

*Little and Legal: Micro-, Small-, and Medium-Sized Enterprises
(MSMEs) within the Emerging Timber Legality Paradigm*

Brief 1: Unpacking the Diversity of MSMEs

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CATIE-Finnfor and Forest Trends

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About the Series

The European Union Timber Regulation (EUTR), US Lacey Act Amendments, and Australia's Illegal Logging Prohibition Act (ILPA) were established not only to combat illegal logging and associated trade, but also to facilitate a thriving legal forest product sector that enhances rural livelihoods for forest-dependent communities. Is this happening – or are the processes of formalization and legalization, together with stricter enforcement of existing laws, creating unintended consequences for the most vulnerable actors they were meant to support?

A clearer understanding of both the opportunities and the impacts that emergent legality policy frameworks create for rural forest-dependent people, community forestry initiatives, and other small-scale enterprises (collectively referred to as micro-, small-, and medium-sized enterprises, or MSMEs) has increasingly become a priority for international policy dialogues. We take as a starting point that a strong relationship exists between successful MSME activity and improved rural livelihoods, poverty alleviation, and/or economic productivity. Attributing precise figures to this correlation is not easy, but the link between a robust MSME sector and a healthy economy – and the virtues of locally-based forest management for both people and ecosystems – has been demonstrated repeatedly in peer-reviewed literature.¹

This series of briefs attempts to contribute greater clarity to the debate by disaggregating the diversity of MSMEs and providing a conceptual starting point for more coherent dialogues and targeted, impactful policy and research design. It encompasses the diversity of MSMEs because the globalized reach of many wood product supply chains, and the rapid increase of South-South trade flows, obscure the lines between local and international trade. Further, all but one Voluntary Partnership Agreement (VPA) signed to date in Africa and Asia include the aspirational goal of achieving legality in domestic trade as well, making national markets a necessary part of the discussion.²

- **Brief 1** outlines the breadth of MSMEs and suggests a typology for differentiating among them with greater precision. This more nuanced picture helps us to recognize certain invisibilities – blind spots that impede or bias the way in which MSMEs are discussed by decision-makers – and identify new points of entry for MSMEs in legal supply chains and better policy-making in the context of national VPA processes.
- **Brief 2** examines the full range of interconnected barriers faced by MSMEs: barriers to achieving and maintaining legality, barriers to demonstrating legality, and barriers to competitiveness. We look more closely at whether and to what extent legality measures present new barriers and opportunities, and briefly discuss best practices for supporting MSMEs within this context.
- **Brief 3** presents priority directions for applied research that will contribute to finding concrete, specific answers to the pressing question of how to better support MSMEs as part of thriving, legal wood product sectors that generate economic, social, and ecological benefits.

¹See e.g. Kozak 2006; Gibson and van der Vaart 2008; SEAF 2007; Scherr, White, and Kaimowitz 2003; Macqueen 2008; and AgriCord and FAO 2013.

²The information contained in these briefs comes from literature on MSMEs both within and outside the forest sector; project reports and diagnostics from Africa, Asia, and Latin America; and as-yet unpublished experiences within CATIE's Finnfor Project, a Finnish-funded effort to improve rural livelihoods through strengthening wood product value chains in four Central American countries (Guatemala, Honduras, Nicaragua, and Costa Rica).

Acronyms

CATIE	Tropical Agricultural Research and Higher Education Center (<i>Centro Agronómico Tropical de Investigación y Enseñanza</i>)
CIFOR	Center for International Forestry Research
CONAP	National Council of Protected Areas of Guatemala (<i>Consejo Nacional de Areas Protegidas</i>)
EUTR	European Union Timber Regulation
FAO	Food and Agriculture Organization of the United Nations
FLEGT	Forest Law Enforcement, Governance, and Trade
IIED	International Institute for Environment and Development
ILO	International Labor Organization
ILPA	Illegal Logging Prohibition Act, Australia
ME	medium enterprise, Cameroon
MSME	micro-, small-, and medium-sized enterprise
NGO	non-governmental organization
NTFP	non-timber forest product
PE	small enterprise, Cameroon
RECOFTC	The Center for People and Forests
RRI	Rights and Resources Initiative
SEAF	Small Enterprise Assistance Funds
SEBRAE	Agency for Support to Micro- and Small Businesses, Brazil
SMFE	small and medium forest enterprise
VPA	Voluntary Partnership Agreement
VSE	microenterprise, Cameroon
WCS	Wildlife Conservation Society
WRI	World Resources Institute

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1. Introduction: Why Do We Care about MSMEs in Legal Trade?

