Challenges and opportunities for Lao DPR’s small and medium forest enterprises (SMFEs)
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ACRONYMS AND ABBREVIATIONS

CCI  Chamber of Commerce and Industry
CIAT International Center for Tropical Agriculture
DIC Department of Industry and Commerce
EDC Enterprise & Development Consultant Co., Ltd
FAO Food and Agriculture Organization of the United Nations
FINNIDA Finnish International Development Agency
FRC Forest Research Center
GTZ German Technical Cooperation
IIED International Institute for Environment and Development
JETRO Japan External Trade Organization
LHA Lao Handicraft Association
LNCCI Lao National Chamber of Commerce and Industry
LWU Lao Women's Union
MAF Ministry of Agriculture and Forest
NAFRI National Agriculture and Forest Research Institute
NTFP Non-Timber Forest Product
SNV Netherlands Development Organisation
SOEs State-Owned Enterprises
SUFORD Sustainable Forestry and Rural Development Project
UNIFEM United Nation Development Fund for Women
WWF World Wild Fund for Nature
INTRODUCTION

BACKGROUND OF THE STUDY

In developing countries, small and medium forest enterprises (hereafter called SMFEs) play critical roles. They generate local wealth, help to secure local resources and environmental accountability, promote local creativity and preserve indigenous cultures and market niches. While the number of start-up SMFEs in least developed countries is high, keeping them going sustainably is a major challenge. They face many problems such as insufficient business knowledge; limited supply capacity and poor quality; lack of access to credit; market and technology information; weak bargaining power; too much bureaucracy; unstable policies and regulations; insecure land rights and so on. To deal with these difficulties, many SMFEs work together in associations to reduce transaction costs, adapt to new market opportunities and shape the policy environment to their benefit. But in the least developed countries, supporting structures for such associations do not exist or fail to reach those who mostly need help.

Forest Connect is an International Alliance supported and co-managed by the Food and Agriculture Organization of the United Nations (FAO) and the International Institute for Environment and Development (IIED). The Alliance is formed to address the lack of linkage between SMFEs and their associations to markets, service providers and policy processes. Ten countries from Africa, Asia and Latin America, namely Burkina Faso, China, Ethiopia, Ghana, Guatemala, Guyana, Lao PDR, Mali, Mozambique and Nepal are selected as partners.

The central aim of this project is to connect SMFEs with:

- national forest programs (empowering SMFEs to be heard by policy makers);
- emerging markets (by supporting existing SMFE associations); and
- service providers (strengthening their capacity to provide training and finance).

Under the support of Program on Forest (PROFOR) - a US-based multi-donor partnership formed to pursue a shared goal of enhancing forests’ contribution to poverty reduction, sustainable development and protection of environmental services and FAO - the Alliance aims at developing a toolkit for facilitating support to small and medium forest enterprises (SMFEs). The idea behind this toolkit is to spread lessons on best practice in better linking SMFEs: (1) to each other; (2) to emerging markets; (3) to service providers, and (4) to national forest program (nfp) processes. This project started in 2007 and is expected to last until 2009.

As a partner country of the Alliance, Lao PDR started joining the activities for the first year in 2008. The activities for the year consist in preparing a comprehensive diagnosis of
the SMFEs in Lao PDR and developing a support network communication platform to increase the visibility of SMFE associations.

For Lao PDR, three types of common and main NTFPs have been selected for the diagnostic study, namely bamboo, rattan and paper mulberry (hereafter called posa). The rationale for the selection is: (1) the abundance of the natural resource for the products in the sub-sectors; (2) their importance in terms of employment creation and income generation, especially for the rural population; 3) three products geographically represent different parts of the country, namely bamboo in Vientiane Capital, rattan in Bolikhamxay province in the central region and posa in Louangphrabang province in the North; (4) availability of secondary data; (5) availability of donors’ support to these sub-sectors.

**Research Objective**

This diagnostic study is part of the Forest Connect activities in Lao PDR, which aims at:

- drawing a comprehensive picture of the current status of SMFEs in Lao PDR, particularly bamboo, rattan and paper mulberry or posa, regarding governance, access to market and finance, labour, enterprise link, threats, opportunities and recommendation for facilitation interventions;

- contributing inputs to the toolkit that is being developed by Forest Connect.

**Research Methodology**

This SMFEs diagnostic study is based on the secondary and primary sources of information. The initial research has been conducted by gathering existing data from various sources, including studies that have been carried out by Enterprise & Development Consultants Co., Ltd (EDC), World Wild Fund for Nature (WWF), Netherlands Development Organization (SNV), the National Agriculture and Forest Research Institute (NAFRI) and FAO. On the other hand, some information and data were also updated by interviewing key informants from various organizations.
CURRENT STATUS OF SMFES IN 3 SUB-SECTORS

OVERVIEW OF SMALL AND MEDIUM FOREST ENTERPRISES IN LAO PDR

SMEs in Lao PDR, as defined in the Prime Minister’s Decree on the ‘Promotion and Development of Small and Medium-sized Enterprises’ Nr 42 issued on 20 April 2004, are registered entities classified by turnover, assets and the number of employees. In particular, the average number of employees for each type of enterprises is defined as follows:

- Micro enterprises: from one to three employees
- Small enterprises: from three to nine employees
- Medium enterprise: from ten to 99 employees
- Large enterprise: 100 staff and above

As shown in the first National Economic Census of 2006, the highest number of economic units (enterprises and establishments) belongs to trading (65% of the total economic units), followed by manufacturing (29%), agriculture (3%) and services (3%).

