and Development (IIED), London, UK.



example, in Guyana there has been a recent decreasing trend in issuing small-scale logging licences (State Forest Permissions).⁽¹⁵⁾ Official reasons for this include: closure due to a degraded resource base, the need for a more rigid land allocation system which made some small producers ineligible, and the need for a more stringent revenue collection system (again making some operators ineligible).

Mozambiquan forest legislation also favours large concession-holders over small operators. The simple annual licence (Licenças Simples) goes only to large operators who can invest in processing machinery and implement blocked harvesting. Alternative systems are considered unsustainable. Communities have legal rights to land but may use forests only for subsistence use. Obligatory consultations between concessionaires and communities are rarely more than perfunctory – resulting in little benefit to the rural poor.⁽¹⁶⁾

In India, the government has actively discriminated in favour of SMFEs. Licensing and investment restrictions confine production of many commercially viable forest products to SMFEs only. Yet India's accession to the World Trade Organization has led to much of the protection for wood products being stripped away, instead favouring larger enterprises (though protection for non-timber forest products persists).

c. Marginalization of SMFEs by excluding them from decision-making processes

Large-scale enterprises tend to fare better than small businesses in influencing government processes. In South Africa, an elite group of large “grower-processors” in forestry has the ear of the government, while small-scale contractors and growers are unable to evoke influence – despite the national government's primary focus on poverty reduction and broad-based black economic empowerment.

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15. Thomas, R, D J Macqueen, Y Hawker and T DeMendonca (2003), *Small and Medium Forest Enterprise in Guyana, Small and Medium Forest Enterprises Series, No. 5*, Guyana Forestry Commission (GFC) and International Institute for Environment and Development (IIED), London.

16. Macqueen, D J and A Bila (2004), *Gleanings on Governance – Learning from a Two Year Process of Forest Policy Support to ProAgri*, IIED, Edinburgh, UK (available at: http://www.iied.org/docs/flu/Mozambique_FGLG_final.pdf).



Grower-processors in South Africa drive industry policy to the exclusion of small-scale enterprises, setting the terms for guaranteed buying arrangements and outgrower schemes with small growers

Grower-processors also drive industry policy to the exclusion of small-scale enterprises, setting the terms for guaranteed buying arrangements and outgrower schemes with small growers,⁽¹⁷⁾ and remaining intransigent to the financial difficulties and poor terms of employment forced upon small-scale contractors.⁽¹⁸⁾ Both government and industry make efforts to include SMFEs in roundtable policy processes. But legitimate representative bodies remain weak: formal unionization is difficult among SMFE workers who are mainly seasonal and scattered, while SMFE representative organizations such as SAFCA (the South African Forestry Contractors' Association) do not yet have wide enough membership, because of high joining fees and a heritage of representing white-owned businesses.⁽¹⁹⁾

A similar problem persists in Vietnam, where empowerment of small-scale enterprises is a government priority, but exclusion of these enterprises from policy processes at national, provincial or even district level remains the norm. Meanwhile, larger state-owned forest enterprises enjoy close communication with relevant government departments. A recent initiative in Quang Ninh province brought SMFEs (chiefly growers and traders) together with representatives from government at various levels, along with the police. It transpired that small-scale growers were unaware of many of the policies in their favour, such as tax breaks and subsidies, while provincial and district policy makers were unaware of lack of implementation of these policies on the ground.⁽²⁰⁾