It is incontestable that MSMEs make up the vast majority of the world's forest product enterprises. They are economically significant in every country with forest cover to speak of, with annual productivity estimated at the equivalent of US\$130 billion (Kozak 2006). In Brazil, for example, 4.5 million smallholders and collectives extract up to 95 percent of timber from the Amazon, (Del Gatto unpublished); in the Democratic Republic of Congo, some 25,000 artisanal loggers produce 13 times the volume of formal industrial production (Lescuyer et al. 2014); and in Vietnam, 80 percent of the domestic market's furniture and construction needs are met by mostly family-run businesses (Forest Trends 2012).¹

MSMEs are often assumed to primarily operate in local or domestic spheres. This is indeed the case for subsectors focused on low-value, subsistence-level products like firewood, non-timber forest products (NTFPs), or in countries with minimal timber product exports. Scherr et al. (2003) suggest that as much as 95 percent of MSME production is "destined for domestic markets in the form of fuelwood and charcoal, industrial roundwood, and pulp and paper products." However, it is difficult to draw clear lines or find reliable data on this important distinction. Even in the increasing number of countries where decent macro data exists on MSMEs, information on their contribution to export markets is not typically available. Regional timber markets have also grown steadily in the past decade and will continue to do so, with both formal and informal MSMEs contributing significantly to these markets (Cerutti et al. 2014), and a globalized economy and ever-increasing demands for resources have driven supply chains deep into rural areas, many of which are inhabited by Indigenous Peoples, ethnic minorities, or other forest-dependent communities. Fiber is sourced from inland corners of China, Vietnam, and Laos, and bound for Asian furniture and paper markets (RECOFTC 2013); charcoal from western Nicaragua is bound for Florida, Spain, and elsewhere in Central America; and pine from Honduras supplies American agriculture (Gutiérrez 2016).

Many countries with significant forest product exports show a marked split, with industrial logging companies and larger manufacturers dominating timber trade to "sensitive" markets such as the EU or US, while MSMEs serve domestic and regional markets.² However, legality policies are not only about export trade flows: all but one Voluntary Partnership Agreement (VPA) signed to date in Africa and Asia includes the aspirational goal of achieving legality in domestic trade as well. And while current discourse around demand-side policies and MSMEs has correctly identified general potential barriers for small-scale stakeholders in timber supply chains, it has failed to define how the size and structure of an individual MSME can inform such regulatory impacts, and how questions of legality interface with existing barriers. We must therefore contend with the full complexity of MSMEs in order to get legality policy right.

Key Findings

- 1. Grouping all wood trade MSMEs into a single basket can lead to unclear dialogues and poor policy design and decision-making** given the range of size, structure, forest/tree tenure, position along supply chain, formality, and types of forest resources that this term encompasses.
- 2. MSMEs exist in all links of the supply chain, from forest harvest to shelf, but certain types are more visible than others.** Policy discussions or processes that focus, implicitly or explicitly, only on entities which directly own or harvest trees, exclude institutions, actors, and issues that are highly relevant further along the supply chain for legality processes and effective MSME support. Enterprises and producers at the micro- end of the

¹ Table 1 (available in on-line materials) provides a more detailed overview of figures available on MSMEs in a selection of countries where reasonable data is available. We have chosen to focus this discussion primarily on MSMEs in developing countries (including China), but it is important to acknowledge that the United States, Europe, Australia and other importing nations in the Global North have politically and economically important small business sectors as well, whose basic struggles are similar to many of those described here.

² See e.g. Forest Connect 2013; Cerutti and Lescuyer 2011; and FAO and Forest Connect 2009.

spectrum, many of which are informal, face very different constraints and opportunities than those that are considered “small” or “medium.”

- 3. Informal logging, harvesting, and trade practices are the norm rather than the exception for MSMEs, particularly among micro-entrepreneurs, due to inadequate tenure rights and to laws and institutions that represent effective barriers to formalization.** Acknowledging the prevalence of informality, differentiating it from illegality, and studying creative ways to overcome these barriers will be essential to rectifying this divide.
- 4. Women play important roles in MSMEs but their work is often poorly acknowledged, indirect, or invisible, particularly in secondary processing sectors and further up on the value chain.**

What Is an MSME? Getting Our Vocabulary Straight

When we speak or write of the forest products sector, the implicit focus is often on timber extraction and primary processing. However, the UN divides forest-relevant economic activities into no fewer than 4 sectors, 10 divisions, and 17 groups,³ almost all of which may play a role in producing legal supply and establishing competitive value chains that can reduce poverty, improve human livelihoods, and sustain or increase forest cover. MSMEs are found in each of these categories. Policy discussion that focuses, implicitly or explicitly, only on entities that directly own or harvest trees excludes actors and issues that are relevant in the broader conception of the supply chain relevant to demand-side legality initiatives. We have also chosen to focus on wood product MSMEs rather than non-timber forest products (NTFPs), in keeping with the scope of recent legislation.⁴

A sampling of the wide range of definitions one finds for MSMEs is captured in **Box 1**. Most countries or funding institutions create their own criteria, typically based on the same metrics: number of employees, value of annual sales, and/or fixed assets. Such formal definitions have bearing on decisions related to eligibility for incentives, tax breaks, loan programs, or other benefits and services offered to MSMEs, or who might qualify for simplified procedures under a voluntary certification program or mandatory legality verification scheme. The variability of official definitions can thus create conceptual confusion and policy distortions. Gibson and van der Vaart (2008) note that definitions of MSMEs in Ghana include employee maximums ranging from 50 people (African Development Bank), 100 people (Government of Ghana), 200 people (UNDP), or 300 people (World Bank), and that this latter definition would include most of the country’s top 100 manufacturers, including the subsidiaries of Nestle and Unilever. They therefore argue for a formula-based definition that incorporates home economy variables to create more contextually relevant categories.