According to the Enterprise Survey conducted by the Lao-German Human Resource Development for Market Economy Program (HRD-ME) in 2007, SMEs account for a large share of the Lao private sector. Agriculture employs more than 70 percent of the population, whereas manufacturing employs only 11 percent with approx. 97 percent of productive units employing less than ten people. Among the medium and large businesses, about 33 percent are private companies, 55 percent are joint ventures and the rest is State-Owned Enterprises (SOEs).

Since 2006 the Lao economy has continued to grow steadily with real GDP rate at about 8.3 percent compared with 7.3 percent in 2005. Hydropower and mining sectors are the key drivers of growth. Other contributions to high growth are provided by tourism and agriculture development. Forestry sector’s share in GDP was 3 percent in 2006 with little changes as against 2005. The forestry sector’s GDP counts only logs and some NTFP, whereas it would be much higher if wood and NTFP processing is included. Within the forestry sector, due to the fact that most SMFES are informal, official statistics and data on their economic contribution do not exist. However, their contribution in terms of alternative income generation for households, preservation of local skills and natural resources is apparent.

With reference to SMFES in Lao PRD, most of them remains informal and falls under micro and small-sized enterprises. In this report, SMFES refer to the registered and unregistered micro, small and medium-sized raw material collectors/harvesters, processing factories, forest product traders and exporters. Those actors’ roles vary in the value chain of a particular forest product.

For hundreds of years, forests have been a major source of income for most Lao people. The livelihood of rural people, who account for approx. 80 percent of the total population, heavily relies on natural resources for food, water, shelter, medicine, fuel and income. According to MAF statistics, in 2002 the country had a large forest coverage
(41.5%) of the total territory. However, this coverage had decreased from 47 percent in 1992. The direct causes for this loss are forest clearing and burning by unsustainable shifting cultivation, uncontrolled logging and conversion to agriculture and other land uses with the underlying causes of widespread poverty, rapid population increase and weak law enforcement. Another aspect is the pressure from the market to acquire big quantities of NTFP products, thus creating over-harvesting of forest and making, easy for people to convert to other land use as a result of forest deterioration.

**Box 1: Slash and burn issue at Sang Thong District, Vientiane Capital**

<table>
<thead>
<tr>
<th>Sustainability of resources used in Sang Thong district is one of the major critical issues identified. Planning and management of land allocation and resources is still poor. Immigration of thousands of families into the region since 2001 has resulted into a destruction of bamboo stands due to slash and burn cultivation. Bamboo stands have also been cut to clear land for rubber plantations.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Source:</strong> J.Foppes, et.al. 2007. Positioning Study of the Bamboo Value Chain in Sang Thong District. SNV Lao PDR</td>
</tr>
</tbody>
</table>

Since 1986 when the Lao economy started opening itself to the world, the country's natural resources became a great attraction for foreign and local investors, who are involved in timber and non-timber harvesting, processing, trading and other related businesses. Therefore, SMFEs play an increasingly significant role in the socio-economic development of the country.

Bearing this in mind, Realizing this fact, with the substantial support of the development organizations, the Lao Government has included the improvement of the local people’s standard of living and the sustainable extraction of both timber and non-timber resources among its priorities for development.

**SELECTED NTFPs**

This section provides an overview of bamboo, rattan and posa as three selected NTFPs for this diagnostic study. This includes the business structure, actors, and sources of raw material, collection, production and trading activities.

**Bamboo**

Lao PDR has abundant bamboo resources that are largely un-exploited. Despite the fact that so far there is no accurate trade record of bamboo handicrafts, real field visits show that the country has great potentialities to develop a vibrant bamboo industry, including bamboo handicrafts and industrial processing, and to leverage on its proximity to the expanding bamboo sectors and markets in neighboring countries.

Bamboo can be found throughout the country but most of bamboo resources are located in the Northern provinces. As previously mentioned, this report only focuses on bamboo production and trading in Sang Thong district – a suburb area of Vientiane Capital (See map).
Sang Thong district’s total population amounts to 18,753 people living in 35 villages. There are 13 bamboo producing villages in the district covering 1,791 families or 9,527 persons, which account for about 50 percent of the population. The main handicraft products are wall mats, tobacco / fish drying mats, chicken coops, fence mats, incense sticks and egg laying baskets (see Annex 1). Ninety percent of these products are exported to Thailand by crossing the border twice a week. Almost every household is engaged in weaving products for their own use as well.

There are seven different actors in the bamboo handicraft value chains in this district. They are bamboo collectors, bamboo traders, bamboo handicraft product producers, producer groups, bamboo handicraft product collectors, domestic handicraft product traders and foreign handicraft product traders. While rice farming and animal raising meet the need for basic food, bamboo handicrafts generate extra cash income, which is very important to households. Since 2006 some villages have begun bamboo handicraft production for commercial purpose, probably following the success of others villages.

Rattan
In Lao PDR, 51 rattan species have been identified (FRC, 2001) and most of them are distributed from Central to Southern provinces. All species are used locally and commercially for food, shelter and handicrafts. The domestic market is relatively small and most of the rattan species are exported to neighboring countries. It is estimated that the export market provides only a low return to local communities because no value addition to the products occurs in the country. The existing rattan resources available in natural forests have not been assessed. Meanwhile, from interviews with villagers and information from other projects, resources across the country are rapidly being overharvested, placing some species at risk of local eradication (Calamus Poilanei). Rattan farming is still at an early stage given the open access to the remaining wild stocks.