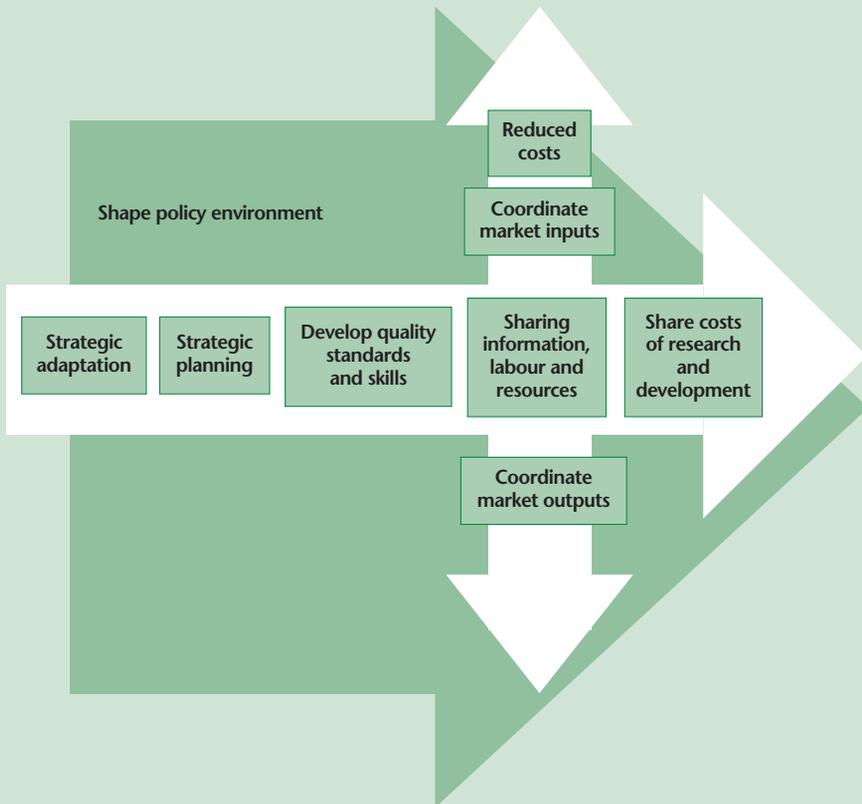
Experience from India shows that government protection of SMFEs can encourage inefficient production because SMFEs do not receive scarcity signals that demand investment in improved technology. If SMFEs have no way of adopting new technologies, they will simply go out of business when

17. Howard, M, P Matikinca, D Mitchell, F Brown, F Lewis, I Mahlangu, A Msimang, P Nixon and T Radebe (2005), *Small-scale Timber Production in South Africa: What Role in Reducing Poverty? Small and Medium Forest Enterprises Series, No. 9, Fractal Forest Africa, Fakisandla Consulting, Institute of Natural Resources, Rural Forest Management and International Institute for Environment and Development (IIED), London, UK.*

18. Clarke, J and M Isaacs (2005), *Forestry Contractors in South Africa: What Roles in Reducing Poverty? Small and Medium Forest Enterprises Series, No. 10, Programme for Land and Agrarian Studies, University of the Western Cape, South Africa, and International Institute for Environment and Development (IIED), London, UK.*

19. Ibid.

20. Le, T P, V D Nguyen, N Q Nguyen, L V Phan, E Morrison and S Vermeulen (2004), *Making the Most of Market Chains: Challenges for Small-scale Farmers and Traders in Upland Vietnam*, IIED, London, UK.

Figure 4.1: The possible advantages of forming an association

Source: developed from a figure in Macqueen, D.J. (2004) Associations of small and medium forest enterprise: an initial review of issues for local livelihoods and sustainability. IIED, Edinburgh, UK. Available at: <http://www.iied.org/docs/flu/SME_pubs/SME_Associations.pdf>

governments remove the protection. Thus, feedback between SMFEs and government is crucial. Before any change in policy, it is necessary for SMFEs to seek, and government to assist with, training (or at least essential information) for all the businesses that will be affected.

V. HOW MIGHT ASSOCIATIONS OF SMFES HELP?

'Association' here is used to reflect a wide range of groups, the formal constitution of which may take a number of forms including trusts, cooperatives, companies limited by guarantee, companies limited by share, and informal



For cost reduction, the government in Guyana encourages small enterprises to club together to be eligible for larger land-concession categories, to overcome the otherwise prohibitive costs of logging licences

groupings. Boyd⁽²¹⁾ describes the advantages and disadvantages that come with these different legal forms.