A family or peasant cooperative hand-crafting chairs is, of course, qualitatively different from a vertically-integrated global furniture retailer. Yet in between these schematic examples sit a wide range of actors and institutional configurations whose complexity eludes neat definitions but who share a reality of local ownership and personalized management, lack of scale efficiencies, scarce financial or political capital, overall limited capacity, and a focus on short-term needs over long-term business plans (Thomas et al. 2003; Gibson and van der Vaart 2008).

We have chosen to refer to “micro-, small-, and medium-sized enterprises” (MSMEs) to encompass this diversity and not limit the concept to forest owners/producers, as useful terms like “small and medium forest enterprises (SMFE)” or “locally controlled forestry” do. That said, the difference between microenterprises and other SMEs should not be ignored. Gibson and van der Vaart (2008) argue that “the supposed continuum from microenterprise to SME seems to be largely mythical” and that microenterprises should be discussed separately given their fundamentally different characteristics and future prospects. Businesses in the small and medium range of the spectrum are far more likely to

³See <http://unstats.un.org/unsd/cr/registry/regcst.asp?Cl=27>. ISIC breaks economies into 21 sectors total. Forest sector categories include collection, processing, and trade of wood and of non-timber forest products; manufacturing of complex furniture and paper products; services like forest management consulting, nursery operation or pest control; a wide range of transport, storage, and trade logistics services; wood product wholesalers, and end retailers.

⁴ The US Lacey Act includes a broader range of non-timber products derived from plants. It should also be noted that most of the discussion here applies with equal validity to NTFPs, and that in practice the division is somewhat artificial. NTFPs are an important supplemental or even primary income source for many small forest product enterprises, and in some cases actually provide a more stable and/or ecologically sustainable long-term income source than timber harvest.

be formally registered, to pay taxes and social security, to attempt to abide by labor laws and provide skills training to employees; to be capable of financing some degree of working capital and assets purchase; and to be in a position to contribute to local projects or charities. They are also more likely to have an existing business association that provides some degree of political voice. The utility of this distinction for conducting diagnostics and making policy recommendations is valid and important to take into account.

Box 1: MSMEs – Examples of National Definitions

In 1971, a British government study formulated an economic definition of small firms as meeting the following three criteria: (i) the firm has a relatively small share of its market place; (ii) the firm is managed by owners or part-owners in a personalized way, and not through the medium of a formalized management structure; (iii) the firm is independent, in the sense of not forming part of a large enterprise. This qualitative description provides a decent conceptual basis for discussing MSMEs, and the examples below illustrate the range of criteria defining MSMEs along the supply chain.

Country	Definition																
Cameroon¹	<i>Microenterprises (VSE): up to 5 employees, with annual receipts of no more than 15 million CFA excluding taxes Small Enterprise (PE): 6-20 employees, with annual business volume of 15-100 million CFA Medium Enterprise (ME): 21-100 employees, with annual business volume of 100 million CFA-1 billion CFA</i>																
Costa Rica	<i>Uses points derived from a formula whose parameters differ between industrial, commercial/service, and tech sectors, and are periodically updated by the Ministry of Economy, Industry and Commerce.</i>																
China	<i>Industry-specific definitions: Logging industry: Small enterprises have annual turnover of ≤\$US4.9 million (RMB 30 million), medium enterprises US\$4.9-9.8 million. Wood processing and forest chemical industry: Small enterprises have annual turnover of ≤\$3.3 million, medium enterprises US\$3.3-8.1 million.</i>																
Brazil	<i>Different government and banking institutions have differing definitions. The “SIMPLES” system for online business tax payments uses the following: Microbusinesses: receipts ≤US\$148,600 Small businesses: receipts US\$148,600-US\$1,486,000 Medium to large businesses: receipts above US\$1,486,000 The Brazilian Agency for Support to Micro- and Small Businesses (SEBRAE) also includes the category of individual entrepreneur, with annual receipts ≤US\$24,800.</i>																
European Union²	<i>“The category of MSMEs is made up of enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding 50 million euro, and/or an annual balance sheet total not exceeding 43 million euro.”</i> <table border="1"> <thead> <tr> <th>Company category</th> <th>Employees</th> <th>Turnover</th> <th>or Balance sheet total</th> </tr> </thead> <tbody> <tr> <td>Medium-sized</td> <td>< 250</td> <td>≤ € 50 m</td> <td>≤ € 43 m</td> </tr> <tr> <td>Small</td> <td>< 50</td> <td>≤ € 10 m</td> <td>≤ € 10 m</td> </tr> <tr> <td>Micro</td> <td>< 10</td> <td>≤ € 2 m</td> <td>≤ € 2 m</td> </tr> </tbody> </table>	Company category	Employees	Turnover	or Balance sheet total	Medium-sized	< 250	≤ € 50 m	≤ € 43 m	Small	< 50	≤ € 10 m	≤ € 10 m	Micro	< 10	≤ € 2 m	≤ € 2 m
Company category	Employees	Turnover	or Balance sheet total														
Medium-sized	< 250	≤ € 50 m	≤ € 43 m														
Small	< 50	≤ € 10 m	≤ € 10 m														
Micro	< 10	≤ € 2 m	≤ € 2 m														
United States	<i>The Small Business Administration establishes small business size standards on an industry-by-industry basis, either using annual receipts or number of employees. Examples:</i> <ul style="list-style-type: none"> • Logging operations; wood product and furniture manufacturing: 500 employees • Forest nurseries: US\$11 million • Pulp and paper manufacturing: 750 employees • Lumber, plywood, millwork, and wood panel merchant wholesalers: 100 employees 																