The value chain study on rattan, acacia and cassava (undertaken by SNV and partly by EDC in 2008) shows that Vietnam uses up 100,000 tonnes of rattan for its processing industry and in 2010 it aims at exporting rattan and bamboo finished products worth US$1.5 billion. This is the main driving force on demand for rattan as raw material. WWF sources estimate that Laos is processing less than 1,000 tonnes of rattan per year. This gives an idea of the difference existing between the two countries.

The Bolikhamxay Province is one of the areas rich in rattan stocks. It is located in the central part of Lao PDR (See the map above). The province has six districts with a total population of 190,000 people. Rattan canes are found in four districts out of six. According to official statistics, in 2006 the province provided the highest quota compared with other provinces (280,000 canes vs. 170,000 canes in the Champasak province and 150,000 canes in the Vientiane province). Assuming that one cane weights one kg on
average, the quotas of 280 000 canes represent on average 280 tonnes of rattan to be officially allowed for harvesting. However, a recent EDC & WWF report on rattan value chain shows that the main part of rattan harvested is not officially recorded.

In Bolikhamxay, SMFEs in the rattan sector consist of few processing factories, traders and producers at villages. A few years ago, there were from three to four furniture factories producing sofas, tables and beds in small quantities, only catering for the domestic market. They were not involved in exports owing to high transport cost. Nowadays, factories have stopped producing final products and only focus on semi-processed assembled parts for export. However, it has been noticed that the rattan canes used have decreased since 2004.

In addition to factories, rattan products are also made in villages, though on a much smaller scale. The producers are mainly those who live in the area with access to rattan resources. For these micro-businesses, making rattan handicraft products is considered a way to supplement farming activities. Rattan handicrafts are often produced by wealthy villagers, who buy raw rattan canes from poorer villages. In terms of labour division in villages, men often carry out the rattan splitting, whereas women and children mostly work on finished products. The village rattan handicrafts are mainly sold to middlemen, who will sell them again to shops in Vientiane Capital and also to traders in Thailand. The level of sophistication of rattan processing normally depends on the design developed by buyers.

The market chain of the rattan raw material and finished products are different from other NTFPs in general. Other NTFPs can be exported as raw material, excluding rattan. However, export of dried and graded (semi-processed) rattan is authorized. The main reason is that government policy prohibits the export of rattan as raw material in order to promote value addition within the country. But this is not working well because factories are mainly exporting dried rattan under the category of semi-processed products and so depletion is still going on. More processing within the country is needed and Government is trying to promote it, as well as WWF Sustainable Rattan Harvesting and Production Project (2006-2011)

Another important product from rattan is the edible shoots, which are collected as popular food for local people. It tastes like bamboo-shoots or asparagus. Rattan shoots are sold on the local markets at a higher price than bamboo shoots. Currently shoots are planted in several areas of the country, such as Savannakhet province and Vientiane Capital, and processed into dried products for sale on the domestic market and the Vietnamese market. Dried shoots are also exported informally to Lao families living abroad, in Europe or the USA where they are sold to Asian citizens.

**Paper Mulberry (Posa)**

The main source of posa is the Northern provinces like Louangphrabang, Bokeo, Sayayboury and Oudomxay. Lao PDR has been exporting dried posa for more than 20 years mainly to Thailand and recently to China. The collection of posa alone involves more than 40 000 people in the Louangphrabang province. Posa in Louangphrabang started to be domesticated in the 1990s and today it is sold as an agricultural product.
The village and district collectors are the ones who buy the dried bark from villagers and sell it to provincial traders/exporters.

In 2007, demand for export amounted to 10 000 tonnes/year approximately with a fairly high yearly growth (20%), while actual harvest was estimated at mere 3 000-4 000 tonnes/year, which was far lower than demand. Lao PDR has become the main source of this raw material for a very dynamic processing industry in Thailand (up to 70-80% of the total volume employed).

The posa SMFEs in Louangphrabang can be classified into three groups, namely big (one enterprise), medium (six enterprises), small and micro (68 retailing shops). According to the posa sub-sector study in 2007\(^1\), there are one big enterprise, six medium and 68 small and micro enterprises. The only big enterprise has about 15 employees. It used to focus on producing pulp but, owing to market problems, it slowly shifted to producing handicraft items. Its capacity in producing paper is double the size of medium enterprises (more than 4 000 sheets vs. 2 000 sheets). The core products are: (1) dried posa bark as raw material and; (2) handicraft items as souvenirs such as book/album, lamps, wrapping paper, postcards, bags and paintings.

The dried posa bark is mainly exported. Only a small portion (100 tonnes vs. 3 000-4 000 tonnes) is processed into finished products. The market for posa handicrafts in Louangphrabang heavily depends on the tourist industry. Until last year, there was no formal export of finished products, except for tourists who bought relatively big volumes of items for home. Posa paper and handicraft items made in Louangphrabang are also sold to Vientiane capital.

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\(^1\) Posa (Paper Mulberry) Sub-sector Opportunity Assessment – O. Pathammavong - 2007
GOVERNANCE ISSUES

FOREST MANAGEMENT POLICY

In Lao PDR, natural forest and forest land is designated as property of the national community with the State acting as representative in the management and allocation of forest land for rational use by individuals and organizations. According to the Forest Law, individuals and organizations acquire tenure rights to trees, natural forest and forest land only when permission is received from the relevant agencies. Long-term use rights of natural forest can also be allocated to individuals and organizations. Pursuant to Law, natural forest can be also leased or granted to concessionaires for protection and harvesting. However, so far the government has only allocated natural forest to villages through the land and forest allocation program.

As mentioned in the Forestry Law, which was adopted in 2008, forests in Lao PDR are classified into three following categories:

- **Production Forests** are forests and forestland used to provide timber and other forest products regularly and on a sustainable basis for national economic and social development requirements and for people’s livelihood without significant negative environmental impact.