SMFEs form associations for a number of reasons (Figure 4.1). The initial impetus is often financial. For example, In India, the dormant Saharanpur Wood Carving Association revived in 1999. The trigger was government's imposition of a sales tax on wooden handicraft products – a tax that was withdrawn, as a result of the association's protests. In Brazil, associations of migrant settlers along the Amazon forest frontier often group together to negotiate financial deals with external companies.⁽²²⁾ Many Brazilian SMFE associations formed initially to take advantage of government credit programmes such as FNO-Especial (that require registration as an association). While initial motives might be financial, the majority of associations also state social and environmental aims – and in some cases these form the real reason for association. In Brazil, associations without these additional aims have a high level of attrition once they achieve their initial objectives.⁽²³⁾

Many of the advantages of association come from mitigation of the effects of passive or active discrimination – working together to counter negative scale effects or perverse policies. Some of the advantages of association are to do with the reduction in costs (the vertical axis in Figure 4.1), while others rely on strategic cooperation between SMFEs to develop new market opportunities (horizontal axis). For example, for cost reduction, the government in Guyana encourages small enterprises to club together to be eligible for larger land-concession categories, to overcome the otherwise prohibitive costs of logging licences. The Ituni Small Loggers and Chainsaw Association is an example of small enterprises that did indeed join together to gain access to a larger concession area.⁽²⁴⁾

21. Boyd, G (2005), *Organizational Mechanisms that Best Serve the Poor*, IIED, Edinburgh, UK (available at: http://www.iied.org/docs/flu/SME_pubs/OrganizationalMechanisms.pdf).

22. Merry, F and D J Macqueen (2004), *Associations for Business Partnerships*, IIED, Edinburgh, UK (available at: <http://www.policy-powertools.org/Tools/Organising/ABP.html>).

23. Campos, M, M Francis and F Merry (2005), *Stronger by Association – Improving the Understanding of How Forest-resource Based SME Associations in Brazil can Benefit the Poor*, IPAM and IIED, London, UK.

24. Macqueen, D J (2001), *Evidence-based Policies for Good Governance – the Applicability of Growth and Yield Modelling to the Forest Sector in Guyana*, IIED, London, UK, 118 pages.

Strategic cooperation can often evolve when there are new market opportunities. In China's Yunnan province, the Association of Persimmon in Zhaijiawan Village, formed in 2003, collectively addresses emerging problems. Most fruit used to be sold at the Baoshan market by individual households, but through the association they have reached new markets. Marketing has also been improved with new packaging designs to get added value. Information about the group was posted on the Forestry Bureau's website bulletin board and attracted procurement from businesspeople as far away as Shanghai. The association also invites technicians to provide onsite training and other services to the member farmers, including provision of fertilizer, pesticides, pruning and other maintenance procedures.

Associations can go beyond dealing with passive and active discrimination, to shaping the policy environment – the “rules of the game”. A good example of this strengthening of political voice is the Coffee Chamber in Baoshan. The Coffee Chamber aims to shape the policy environment by interacting with local government and government agencies to make the coffee industry better attuned to market demand, new technology, secondary processing rather than export of raw materials, and opportunities for improving quality and efficiency. Similarly in South Africa, the Small Growers Group of Forestry South Africa, the country's leading representative organization for timber growers, targets local municipalities as the most effective leverage point for improving the policy environment for SMFEs. Municipal officials in prime forestry areas are exposed to forestry's potential in local development and not only encouraged to include forestry in municipal development plans but assisted with ideas on how to support existing and emerging SMFEs.