¹Law 001 No.2010 / 13 April 2010, regarding promotion of small and medium businesses in Cameroon

²http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/sme-definition/index_en.htm

2. Typologies for Characterizing and Differentiating among MSMEs

The MSME monolith can be categorized along several dimensions that are highly relevant to understanding the types of barriers or opportunities an enterprise may face and designing interventions accordingly.

Table 1. Position along Supply Chain

Forest/ tree/ land tenure rights	Individual or community with statutory rights to manage, own, and/or benefit from forest resources.
Harvesting/ extraction	Individual or group that harvests timber. In a classic community forestry scenario the extraction is conducted by rights-holders themselves, but individual or collective land owners may make formal or informal deals with third party loggers.
Primary transformation	A sawmill, kiln, or other technology that transforms logs or raw wood fiber material to products such as lumber, flitches, sawnwood, veneer, moldings, or charcoal. In various countries MSMEs themselves may not be exporting these products, but may play a key role in provision of inputs to the larger exporting businesses.
Secondary transformation/ manufacturing	A workshop or factory engaged in production of more complex products such as furniture or paper. This requires capital investment in machinery, infrastructure, and processes unattainable by many MSMEs. However, in some countries MSMEs represent the majority of the furniture industry.
Transport	Transport between forests, sawmills, factories, and ports. Depending on contract terms, transport may be organized by the seller or the buyer, usually with a broker in between in the case of international trade. Forestry laws often contain separate and detailed conditions for timber transport.
Storage, brokerage, export, and import	Within this category one finds a wide diversity of actors. Warehouses, containers, cargo ships, and logistics brokers are all critical puzzle pieces in export trade. Despite scale benefits in globalized trade, MSMEs still play key roles in this link.
Retail	Businesses selling directly to consumers, either in the country of origin or in an importing country. These range from local hardware stores to high-end furniture showrooms or construction businesses.
Service providers	Examples include independent forestry consultants or auditors, machinery supply and repair, and creditors. While these actors often go unremarked, their services – or their absence – can play a huge role in MSMEs’ legality or competitiveness.

Many enterprises occupy two or more positions along the supply chain, which vary as a function of the legal regime, the forest resource itself, capacity, and other dimensions outlined below. In Jepara, Indonesia, for example, of 11,981 furniture enterprises – of which 98 percent were classified as “small” and 1.6 percent as “medium” – 20 percent integrated at least two links in the supply chain (Purnomo et al. 2011).

Table 2. Size, in Terms of Incomes Affected

Individual family, supplemental income	Small-scale teak producers in Costa Rica have an average of 14 hectares (ha) of plantation on their farms, and/or smaller amounts planted along fence rows. Many receive supplemental ecosystem service payments from the government, but these payments and the final harvest are only one part of the farmer’s annual income stream (Gutiérrez 2016; Madrigal Cordero et al. 2012).
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Individual family, primary income	In Vietnam's so-called furniture villages, 90 to 95 percent of production is household-based, with the other 10 percent produced by small companies or cooperatives (Forest Trends 2012).
Significant income to multiple families in a community	The typical informal chainsaw milling operation in Cameroon or Gabon employs a team of four to five people from a single village (one sawyer, one assistant, and two to three carriers) and operates in the surrounding agroforestry matrix (Cerutti and Lescuyer 2011).
Significant income to a single community	<i>Ejido</i> cooperatives in Mexico, forest councils in India, Chinese collective forests, tree-growers associations in Tanzania, and Nepali community forest user groups are some of the many examples of this type of enterprise. Members of the community may well not be "employees" per se but nonetheless perceive benefits from its operation, particularly when resources are owned collectively.
Significant incomes to multiple communities	Particularly in the transformation links of a supply chain, MSMEs may employ dozens or even hundreds of workers. Often these are secondary producer groups that bring together smaller MSMEs, e.g., Chinese SME wood and bamboo furniture industry clusters in Guangdong, Fujian, and Zhejiang provinces (Luo et al. 2009); FORESCOM, a primary transformer that processes wood from eight community forest businesses in Petén, Guatemala; ⁵ Hojanca caton, Costa Rica, where smallholder timber plantations support an economy of small sawmills, transporters, nurseries, forest consultants, and related groups that generate nearly US\$2.5 million annually.

