

Thinking big about small-scale enterprises

Small-scale forest enterprises play a significant role in India's forestry sector, but their role and full potential is not completely understood

by **Sharmistha Bose¹**
and
Sushil Saigal

¹Winrock International India

¹Navjivan Vihar
New Delhi-110017

sharmistha@winrockindia.org

SMALL-SCALE forest enterprises (SSFES) are small companies, community groups and collectives involved in the growing, harvesting, processing and marketing of timber and non-timber forest products. They play a significant role in India's forestry sector, supporting the livelihoods of millions of people in rural areas and generating revenue and foreign exchange for the country. But exactly how significant is their role, and how can national and sub-national policies best facilitate them? We believe that answering such questions should be a research priority.

How big is the small-scale sector?

In India, SSFES are officially part of a group called small-scale industries (SSIs), which are defined in terms of value of investment in plant and machinery. At present, industrial enterprises are designated as SSIs if they have a total investment in plant and machinery of less than 10 million rupees¹ (about US\$220 000; NCAER 2001).

The SSI sector in India accounts for around 95% of all industrial units, 40% of the manufacturing sector output and 36% of exports and provides direct employment to about 18 million persons in around 3.2 million registered SSI units in the country (NCAER 2001).

The bulk of forest-produce processing in India is carried out by SSFES. For example, 98% of sawmills (Maccinnes 1979



Is she an SSFE? Millions of people in India support their families through the processing and sale of firewood, but data are difficult to obtain. Photo: H.O. Ma

in Tewari 1995), 87% of plywood factories (Federation of Indian Plywood and Panel Industry nd) and 94% of paper mills fall into this category (Pradhan & Barik 1999).

As the capacity of agriculture to generate additional livelihoods declines over time, we expect more and more rural people to turn towards employment in SSFES and other SSIs in the future. As the sector grows it will become increasingly

important to ensure a policy environment in which the sector is facilitated rather than hindered. However, it is difficult to get an accurate picture of even the total number of SSFES in the country or their output, although some data are available for some segments of the sector. The table summarises available data for medium-sized and large forest enterprises.

Some key features characterising SSFES

A feature of India's SSFE sector is that while the government owns most of the forests, the bulk of SSFES are in private hands. Major forest industries operating mostly at the small scale include: sawmills; those involved in the manufacture of safety-matches, wood-based panels, sporting goods and pencils; woodcarving; pulp-and-paper mills; and non-timber forest products (NTFPs) such as *beedi* (an indigenous cigarette in which tobacco is rolled in a tendu leaf and tied with a cotton thread), lac, resins, *katha* (*Acacia catechu*), *agarbatti* (a kind of incense stick), medicinal plants, etc. Some SSFES—such as the medicinal-plant and woodcarving industries—earn valuable foreign exchange. More importantly, a large number of household-based production (eg farm forestry) and processing (eg leaf plate-making) enterprises provide livelihood support to millions of rural people. India has a very large number of poor (about 260 million) and indigenous (about 80 million) people, many of whom depend on forest-based livelihoods such as the collection, processing and sale of fuelwood and NTFPs (note though that many such activities are not included in official statistics on SSIs or SSFES). It is estimated that NTFP-based SSFES alone provide up to 50% of the income of 20–30% of the rural labour force in India (GoI 1999).

¹The ceiling for qualification as an SSI unit keeps on changing. The ceiling was raised from 6 million to 30 million rupees on 10 December 1997 but was subsequently reduced to 10 million rupees on 24 December 1999 (NCAER 2001).

Regular and jumbo

Number of units of medium-sized and large wood-based industries

INDUSTRY	No OF UNITS
Paper mills	21
Newsprint	5
Rayon grade pulp	5
Paper grade pulp	1
Paperboard	305
Plywood	61
Veneer	14
Blockboards and flushdoors	98
Particleboard	11
Fibreboard	5
Safety matches	5

Source: GoI 1999

Many very small enterprises cater to local demand. For instance, it is estimated that 2.1 million bullock carts are constructed each year, as are 50 million yokes, 100 million wooden ploughs and 30 million wooden seeders (Tewari 1995).

Generally, SSFEs are location-specific, and their nature is determined on the basis of the availability of resource, labour and markets (Campbell 1991). For instance, most safety matches are manufactured in Tamil Nadu, whilst the bulk of sporting goods are manufactured in just two cities.