- **Conservation Forests** are forests and forestland classified for the purposes of protecting and preserving animal and plant species, natural habitats and various other entities of historical, cultural, tourist, environmental, educational or scientific value.

- **Protection Forests** are forests and forestland classified for the protection of watershed areas and prevention of soil erosion. They also include areas of forestland with national security significance; areas for protecting against natural disasters and areas for environmental protection.

- **Pursuant to the Forestry Law**, other Prime Minister’s Decrees and MAF regulations, bamboo and rattan (listed under Non-Timber Forest Product or NTFP) can be collected for village consumption, as well as for commercial use. Customary use includes the collection of NTFP in all forest areas within a village boundary, although limited in protection and conservation forest. However, often rules and regulations set up at national level are not well enforced and often not suitable for local practices.

**Box 2: Rattan harvesting period**

Pursuant to the Prime Minister Order 15, Art. 2, rattan can be collected from 31 May to 31 October. However, the actual harvesting of both mature and immature stems mostly takes place during December–March, which is the dry season. The reason is that harvesters find it easier to gain access to the forest in the dry season. It shows the unmatched policy and actual practice.

*Source: WWF, NAFRI. 2006. Sustainable Rattan Harvest and Production*
Moreover, there are no official statistics and data on bamboo, rattan and posa resources, as well as trading volumes. Available species are well-known, but quantities cannot be identified. The annual quota allowances are set on the basis of harvested volumes in the previous year instead of the actual resources available and mainly driven by the private sector. This creates difficulties for the government to plan for extraction and sustainable resource management and for investors to plan their ventures.

**Box 3: Limited information on rattan resource and trading**

Having access to information on resource and trade of rattan is very difficult. Rattan and bamboo have been mixed in numerical statistical records in Commercial Division. In addition, the Forestry Division is unable to identify the area of rattan resource and their volume.

*Source: EDC for WWF. 2006. A Study of Rattan Market Chain in Lao PDR.*

**Box 4: Quota issue at the Sang Thong District, Vientiane Capital**

A quota system is defined on an ad hoc basis. The quota is issued at provincial level, not at district level, thus creating price differentiation and fluctuation between traders groups, who get quotas and those who do not get them. The local traders with quotas can buy at a cheaper price than those from Vientiane. Instead of selling their products to the traders’ association from the village, producers sell to traders from Vientiane for a better, but not sustainable price. This results in inconsistency of price and quantity of product delivering to the traders’ association, who is the long-term buyer with a large quantity. The traders’ association also claims that there are too many fees to be paid at different points (See Annex.4).

*Source: Foppes, et.al. 2007. Positioning Study of the Bamboo Value Chain in Sang Thong District. SNV Lao PDR.*

**LAND USE RESTRICTION**

Individual households own land for rice farming, non-farming and residential purposes. Land is usually a heritage from parents to children. The newly resettled households are given a certain plot of land from the authorities. In the locations selected for this diagnostic study, there are no cases of land lease or grant for handicraft production. However, in general terms, so far land use has had no negative impact on SMFEs.

**QUOTA ISSUES**

So far there have been quota restrictions for rattan and bamboo harvesting and trading. Traders need to obtain renewable yearly business licenses and quota licenses from the Provincial Agriculture and Forestry Office (PAFO) and the Department of Industry and Commerce (DIC). The license is shown to the relevant government agencies when the collection/ harvesting and transport of resources found in the forests (except Conservation Forest\(^2\)) are carried out elsewhere in the country. However, it has been found that the quotas are not calculated in a proper way as it should be. As previously mentioned earlier, the lack of information on rattan, bamboo and posa resources available makes the reasonable quota calculation very difficult.

\(^2\) Forest that is endowed with, different bamboo species apart from natural habitats and various other entities of historical, tourism, environmental and educational or scientific value.
**TAX AND FEE SYSTEM**

In Lao PRD, tax and fee collection varies from district to district. Different charges are also applied for bamboo, rattan and posa. In general, fees are not considered a big issue for businesses.

**Box 5: Types of fee applied for NTFPs**

As for all kinds of NTFPs harvests for commercial purposes, several fees are applied, for instance, in the village; the gatherers will pay a small portion of the total sales to the village community. At district level, a small forest restoration fee (also called resource loyalty fee) is charged by the Agriculture and Forestry Office at district and provincial levels.

Source: WWF, NAFRI, 2006. Sustainable Rattan Harvest and Production

**Box 6: Fee related to Posa business**

Lao exporters to Thailand enjoy import tax exemption once they can show the Certificate of Origin. Since 2004, the cultivated posa in Louangphrabang has been exempted from forestry tax and therefore farmers pay only land use tax when planting posa. Businesses pay the followings taxes when exporting: (1) a 2 percent export duty on turnover or total export value for a volume exceeding 200 kg; (2) an agricultural certificate of 55 000 Kip/5 tonnes (US$6.5 approx.); (3) an export permit of 20 000 Kip/trip (US$2.5 approx.); (4) a CO for 50 000 Kip/trip (US$6 approx.).


**INFRASTRUCTURE**

Lao PDR shares borders with significant neighboring countries, including China, Vietnam, Cambodia, Thailand and Myanmar.

Strategically the Government plans to transform this land-locked location into a land-linked one where Lao PDR can be the center of product flows among Asian nations and other regions. International flights have been established in major cities, which increase the passenger and goods transport capacity.