Resilient associations typically have a suite of internal characteristics, such as a clear agenda, dynamic leadership, equitable distribution of costs and benefits, and rigorous operating principles. These often evolve over time. While



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dynamic leadership may spark an association into life, longevity often requires the development of clear institutional procedures concerning membership, taking decisions and managing the distribution of finance and other benefits. The Guyanese Kamuni Women's Handicraft and Sewing Development Association, established in 1993, has strong leadership – but it has also worked hard to develop managerial capacity. It has developed meticulous financial and stock records of each transaction. The executive body has a rigorous set of criteria against which to assess the quality of craft produced by members for quarterly sale through the association. The association has been the main sustained source of income since 1993 for the village, also providing social and economic security such as provision of loans and assistance to sick persons.

The transition towards institutionalized decision-making procedures and administrative functions can also be important to avoid a tailing-off of interest, legitimacy and effectiveness. RECA (Reflorestamento Econômico Consorciado e Adensado) in Brazil is an SMFE association that is robust and delivers results. It has stringent membership conditions, requiring aspiring members to attend all meetings for a year before they are accepted as members. It has also developed a high level of financial and administrative decision-making. Continued membership requires adherence to organic farming standards, preservation of the environment, sale of produce through RECA and continued participation in 80 per cent of meetings.⁽²⁵⁾

Equity in the distribution of costs and benefits is also a critical element of association resilience. Campos et al.⁽²⁶⁾ note a strong record of practical democracy within Brazilian associations – in a recent survey, 94 per cent of association members stated that decision-making was taken by equitable vote. Where problems have arisen, for example in the Brazilian association APLUMA (Associação dos Produtores Rurais em Manejo Florestal e Agricultura), poor

25. Campos, Francis and Merry 2005, *op. cit.*

26. *Ibid.*

leadership and growing lack of trust have blighted some of the associations' promise. In Guyana, one of the new small-scale logging associations, the Orealla loggers' group, intends to ensure greater equity through adopting a quota system for resource extraction in community lands. There were previously no planning systems in place for resource management, and so resource depletion and inequitable resource use were commonplace. Equity over time is also an important consideration. In Uganda, some forest associations have deliberately sought to diversify their interests so that long-term benefits, say from tree planting, are supplemented by short-term benefits, such as from seedling sales.

VI. WHAT IS THE BEST EXTERNAL SUPPORT FOR SMFE ASSOCIATIONS?

Increasingly, international aid is channelled towards direct budgetary support for central government departments – away from small projects. Such aid is often conditional on a number of structural adjustments to trade, institutional accountability and public services. The preference of bilateral donors and multilateral banks for working with big central clients on big grants or loans is easy to understand. It is much easier and cheaper to manage than working with multiple small and diverse groups scattered across often-inaccessible geographical regions. The rationale is one of transaction costs. Why bear the cost of these transactions if you can pass them on?

The problem with passing on transaction costs is that the aid recipients may also struggle to reach those many SMFEs that deserve support. The effectiveness of budgetary support to the public sector depends closely on the effectiveness of that public sector. But, as described above, public-sector services are often not well disposed to SMFEs or their alliances. In many instances, public services actively discriminate against SMFEs – often precisely because centralized government services find them hard to reach. In other cases, public services are captured by larger enterprise



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and marginalize SMFEs entirely. In the few examples where the public sector has implemented protectionist policies for SMFEs (such as in India), international pressure from international banks and the World Trade Organization has acted against their continuation.

The alternative approach lies in carefully targeted external support. SMFEs flourish when local people help themselves through local associations. These draw in turn on local trusted intermediary organizations because, in practice, most SMFE associations are not entirely self-sufficient. In a survey in Brazil, 55 per cent of respondents recollected help in establishing the association, and 58 per cent could point to current external assistance.⁽²⁷⁾ Even the more advanced cooperative structures such as RECA had benefited from financial, administrative, technical and logistical support. The nature of this support was highly specific, targeted at particular needs. Similarly, in Guyana, some support had always been required, in all the associations interviewed, for:

- capacity building and leadership skills training;
- financial training;
- resource management and planning for utilization of resources;
- market information on value-added products from timber species;
- development of non-timber forest products;
- training to produce more creative or innovative products;
- access to loans for feasible technology for value-added production;
- finding markets, especially overseas, and how to market.

