

Small-Medium Forestry Enterprises

The 'best-bet' for reducing poverty and sustaining forests?

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What are SMFEs?

Difficult to define

- SMFEs are poorly understood: diverse; dividing lines between SMFEs and micro or large enterprises differ from place to place
- Working definition of an SMFE - a business operation aimed at making profit from forest-linked activity and:
 - employing 10-100 full time employees
 - or with an annual turnover of US\$ 10,000-30,000,000
 - or with an annual roundwood consumption of 3,000-20,000m³

Why are SMFEs so important?

Difficult to count

- Good information is scarce. Rough extrapolations from existing information:
- About 80-90% of forestry enterprises are SMFEs in many countries
 - Over 50% of all forest sector employment is in SMFEs in many countries
 - Over 20 million people are employed by SMFEs worldwide
 - Over US\$130 billion/year of gross value added is produced by SMFEs worldwide

Why are SMFEs so ignored?

Diverse, informal, slippery, risky

- Complexity of establishing links with diverse SMFEs in multiple locations
- Diversity of constitution of SMFEs which reduces likelihood of common agendas
- Volatility of economies - hence flexibility, mobility and opportunism of SMFEs
- SMFEs lack resources to deal with bureaucracy, and political muscle to beat the system
- Risky business – informal SMFE business patterns, insecure tenure or resource access, low managerial and technological capacity, little collateral – so weak relationships with investors, and lack of capital for SMFEs to offset risks themselves

What are the environmental and social impacts of SMFEs?

- Informality, insecure tenure, low investment, and low profitability of SMFEs - reduces environment concern
- Local accountability of SMFEs can enhance environmental quality, e.g. of patchwork landscapes based on smallholder production
- Least social benefits from 'distress diversification' - where poor people seek refuge in low-skill activities and labour migration
- SMFEs may make a positive transition to larger scale, or may be replaced by large firms with distant product sourcing and repatriation of profits elsewhere
- Policies that foster a competitive but also vertically mobile SMFE sector are preferable to those that merely protect them

So, are SMFEs a good thing?

Generally - yes

- Much evidence of net benefits of SMFEs: key role in basic needs, often part time with other activities; spreading wealth locally; empowering local creativity; preserving cultural identity (bad examples too)
- SMFEs better than large enterprises at: understanding local political contexts; linking with local civil society; commitment to operating in a specific area
- This 'silent social responsibility' in developing countries may be undermined by Corporate Social Responsibility standards amongst the large players?
- Need to build on strengths and deal with weaknesses of SMFEs, rather than ignoring them

What prospects for greater investment in SMFEs?

- Where taxes are high, regulations unfairly applied, and revenues appropriated privately – there is high incentive to leave the formal economy
- Corruption and illegality go hand in hand in many forest frontier areas where SMFEs predominate
- Multiple government authorities involved – often unconnected, changing and disdainful of SMFEs
- Decentralisation and co-management arrangements promising
- Consumer concerns for fair trade have potential
- Clusters or associations can play a greater role in securing investment, articulating needs and influencing policy

Recommendations

1. Orient SMFEs primarily to local markets
2. Foster enterprise associations and support their specific needs
3. Simplify and stabilise laws and enforce them equitably
4. Support judicious subsidies, and remove unreasonable subsidies and trade barriers
5. Develop credit unions and better risk assessments
6. Build capacity for finance administration and deals with larger players