Inter-provincial roads in the country have been gradually improved in recent years, thanks to the considerably large financial support provided by ADB, JICA and other Governments. The newly-constructed road linking China, Lao PDR and Thailand, crossing the Northern part of Lao PDR has great relevance for trading and transport in the region. Posa exports to Thailand from Louangphrabang are likely to face no major difficulties in terms of infrastructure.

However, infrastructure in many other areas remains relatively poor and this affects the growth and development of the SMFEs’ sector. In the Sang Thong District, in particular, poor road conditions cause delay for the transport of bamboo raw materials and finished products. Limited access to electricity reduces communication abilities, as well as the opportunities to use equipment; limited access to Thai Borders prevents local people from increasing their sales. The box below shows clearly how infrastructure affects the bamboo value chain:
Box 7: Poor infrastructure

The main issue mentioned by bamboo collectors in Sang Thong is that bamboo resources along the roadsides are mostly finished, while the remaining bamboo forests are often too far from the road. Due to the poor conditions of the road linking the Sang Thong district to Vientiane city, transport costs remain relatively high. There is also limited access to electricity in most villages. Small bamboo cutting machines are fuelled by gasoline engines. Cellular phone networks cover most of the villages along the Mekong river, but not those further inland. The opening of the border crossing with Thailand twice per week is also a hindering factor for crossborder trading. Lao traders could sell more if the border is opened more frequently.


ENDEAVORS TO PROMOTE THE SUB-SECTORS

The Government plays an important role in supporting the development of SMEs in general and SMFEs in particular. At central level, the Small and Medium Size Enterprise Promotion and Development Office (SMEPDO) is a representative of the Ministry of Industry and Commerce, which plays a major role in creating enabling business environment for SMEs and facilitating the SME development in all sectors. At provincial level, among Government agencies, the SMFEs usually refer to the Provincial Agriculture and Forestry Office (PAFO) and the Department of Industry and Commerce. PAFO is responsible for monitoring and controlling natural resources while the latter manages and promotes trade and investment.

Well aware of the potentialities of these sub-sectors, the Lao Government - with the support of international agencies such as FAO, WWF, SNV, GTZ, and CIAT - has made considerable efforts in supporting and promoting them through policies, workshops, studies and concrete activities.

In September 2008, the Lao SMEPDO and Thai SME Promotion Office signed a MOU, which aimed at establishing a SME network, finding business partners and developing business operations in many sectors, including tourism, industry and handicraft. Handicraft includes posa products. Many international agencies such as WWF, SNV and CIAT maintain a sound exchange of information and try to complement each others’ activities through workshops, meetings and by sharing reports.

SUMMARY

Governance issues of SMFEs in Lao PRD can be classified into three main groups. Firstly, some forest management regulations do not match the local practice. Secondly, the harvesting quota is not properly issued and not based on resource status; hence maximizing resource utilization is difficult. Thirdly, poor infrastructure hinders the SMFEs’ access to the opportunities designed to expand existing businesses and reach new markets. However, infrastructure in some parts of the country and fees applied for the NTFP have proved to be favourable for SMFEs.
FINANCE AND MARKET ISSUES

FINANCE ISSUES

Over the last few years, the financial sector in Lao PDR has improved considerably. State-owned commercial banks like BCEL, Agriculture Promotion Bank, Lao Development Bank continuously make their services more customer-friendly, reduce red tape and diversify their financial products to meet the local customers’ different needs. The entry into the market of a number of foreign and local private banks such as ANZ-Vientiane Commercial Bank, ACLEDAA, ICB, Phongsavanh Bank also opens up financial prospects for the private sector. Village saving and credit schemes have also become quite popular in rural areas and serve as an effective alternative source of credit for small and micro-companies and for household purposes.

Box 8: Alternative Sources of Credit

In a village of the Vientiane Province, loans are provided to the producers’ group under the Poverty Reduction Fund Program and channeled through the District Industry and Commerce Office and the village authority. In other villages, the Lao Women Union (LWU) also provides credit scheme to the group with a low monthly interest rate (1 percent compared with 2 percent of commercial banks).


While both commercial banks and saving and credit schemes do not reach the SMFEs located in rural areas, the main financial sources for the SMFEs are still from their own resources and their business partners.

Box 9: Financing posa business

The posa business actors have access to the cash advances from the Thai major buyers through Thai traders until village collectors. Those who do not want to depend on cash advances, can borrow from Lao Banks at a yearly interest rate from 12 percent to 18 percent for loans denominated in Baht. According to traders, in addition to high interest rates, another difficulty is the unavailability of medium and long-term loans. For micro and small businesses, their own funds remain the main financial source.


However, villagers/farmers, who make the largest portion of the forest product value chains, are those who have limited money reserve or no business partners. The poor skills of business owners in writing a bankable business plan are also a factor that prevents them from successfully having access to formal loans.

Box 10: Limited Access to Credit

Bamboo trading groups need to purchase more advanced machinery for chopstick production, which helps to improve the production quality and quantity, but they have a rather limited access to credit. A loan program with low interest rates from the local bank called Nayobai Bank (Policy Bank) is available; however, the problem is that both traders and processors lack knowledge and skills in writing business plans.

MARKET ISSUES

With consumers’ increasing concern for health and demand for health products, natural products are getting more popular on both domestic and global markets. The diversity of products, which can be adapted to current people’s lifestyles, creates competitive advantages among different substitute products. The phenomenon of decreasing forests in many countries and the increasing market demand for natural and organic products create great business opportunities for Lao SMFEs.