From a livelihoods perspective the most relevant measure of MSME size is arguably how many people benefit from the activity, which may or may not be correlated to number of employees. This typology also takes into account the social structures and relationships involved the distribution of benefits. Where there is one MSME, there are usually multiple, and the collective economic importance of these actors is significant even when it is only a supplemental income source.

Table 3. Degree of Collectivity

Community-owned businesses or collectives	All members of the community participate in decision-making and receive benefits (e.g., forest enterprises in communally-titled indigenous territories throughout the Amazon basin).
Cooperatives	Collective enterprises that are formed by a set of members who are typically part of a larger community that may or may not benefit via additional employment.
Second-tier associations	MSME networks that aggregate or organize individual producers or producer groups to engage in joint market endeavors. These vary widely in structure but typically elect a governing entity with representatives from primary producer groups. Associations may channel benefits directly or function more as a service provider to members who pay for logging, milling, or marketing.
Private ownership, limited partnerships, or joint ventures	A more "traditional" private sector structure in which the head of the company makes the decisions and employees implement them for a fixed wage. In China many MSMEs have broken off from state enterprises and formed small joint ventures (Luo et al. 2009).
Familial	Family farmers or trading businesses, such as Vietnamese wood villages, Liberian pit-sawyers, or Nicaraguan charcoal producers. These may be full-time business pursuits or supplemental, typically informal income streams for small producers with on-farm trees.

Related to the size of an MSME's livelihood impact is its governance structure for decision-making and benefit sharing. Many MSMEs have explicit or implicit social objectives as well as profit-maximizing goals for their enterprise, and face pressure to provide regular jobs for as many people as possible. In general, the further from the forest along the supply chain an SME is positioned, the less likely it is to demonstrate a significant degree of collectivity.

⁵ <http://www.forescom.com.gt/>

Forest, Land, or Tree Tenure Rights

For MSMEs in the first links of the supply chain, there is no dimension more important than the statutory recognition of their rights to access, manage, utilize, and benefit from forest resources. Large areas of the global forest estate – and the majority of small- and microenterprises owned and managed by indigenous and local communities – are governed by longstanding and pluralistic systems of customary tenure. However, the progress to which these rights have been recognized under statutory law, the degree to which rights enable commercial resource use or empower rights-holders to decide whether outsiders can extract resources, and the rate at which recognized rights are in fact realized on the ground, differ widely across Asia, Africa, and Latin America.⁶

Data on the extent of statutory tenure recognition reveals that governments are gradually realizing the importance of tenure security for rural livelihoods and a sound, commercially viable local forest sector. However, some rights empower communities or individuals more than others. The “bundle of rights” approach sheds light on the ways in which a country’s laws delineate local tenure, and includes:⁷

- Access: Right to enter a forest area
- Management: Right to make decisions over management; can also be defined by the limits of other rights
- Withdrawal: Right to harvest timber or NTFPs, for subsistence or commercial purposes
- Exclusion: Right to refuse others access or use over resources
- Duration: Permanence of allocated rights (e.g., with or without time limitations)
- Alienation: Right to transfer forest resources (by sale or lease) to others
- Extinguishability: Right to due process and compensation if rights are revoked

Globally, indigenous and local communities have full ownership rights to 12.6 percent of forestland (in the sense of possessing the full bundle of rights), with an additional 2.9 percent designated for use by these communities. However, regulations governing management of forest resources vary from country to country, as do regulations on procedures by which forest owners can legally sell timber products harvested from property they own by law.

While significant progress has been made in recognizing Indigenous Peoples’ and community tenure in low and middle income countries – a 125 million hectare (Mha) increase in land owned or controlled by communities from 2002 to 2013 – there has been a significant slowdown since 2008, with no recent laws recognizing full ownership. Government control of forestland remains highest in Africa, at 93.7 percent, with Tanzania accounting for over 89 percent of the area owned or controlled by indigenous and other local communities. In Asia, state support of tenure decentralization remains limited, particularly in peninsular Southeast Asia, where governments still retain control over 99 percent of forestland; 78 percent of forests owned or used by indigenous or local communities in Asia are found in China. In Latin America, though 39.1 percent of forestland is owned by or designated for indigenous or local communities, thousands struggle to realize these rights by obtaining formal titles (Del Gatto unpublished).

Many analyses refer to “use rights,” or “usufruct rights” in the context of MSMEs, which fundamentally represent a smaller bundle of rights including access and management at the very least, and potentially expanded to include extraction rights to a given area where the government may still retain exclusion rights or impose limited duration. As

⁶ It is also fundamental to distinguish between enterprises operating under customary regimes and those with no recognized rights, in which use or extraction of resources is conducted on areas where communities or individuals have no historical rights (e.g., private lands and Protected Areas).