One example of targeted support is that provided by NGOs to the Orealla Fruit Cheese Women's Association, established by indigenous people in the Orealla community. The association's aim was to manage an agro-processing

27. *Ibid.*



business to provide an income for Amerindian Women from the Orealla-Siparuta community. It also aimed to support Orealla farming activities by purchasing fruits from the local farmers to curb over-harvesting of timber resources in village lands. Twelve people received training in agro-processing techniques using local fruits to make fruit cheeses. The development of unique environmental packaging was also supported, and this has proved crucial to fruit cheeses gaining recognition locally, and from the overseas Guyanese community.

What are the trusted and sometimes unorthodox intermediary organizations that provide such support? In Brazil, NGO and Church groups figured heavily within surveys of the most useful support to associations in Brazil.⁽²⁸⁾ For example, the STR (Sindicato de Trabalhadores Rurais de Brasília e Eptaciolândia) was established with the help of the Catholic Church. The national advisory body for rubber tappers (CNS) provided additional informational support and documentation. The Acre workers union (FTA) helps with representation at state level, while the Amazonian Workers Group (GTA) does the same at Federal level. Another Brazilian example is that of RECA, which received considerable support from the Pastoral Commission and a group called CERES from the Catholic Church. The Dutch NGO, SEBEMA assisted RECA with its first loan to work with agroforestry systems. NGOs, state and national research and extension organizations such as PESACRE, EMBRAPA and INPA later became involved with research and technical assistance.

The higher-level affiliations of intermediary organizations do not appear to be as critical as the form and function they take on locally. A study in Vietnam looked at why some remote mountain villages developed thriving SMFEs and relatively high standards of living, while other villages with similar resources did not.⁽²⁹⁾ All villages had government-sponsored local institutions, most importantly the

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28. Ibid.

29. Le, Thi Phi, Tong Van Chung and Le Bang Tam (2004), *What Maintains Poverty? A Study of Factors Affecting Poverty in Mountainous Areas of Quang Ninh Province, Vietnam*, IIED, London, UK.



In some villages in Vietnam these groups functioned merely as sinecures for more powerful families, but in others – those villages with thriving small-scale industries – they enjoyed wide legitimacy and participation. In some villages, Women’s Unions, with mandates covering issues from contraception to literacy, functioned especially well in supporting women’s small-scale enterprises

Commune’s People’s Committee, but also associations such as the Youth Associations, Veterans’ Associations and Old People’s Associations. In some villages these groups functioned merely as sinecures for more powerful families, but in others – those villages with thriving small-scale industries – they enjoyed wide legitimacy and participation. In some villages, Women’s Unions, with mandates covering issues from contraception to literacy, functioned especially well in supporting women’s small-scale enterprises. Consequently, the UN Food and Agriculture Organization has used Women’s Unions as conduits for revolving loan schemes for women’s SMFEs.

A good strategy for donor aid in support of the MDGs would therefore be to cultivate such trusted intermediaries, which are well placed to deliver requisite administrative and technical inputs. Both aid managers and those intermediaries would need to have more than a passing knowledge of the challenges facing specific enterprises in specific sectors and regions. In other words, there is need for long-term in-country aid managers if such a strategy is to work.

This chapter argues that support to local enterprise institutions is a vital tactic to implement the MDGs. Development interventions that direct money exclusively to central government budgets are not advised. Experience argues for long-term, carefully tailored support directly to local institutions such as SMFEs. Such an approach might rankle with economic-aid decision makers, because of the high transaction costs involved. However, reaching out to poor people’s own initiatives and enterprises – many of which are at the margins of formality – is not going to be a cost-free exercise. Directing financial and other assistance to associations of SMFEs rather than individual enterprises is a smart way to emulate the route that SMFEs themselves have taken to overcome discrimination and marginalization.