Box 11: Marketing opportunities for exporting rattan in Bolikhamxay

Even though the volume of rattan canes that were semi-processed and exported in parts by three major rattan manufacturing in Bolikhamxay has decreased since 2004 owing to the reduction of rattan canes in the wild forest, the average export value has increased because of the increasing unit sale price. In fact, manufacturers have higher bargaining power in terms of pricing over their foreign business partners because of scarce rattan resources and the limited manufacturing capacity vs. high demand for rattan furniture.

Source: EDC for WWF. 2006. A Study of Rattan Market Chain in Lao PDR.

The SMFEs capacity in gaining market access also becomes a pressing issue as a result of increasing market competition and more sophisticated consumers’ behaviors. Two major constraints related to market access are limited access to market information and ability to enter new markets. The same issues can be found in the case of bamboo and posa businesses as described below:

Box 12: Limited Access to Market Information

A constraint in relation to market access for bamboo handicraft is information on product specifications. Many bamboo products such as tea box, office folders require quality control in order to meet buyer’s requirements, which remain unclear to producers. This problem prevents producers from entering the market for higher value products.


Box 13: Difficulties incurred in expanding to new markets

Despite foreign buyers’ interest, so far no local companies in Louangphrabang have been able to export posa products owing to several constraints such as marketing capacity, product design, logistics, etc… Several investors from Chieng Mai (Thailand) have tried to set up pulp processing facilities in the city, but also failed because of weak internal capacity.

So far, small dried posa bark collectors have usually taken advantage from traders because they lack business information and the capacity to seize business opportunities. Unfortunately, Lao businesses have no power over price because pricing is mainly regulated by non-Lao businesses.

For processing businesses, the current phenomenon is copying product designs and quality. Smaller businesses are likely to follow the design and quality of bigger processors, who are more advanced because of their better connection with the Thai market.


SUMMARY

Finance and market issues are critical for SMFEs’ development. Despite the emerging financial sector and availability of more financial products, local villagers still face a limited access to credit and lack business planning skills. This makes the expansion of production
and application of new technologies rather difficult. Moreover, the limited access to market information also prevents SMFEs from entering new markets.
LABOUR ISSUES

All Three selected NTFPs provide jobs to a large number of rural people, especially women. Harvesting, trading, processing and product making from bamboo, rattan and posa are all labour-intensive activities. This means that manpower accounts for the largest share in terms of production costs and productivity.

<table>
<thead>
<tr>
<th>Box 14: Labour issue in posa business</th>
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<tbody>
<tr>
<td>Posa bark collection involves more than 40,000 people mainly in the rural areas of Louangphrabang. The production and sale of handicraft items also create jobs for a significant number of people, especially women in suburb areas and the city itself.</td>
</tr>
</tbody>
</table>

On the other hand, labour-intensiveness results into an uncompetitive level of productivity of SMFEs in both overseas and domestic markets. Several main causes for the low level of productivity have been identified in recent studies as shown below:

- lack of the private sector investment in new technologies;
- limited knowledge and skills in applying new technologies;
- lack of knowledge and skills for designing new products;
- lack of local workers during the rice planting and harvesting season, which causes labour shortage and hence reduces the factory production capacity;
- skills are not yet taught in formal or vocational education.

More specific details regarding the above stated issues are shown below:

<table>
<thead>
<tr>
<th>Box 15: Limited knowledge and skills for applying new technology</th>
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<tbody>
<tr>
<td>Bamboo products in the Sang Thong district are traditionally made and use virtually no technology to support the production process. One of the reasons why technology has not been introduced is because producers have limited knowledge and skills in using “new technology” as well as skills in designing new products to meet market needs. Moreover, there is no training provided for this producers’ groups.</td>
</tr>
<tr>
<td>A recent survey has revealed that only one third of bamboo poles are used in bamboo chopstick production. Although technology is used to cut poles equally, much of them are wasted. This means that bamboo poles are not yet been used effectively and efficiently through technology.</td>
</tr>
</tbody>
</table>

So far it has been found that the techniques on posa paper, bamboo and rattan handicraft making are not yet taught in any vocational and technical schools in the country. Skills are basically transferred within families and through on-the-job training in factories. This fact may also explain why the product design, quality and also productivity of the Lao SMFEs remain low compared with other neighboring countries.
ENTERPRISE LINKS AND ASSOCIATIONS

GOVERNMENT AGENCIES

Supporting the private sector in producing and marketing handicrafts is one of the priorities in the working agenda of the Ministry of Industry and Commerce and its local Line Agencies. The current focus is to get producers and traders organized as informal groups. The groups are expected to have better access to technology, information, market and credit. Activities are usually carried out by using resources provided by donors and in cooperation with the LNCCI at central level and/or the provincial CCI.

Box 16: The producers’ group relationship with Government

In the Sang Thong district, the Head of a producers’ group, who is also a product collector, usually has good relations with the village authority and the District Industry and Commerce Office.


NATIONAL NON-GOVERNMENTAL INSTITUTIONS AND DONORS

The Lao Handicraft Association (LHA) was established in 1998. It is a no-profit business membership organization based in Vientiane Capital and works under the supervision of the Lao National Chamber of Commerce and Industry (LNCCI). With members operating businesses in woven silk, cotton textiles, silver, gold smith, wood, rattan and bamboo sectors, LHA aims at uniting and preserving the Lao handicraft art; developing and promoting Lao handicraft companies, who are both members and non-members by improving the product quality to better respond to market demand. The LHA has also a show-room in Vientiane capital where the handicraft products throughout the country are displayed for sale. Every year LHA also organizes a Handicraft Fair, which is an opportunity for local producers to sell their products and gain bigger access to market. LHA receives technical and financial support from international organizations such as the United Nation Development Fund for Women (UNIFEM) and the Japan External Trade Organization (JETRO). The projects provide seminars and training on marketing and productivity and quality improvement for handicraft producers’ group.