⁷ These definitions have been adapted from Rights and Resources Initiative’s essential work in cataloguing global statutory recognition of local tenure, and their interpretation of the “bundle of rights” approach. For more information, and a detailed definition of each right in the “bundle,” see <http://www.rightsandresources.org/resources/tenure-data>.

such, usufruct rights vary in strength; for example, in the Maya Biosphere Reserve of Petén, Guatemala, communities are granted 25-year contracts that can be revoked by the National Legislature (Hodgdon et al. 2015), and ebony loggers in Cameroon have annual permits to harvest a certain volume from forests outside protected areas or concessions (extraction and management rights), but based on an annual export quota set by the government.⁸

Table 4. Dimensions Related to Forest Resources

Extent of forest resource	MSMEs may manage or source from areas ranging from less than a single hectare to hundreds of thousands of hectares in the case of indigenous communities in Peru or Brazil.
Type of forest resource influenced	Is the MSME managing a natural forest or planted trees? A plantation or an agroforestry landscape? Centered on one particularly valuable tree species, or are multiple species being harvested, transformed or marketed? Farmers in countries with tree-planting incentive programs typically have one of a few fast-growing and largely exotic species such as teak or acacia, for whose management they may or may not have received any technical training. Laws often differ depending on whether a producer has planted the tree, managed it within an agricultural matrix, or is harvesting from natural forest.
Type of product	Roundwood logs, shipping pallets, flooring and decking, furniture, composite boards, charcoal, woodchips, or other timber products each require different types of equipment, manufacturing skills, market expertise, and sales networks.
Target market	Is the MSME focused on selling wood products into export market supply chains or is it producing for the domestic market? If domestic, at a national, regional, or highly local scale? If export, are they neighboring/regional markets or “sensitive” markets with legality policies?

These dimensions and interrelationships help make visible the incredible diversity of MSMEs and articulate more clearly the different types of barriers or bottlenecks that they face. It bears noting that these typologies are by no means independent from each other; for example, the nature of the forest resource can be determinant of tenure structures, and vice versa: communities whose rights are secure enough to make a long-term investment are far more likely to view planting trees as an economically sound decision (and, as a growing body of evidence shows, more likely to conserve existing resources [Stevens et al. 2014; Chhatre and Agrawal 2009]). The target market, meanwhile, is to a large extent a function of the forest resource – for example, high-value hardwoods such as rosewood or mahogany are almost always export-bound species – and what constitutes a feasible final market both influences and is influenced by the size of an enterprise and type of rights it has.

3. Invisibilities

Disaggregating the MSME monolith enables us to better identify gaps in policy where we may not be looking. Policies designed to work for one type of business or supply chain may be ill-suited to another; for example, a reasonable traceability system for tropical sawnwood may well be untenable for charcoal production or paper production. While some MSMEs are able to leverage power more successfully than others by connecting with larger political agendas, there are a few particularly common and pernicious blind spots in key policies, either for international trade (such as Forest Law Enforcement, Governance, and Trade (FLEGT) VPAs) or in domestic forestry reforms, as well as other, more subtle aspects of invisibility that impede or bias the way in which MSMEs are engaged by decision-makers.

Illegality v. Informality

As noted above, most MSMEs operate outside the formal market, largely because they lack statutory tenure rights despite active customary governance regimes, and often on ancestral lands that remain formally unregistered or unacknowledged. While it is often politically advantageous for governments to place blame on MSMEs for broader

⁸ Aspects of the law regarding these Special Permits are currently under review as part of Cameroon’s larger forest law reform. (A. Middleton. 2014. Pers. comm., October)

governance failures in order to retain control over their forest estates, and while in some cases, where no formal management exists, these informal ventures do operate outside legal norms and run the risk of adverse ecological impacts, MSMEs do not represent the type of illegal logging that policies such as the EUTR or the Lacey Act aim to eliminate. These MSMEs may in fact be conducting their operations sustainably, but are unable or lack incentives to demonstrate it (**Box 2**). The very language used to talk about MSMEs also creates certain biases. The words “enterprise” or “small business” conjure notions of organized offices, business cards, formality – part but far from the full reality of groups and individuals supplying raw material to both domestic and export markets. The label “informal,” often cast as equivalent to “illegal,” becomes a no-go zone for some donors and projects.

Micro-entrepreneurs or small businesses that have legal rights to their raw materials may still remain informal for other reasons, principally the technical knowledge and/or transaction costs required to register and operate a formal business. While every country’s commercial code differs, this process at a minimum implies determining the optimal type of entity to be formed, registering the entity and its legal representatives with the appropriate national tax authority to be able to legally emit invoices, registering with national social security systems, and registering with the forest authority. Fees are likely to be required. Each step in the process requires the skills to navigate legal documents, the ability to read and digest rules and regulations, and the capacity to develop internal accounting processes. Regulatory compliance therefore represents a widespread barrier for MSMEs.