While it is difficult to obtain national figures, data from sub-sectors suggest that SSFEs are extremely important generators of employment. It is estimated, for example, that over 3 million people are employed in the *tendu*-leaf collection and *beedi*-rolling industry (www.uohyd.ernet.in/sss/dhistory/beedi/beedi.html) and nearly half-a-million people are employed in safety-match making, sawmilling and woodcarving.

Policy scenario

Like many other sectors in India, the SSFE sector is subjected to various financial, economic, trade, labour and environmental policies and regulations, some of which act to promote the sector and some to hinder it. In recent years a flurry of court rulings has also had an impact on the sector.

Overall, the policy environment for SSIs is very favourable and they enjoy protection and a number of concessions. For example, many SSIs are entitled to special excise concessions and receive preferential treatment from banks for obtaining credit and various export incentives. However, with economic liberalisation and changes in the trade policy, SSIs are now facing increased competition from foreign companies.

Threats and opportunities

The SSFE sector faces a number of opportunities and threats. Some of the main opportunities include:

- *government incentive schemes*, which are available to SSIs in general, and *government protection measures* such as the reservation of a large number of items that must be purchased exclusively from SSIs;
- *tax incentives and promotional schemes*: these include concessions for a range of excises, sales' taxes and customs' duties;
- *emerging or rapidly growing markets* such as herbal medicines and packaging, where SSFEs can play an important role;
- *dwindling supplies of raw material* from government forests on account of degradation and/or green felling bans. This is creating opportunities for farm and community producers (but is also a threat to the sector, see below); and
- the growth of farm forestry in certain areas such as the *Tarai* and coastal Andhra Pradesh, which has, in turn, opened up opportunities for establishing new processing industries there (Saigal et al. 2002).

The key threats faced by SSFEs in India are:

- a *growing shortage of quality raw material* due to felling bans and restrictions on extraction in several states;
- *growing concerns over environmental and labour issues*: in recent years, for example, court rulings have resulted in the closure of many forest-produce processing industries on account of environmental concerns;
- since economic liberalisation there has been growing competition from cheap imports and a trend towards removal of protective policies, such as reservation; and

- the stringent application of an international intellectual property rights' regime is also likely to adversely affect Indian SSFEs, especially processing industries.

Federations

The role played by industry federations and associations in the SSFE sector is not fully understood, but they remain relatively weak and do not appear to coordinate their efforts. A strong network of such federations and associations, on the other hand, could greatly strengthen the ability of SSFEs to influence policies and to create a policy environment in which they can prosper.

Conclusion

Given the immense importance of SSFEs in improving the livelihoods of the poor and managing forest resources, the relative dearth of information about them must be viewed with concern. At present, information—when it exists at all—is mostly scattered among various departments or else is out of date or incomplete. A greatly increased research effort is needed to illuminate the current situation and the various opportunities and constraints faced by SSFEs. Otherwise, the great potential of SSFEs to contribute to sustainable development in India may not be fully realised.

This article arises from a wider study carried out by Winrock International India in New Delhi in collaboration with the International Institute for Environment and Development in London, UK, which also coordinated the overall initiative.

References

- Campbell, J. (ed) 1991. *Women's role in dynamic forest-based small-scale enterprises: case studies of uppage and lacquerware from India*. Food and Agriculture Organization, Rome, Italy.
- Federation of Indian Plywood and Panel Industry [n.d.] List of manufacturers of plywood, decorative veneer, particle board, fibre board, medium density fibre board, resin manufacturers and wood working machinery manufacturers and suppliers. Federation of Indian Plywood and Panel Industry, New Delhi, India.
- GoI (Government of India) 1999. *National forestry action programme – India*. Ministry of Environment and Forests, Government of India, New Delhi, India.
- NCAER (National Council of Applied Economic Research) 2001. *An assessment of small-scale informal forestry sector*. Unpublished report prepared under the project 'Instruments for Sustainable Private Sector Forestry' coordinated by the International Institute for Environment and Development and Ecotech Services and supported by DFID-India. NCAER, New Delhi, India.
- Pradhan, G. & Barik, K. 1999. Environment-friendly behaviour and competitiveness: a study of the pulp and paper industry in India. *Environmental and Resource Economics* 14: 481–501.
- Saigal, S., Arora, H. & Rizvi, S. 2002. *The new foresters: role of private enterprise in the Indian forestry sector*. International Institute for Environment and Development, London, UK.
- Tewari, D. 1995. *Marketing and trade of forest produce*. International Book Distributors, Dehradun, India.