However, due to the fact that bamboo and rattan producers account for a relatively small proportion of LHA membership, so far no LHA projects has provided direct support to bamboo handicraft producers as such. Because Posa, is not available in Vientiane Capital, the group of Posa traders and producers is available only in the Louangphrabang province.
Box 17: The role of LHA and Posa Handicraft Group

Recently, the Posa Handicraft Group and Louangphrabang Handicraft Association (LHA), which refers to the Louangphrabang Chamber of Commerce and Industry, has started to organize groups of posa collectors, traders and paper producers in two districts, jointly with the Netherlands Development Organization (SNV). The main objectives of the group are: (1) to build capacity on product specialization among different groups; (2) to enhance solidarity among SMFEs. These activities help local producers to better penetrate the tourist market in the province. Two associations also organize technical training on new design and production skills. Thanks to its activity performed for several years, the Louangphrabang LHG organizes a number of initiatives to promote posa products, in particular and local handicrafts in general, such as training, workshops and the Handicraft Festival…

Source: Interview with the Head of the Louangphrabang Handicraft Association

For a number of years, different international organizations have spared no efforts to support NTFPs in general and bamboo and rattan, in particular. They work with SMFEs in major areas, namely: (1) natural resource management; (2) income generation; (3) access to market; (4) policy advocacy. Some examples are: the “non-wood forest product community-based enterprise development - a way for livelihood improvement in Lao People’s Democratic Republic” of the Food and Agriculture Organization of the United Nations (FAO) in partnership with the Netherlands Development Organization (SNV) and the National Agriculture and Forestry Research Institute (NAFRI); the “Sustainable Forestry and Rural Development Project” (SUFORD) by MAF/WB/FINNIDA, combining NTFP and tree management in production forests, and the rattan project focusing on sustainable rattan management in village forest; “Certification of rattan and bamboo managed by local people linked with local processors to attract premium prices through sales of certified products in high-end markets” by FRC/WWF/SNV (Source: Forestry Sector Development Report for 2006-2007 - Ministry of Agriculture and Forestry - Department of Forestry). Livelihood improvement through sustainable natural resource management is the core objective of these efforts. Recently, SNV has also started to promote bamboo in the Huaphan province and Sang Thong district – Vientiane Capital, in collaboration with the Gender and Development Group (GDG) in the Huaphan province, and rattan shoot development in the Savannakhet province. The organization is also studying the feasibility of bamboo and rattan in the Khammouane province. WWF is trying a model, in which rattan harvesters and micro-producers are facilitated to work directly with processing factories. Furthermore, factories are helped to form an association and also have access to the FSC (Forest Stewardship Council) certified rattan. Another development organization called Prosperity Initiative (PI) - an UK-based NGO – is also carrying out a bamboo project jointly with a French NGO called GRET in the Huaphan province.
TRENDS IN THE SMFE SECTOR

As mentioned earlier, the Lao private sector in general receives special attention by Government in the socio-economic development process.

Box 18: SME promoter is pushing for the reform of Government officials’ role

“One of the steps we intend to take in order to improve the business climate in Laos is to change the attitude of government officials, so that they can do more to facilitate business rather than put up obstacles” said Manohak Rajchak, Deputy Director of SMEPDO.


Within the private sector, in particular, the advantages in terms of geographic location, increasing market demand for health and natural products, availability and diversity of natural resources and local people’s production skills are the main factors for the growth of SMFEs. Nevertheless, many efforts are required to improve some of the following issues for the Lao SMFEs:

- Even though a more enabling environment for the SMEs has been set up in order to promote foreign and domestic investment, there are no specific policies to benefit SMFEs yet.

- The market demand for forest products is increasing as a result of consumers’ greater awareness about environmental-friendly products. However, the current low productivity, labour-intensive technology and poor designing skills place the Lao products in the low value-added group of products, which, therefore, are far less competitive than the similar products in Thailand or Vietnam.

- Under the pressure of increasing competition, Lao producers and traders have gathered in groups/associations in order to gain better access to information technologies, as well as to increase bargaining power among the competitors. However, these groups need to be helped in terms of management in order to survive and be able to operate according to the objectives set.

- The decrease of raw material becomes one of the most important issues that negatively affect Lao forest enterprises. Therefore, sustainable natural resource extraction and use, new technologies to increase productivity and reduce waste and domestication of raw material are the topics that need to be raised among the SMFEs.
CONCLUSIONS AND RECOMMENDATIONS

Conclusion
SMFEs in Laos gain comparative advantages thanks to the abundance and diversity of the country’s natural resources and also benefit from the opportunities emerging from the improved business environment and the increasing market demand for natural products. Many efforts by Government and development organizations, jointly with the private sector, have been devoted to the promotion and development of the SMFEs’ sector in order to make it more visible, interconnected and competitive. However, much still needs to be done regarding policies, the internal management capacity of SMFEs themselves and support services to the SMFEs.

On the basis of the comprehensive picture about Lao SMFEs provided in this diagnostic study, some recommendations are made to address the constraints identified and related to (1) forest decision-makers and policy development, (2) SMFE’s management capacity and (3) service provision. Many issues may have already been tackled or planned to be solved by some projects; however, for the benefit of the Forest Connect Alliance, they are still included in the “Recommendation” section. Government, NGO, investors and local communities shall work closely together with a view to carrying out these interventions.