To be clear, formality is a social good to the extent that taxes support public works and regulations promote good environmental practices and fair worker treatment (many MSMEs operate with highly substandard working conditions). Formalization also is an indicator of economic progress; World Bank data show that as national income increases, the overall share generated by MSMEs remains roughly the same, but the share of the informal sector decreases while that of formal MSMEs increases (Ayyagari et al. 2005). But lack of acknowledgment of the degree of informal enterprise activity leads to data and policies that do not encompass this reality. Most of the VPAs negotiated in West Africa agreed to incorporate domestic markets in their legality assurance systems without an understanding of the extent of informal chainsaw logging as the primary source for domestic timber and employer of hundreds of thousands of people. No representatives of this industry were included in VPA negotiations (Paolo Cerutti. 2014. Pers. comm., October). It was largely after the VPAs were signed that “suddenly everyone ‘discovered’ that a forestry sector comprising small enterprises and many thousands of operators does indeed ‘exist’ in sub-Saharan Africa, and that it has enormous social, ecological, and economic importance” (Cerutti et al. 2015).

Box 2: Identifying and Resolving MSME Informality in the Nicaraguan Charcoal Industry

The raw material for dozens of charcoal-producing families in León and Chinandega, Nicaragua are agroforestry residues from farms in the surrounding landscape. According to CATIE’s research, this extraction of branches, trunks and roots from living fences, fallen trees, and otherwise unused biomass is ecologically sustainable. However, Nicaragua’s forest laws require issuance of a permit before any wood product, including charcoal, can be transported and sold, and the permit can only be obtained with documentation that the material comes from an authorized source – which, in turn, requires preparation of formal management plans by small farmers to sell one or two trees every few months, and an official conversion factor for translating biomass volumes into charcoal. Given these obstacles to demonstrating traceability, charcoal producers have long remained on the informal market, selling at reduced prices to intermediaries with political connections or to local buyers able to launder the raw material with other permits.

In order to address this barrier, Nicaragua’s forest authority INAFOR and CATIE’s Finnfor Project on smallholder value chains have taken several steps. First a detailed analysis was conducted to map supply chain actors and understand the nature of the bottlenecks. It worked with partners to improve their productivity, build business administration skills, and register each family group as a microenterprise under the simplest legal figure in Nicaraguan law. Through participatory research, Finnfor mapped each source farm, estimated productivity, and documented volumes extracted as well as the average yield factor from charcoal kilns. Close engagement with local and national INAFOR staff has built the political will to simplify traceability requirements for this supply chain. Further, the formalization process has allowed producers to forge a deal with a supplier who imports

charcoal to Costa Rica, supplying a major transnational chain of supermarket stores that demands proof of legal origin.

Underrepresentation and Existing Biases

MSMEs are “diverse, informal, slippery and risky” (Mayers 2006) and therefore, as a general rule, poorly represented in policy processes. They will always be more difficult for politicians, bureaucrats, donors, and NGOs to engage with than large actors – and the smaller they are, more so. For a financial institution or donor, small scale and low capacity can necessitate a heavy investment in technical assistance and time for relatively low per-unit impact, and a risky investment at that, since MSMEs are highly vulnerable to economic volatility, one bad stochastic event, or the loss of one or two key personnel (ibid).

That said, the diversity of forest MSMEs is far from evenly represented in the distribution of political power, donor dollars, or even researchers’ attention. Value judgments, discursive processes, and conscious or unconscious biases are also very much at play. Decision-makers also have policy objectives based in legitimate interests for the public to whom they are accountable: for a foreign donor, supporting the recognition of an indigenous communities’ customary tenure and establishing an enterprise to manage its biodiverse forest is likely to be highly appealing, while a regional forest department may be far more interested in granting permits to new sawmills that generate visible employment. There are also vested economic interests in keeping MSMEs from organizing, formalizing, or otherwise becoming more empowered. A powerful economy of petty bribery persists in landscapes where poor producers face legality barriers to bringing their products to market; small-scale chainsaw milling in Cameroon, almost all informal, generates over US\$13.5 million annually in bribery payments to government officials and local authorities (Cerutti and Lescuyer 2011). Industrial logging or trading interests may also be in direct competition with MSMEs, or derive a strong economic benefit from maintaining a “feudal” status quo in which informal enterprises generate much of the supply that is laundered into their supply chains (Gutiérrez 2016).

The application of demand-side policies such as the FLEGT VPAs reveals additional biases. First, forest research institutions and donors are less likely to identify and work with MSMEs in the primary and secondary transformation industries (e.g., harvesting and processing), hampering these policies’ intentions to recognize key actors throughout the supply chain, including intermediaries, which form essential links in facilitating legal and competitive industries. Second, these policy processes always default to coordinating with government actors in the forest sector, excluding or ignoring other authorities responsible for clarifying land use and tenure, taxes, customs, and trade. An MSME’s place along the supply chain, and its ability to adhere to legality requirements, depends in part on which laws and institutions it understands and is capable of upholding, but absence of these key institutional actors – who understand few specifics about forests, timber trade, or forest communities, but play important roles nonetheless in compliance – is a weakness in the VPA processes’ approach to legality.

In addition, donors have historically targeted certain MSME types at the expense of others. Smallholders on agrarian land, for example, are a larger aggregate group than Indigenous Peoples’ enterprises, yet indigenous groups have received more funds in total though both groups face serious challenges to their livelihoods and rights.