Recommendations

Forest-decision makers and policy development
- **Natural resource statistics**: statistics on the most promising NTFPs (resource, production and trading) in a particular district and/or province should be gradually collected, updated and used for different purposes such as planning, management, monitoring, and investment promotion. Normally, this is the role played by the relevant Government agencies like MoIC and MAF at national, provincial and district levels. Provincial departments, however, should play a leading role since they are located in the province and have the power to coordinate and instruct district offices to collect the necessary data. The quick inventory system developed by the SUFORD project should be studied carefully for being replicated. This is now done by WWF and SNV in the Sangthong district – Vientiane Capital.
- **Quotas**: the existing quotas for bamboo and rattan and fee/tax system should be reviewed, adjusted to the local context and made transparent for the public. Similar issues can be fed back to national policy-makers through the mechanism of knowledge brokering events (to be directed by SNV) or the existing Provincial Public – Private Dialogue (PPPD – developed by GTZ HRD-ME) in provinces.
- **Domestication of the NTFPs**: it should be promoted, starting from those with high economic potential, for example, by granting export tax exemption for domesticated products like posa.
• **Awareness raising**: the problem of understanding SMFEs on the sustainable natural resource utilization and management should be raised. The public inside and outside Laos should also be educated about the benefits of natural products, environment protection and encouraged to use Lao SMFE’s products. Business relations between SMFEs, private companies and Government should also be strengthened so that these three actors can work together for a sustainable use of resources.

• **Infrastructure**: the transport system, road conditions, telecommunication and electricity networks should be improved on a continuous basis to boost the use of new technologies and facilitate access to information and trade.

• **Trade promotion**: attention should be paid to creating more enabling import-export conditions and procedures between Laos and the other neighboring countries in order to promote official and cross-border trade.

• **Local skill preservation and development**: handicraft skills should be included in the public and private vocational and technical curricula.

• **Access to loans**: non-formal and formal financial providers should be encouraged to reach rural areas, where the majority of SMFEs are located.

• **Creation of groups and associations**: it should be encouraged and assisted.

• **Land allocation and use rights**: they need to be strengthened to improve access to resources, thus encouraging community-based management.

**Small and Medium-sized Forest Enterprises**

• **Awareness on sustainable natural resource utilization and management**: The environmental impact has to be evaluated among SMFEs, which results into more effective use of raw material and raw material domestication. This is related to land rights and allocation as mentioned above.

• **Access to Information** to develop and put into practice an information mechanism to help SMFEs to have better access to the information they need so that they can take more informed decisions. The mechanism should be user-friendly, easy to manage and, in principle, commercially viable. The content should be relevant to the needs of SMFEs and updated. Information can be as specific as: the local market price of a particular product; price in different markets; market trend forecasts; customers’ needs and requirements; buyers’ and sellers’ contacts.

**Supporting Service Provisio:**

• **Technical forest expertise**: technical forest expertise in the public and private sectors should be further developed. These experts shall provide technical advice on how to maximize the use of natural resources, as well services such as those to domesticate rattan and bamboo for collecting shoots or to plant posa.

• **Investment or working capital**: banks and financial institutions should improve lending policies on a steady basis in order to enable local communities to have access to loans.

• **Design training**: handicraft designing skills should be encouraged and taught in private and public vocational and technical schools.
- **Market information and information technology provision**: this is a top priority in supporting SMFEs. In Laos, this topic has been discussed for several years, but actual interventions remain very limited. An information collection and delivery mechanism, including convenient and affordable technology for SMFEs, has to be developed and implemented with a view to enabling all actors in a particular value chain to get updated and accurate information.

- **Business counseling and training**: in addition to technical knowledge, private service providers should be encouraged to help SMFEs to develop and enhance their business management skills, especially in rural areas.

- **Courier and delivery services**: the logistical services should be improved on a continuous basis in order to reduce lead time in the transport of goods within the country and beyond borders, as well as the associated costs. This factor greatly contributes to increasing the competitiveness of the local products or decreasing it if not well-planned and organized.

- **Advertising/trade fairs**: trade fairs or exhibitions in both domestic and foreign markets are needed to raise customers’ awareness on Lao products and link buyers to producers. Educating Lao companies on how to attend an event and make use of it is also necessary.
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ANNEX I

LITERATURE ABOUT BAMBOO

(Full reports are available at www.forest.edclao.com)

<table>
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<th>No.</th>
<th>Description</th>
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<td>2</td>
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<td>3</td>
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<td>Houaphanh Bamboo Value Chain Analysis</td>
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## ANNEX 2

### LITERATURE ABOUT RATTAN AND POSA

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**Forest Connect**

**Reducing poverty by linking small and medium forest enterprises with national forest programmes, markets and service providers**

Forest Connect is an international alliance dedicated to tackling the isolation of small forest enterprises. Established in late 2007, its aims are to avoid deforestation and reduce poverty by better linking sustainable small forest enterprises to each other, to markets, to service providers and to policy processes such as National Forest Programmes (nfps).

It currently involves partner institutions in 12 countries: Burkina Faso, China, Ethiopia, Ghana, Guatemala, Guyana, Laos, Malawi, Mali, Mozambique, Nepal and recently also the Democratic Republic of Congo plus a broader network of supporters in > 60 countries linked by an international social networking site.

The Forest Connect alliance is co-managed by the Natural Resources Group within the International Institute for Environment and Development (IIED) and the Community-Based Forest Enterprise Development programme (CBED) of the Food and Agriculture Organization of the United Nations (FAO).

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**For more information on Forest Connect, pls contact:**

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Webpage small-scale forest based enterprises:  
http://www.fao.org/forestry/site/25491/en  
Forest Connect:  http://www.fao.org/forestry/site/42297/en  
International social networking site:  http://forestconnect.ning.com