Women in MSMEs

Perhaps most invisible actors in timber product MSMEs are women. Women’s roles in NTFP supply chains, while still undervalued, have been recognized and documented far more than their role in traditional forestry.⁹ The physical labors of felling, hauling, sawmilling, and other timber-related activities continue to be perceived as men’s work – and often are, particularly in high-value product chains. Women are also still under-represented in professional and managerial levels in forestry authority hierarchies and forest policy processes, and excluded from actively participating in

⁹ See e.g. Shackleton et al. 2011.

governance structures within the MSME itself despite evidence that the rate of women's participation in enterprise activity has been shown to positively correlate with enterprise productivity and sustainable resource use (Basik 2012).

The reasons for this invisibility are manifold, beginning with the far more generalized economic, social, and cultural barriers that women face, which are amplified by the lack of formal education as well as traditional or religious norms in many rural forestry or agroforestry contexts. Women are less likely to hold land titles, impeding access to credit or right to solicit permits; in developing countries, women are on average only 10-20 percent of all landholders (El-Fattal 2012). Women's traditional household and caregiver duties may also limit capacity, though indirect support through unremunerated household labor is not typically seen as a contribution to the productive forestry activity. Rural women producers recently convened by CATIE's Finnfor Project to discuss their role in smallholder value chains, spoke eloquently of these many barriers:

"In our daily activities we confront many challenges like cultural machismo, economic, psychological and physical violence, abandonment, and minimization of our work, destruction of our self-esteem, negativity, egoism and corruption. We also confront our own lack of information and training, our fears and limitations and the lack of capital to launch new projects" (CATIE-Finnfor 2015).

Yet there are women participating in wood product supply chains at every turn. In Finnfor project communities, women comprise up to 44 percent of those active in resource management, transformation, sale or business administration. They manage charcoal kilns, pack and sell sacks, and administrate small revolving funds for their husbands or relatives; they are members of agroforestry cooperatives, in some cases with leadership roles; they are instrumental in making sub-products like firewood, pine resin, or handicrafts profitable for these community businesses. Some own firewood and teak log plantations as a result of divorce, abandonment, or widowhood that left them with a land title. Without exception they are also homemakers (ibid).

Women's roles in MSMEs at positions further in the supply chain – secondary transformation, trading, and retail – go doubly unseen. The furniture industry in Vietnam and China, for example, has grown fast in part due to a low-paid female-dominated workshop/factory labor force doing sanding and finishing work (Purnomo et al. 2011). In Indonesia, women participate across the supply chain, from teak plantations to carving, bookkeeping, quality control, finishing and export companies. Women are also the dominant presence in warehouses, where they hand paint, varnish, and wrap furniture pieces, as well as in sales showrooms. However, in general they are in the less-well-paid jobs, and men play the lead roles in decision-making over financial resources and sales (ibid).

In order to make visible and strengthen women's roles in MSMEs, it is imperative to recognize that all the typologies described above have implicit gendered aspects. According to International Labor Organization (ILO) data, small family enterprises rely disproportionately on women's unremunerated labor (El-Fattal 2012), thus reducing this burden via labor-saving processes or technologies may remove an important barrier. In a cooperative or community enterprise, governance structures must allow women to take on leadership roles. Policies and program interventions may have unintended gender impacts in seeking to increase production, efficiency, or legality if women's existing roles are not understood beforehand through a conscious mapping of the value chain and its gendered divisions of labor and decision-making (Shackleton et al. 2011; Purnomo et al. 2011).

4. Recommendations: Toward a More Complete Picture of MSMEs in Legal Wood Trade

VPA negotiators and demand-side policymakers should:

- Commission country-specific diagnostic analyses that help to clarify the full complexity of MSMEs in timber product supply chains and quantify each type (size of sector, number of actors, and geographic scope) with an eye to reducing the influence of conscious or unconscious biases towards certain groups.
- Utilize findings of these analyses to design more effective consultation processes in VPA negotiations that require participation from the full range of MSMEs, including small- and medium-sized formal businesses as well as microenterprises.
- Consciously seek to incorporate women's voices through inclusive approaches to negotiations, which take advantage of strengths that women bring to entrepreneurial activity.
- Ensure that stakeholder mapping exercises identify all institutions beyond traditional forest sector actors that are involved in trade all the way to the point of export, and that Legality Definition processes take into account all laws and regulations to which these actors are subject, to minimize the creation of new barriers for MSMEs.

National policy-makers should:

- Obtain a clearer picture of the landscape of MSME actors, including informal actors and MSMEs in other positions along the supply chain.
- Examine how current regulations and institutional structures create substantive barriers to micro-entrepreneurs' formalization of forest and trade activities, and design realistic avenues out of informality rather than criminalizing the rural poor.
- Identify where and how women are involved in wood product supply chains to assess how existing or forthcoming forest sector policies may positively or negatively affect their roles, and develop strategies to strengthen their position within decision-making processes.
- Implement forest, land, and tree tenure reforms within national contexts that reduce barriers to legal and competitive trade for MSMEs.

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