

POLICY BRIEF ON: IMPROVE ECONOMIC VIABILITY OF SMALL SCALE FOREST ENTERPRISES

✚ KEY MESSAGES

- ✓ *It is widely accepted that, the growth and economic viability of small enterprises including forestry enterprises contribute greatly to the creation of jobs, increase in income, women empowerment, improvement in living standards leading to greater economic growth and alleviation of poverty.*
- ✓ *Future of small scale enterprises including those in the forestry sector will depend largely on their ability to adopt to change market, technological improvement, transition from the informal to the formal sector and value chain in which they operate.*
- ✓ *Creation of an enabling environment for small business particularly, remove many of*

the obstacle that impose high transaction costs on small-scale forest enterprises, including complex rules, regulations and procedures and establishing separate unit in forest department to look after the Business Development Service that make the favorable climate to improve economic viability of small-scale forest enterprises.



Figure: Wood made handicrafts

✚ BACKGROUND

The Asia Pacific region is home to most of the world's small scale forest enterprises, which play critical role in meeting the growing demand for forest product worldwide as well as making vital contribution to livelihood and economy. Traditionally, most small business has been designed to meet the demand of local market. Going beyond local market require up scaling in the volume or value of production. Small enterprises play an important part in processing, transportation and marketing of forest products. Even, wood production is also moving in to the domain of small holders in

many countries. Further, involvements of small enterprise to provision of environmental services are also gradually increasing. It is widely accepted that, the growth of small enterprises including forestry enterprises contribute greatly to the creation of jobs, increase in income and improvement in living standards, economic growth and alleviation of poverty.

Small-scale enterprises remain vibrant segment of most economies and mostly those drives through, size of land holding, number of employees or amount of capital invested. Small enterprises are started with limited investments, largely drawing of local resources and skills and

producing for local market. In generally small scale forestry enterprises are dealing with wood production, collection and processing fuel wood and non-wood forest products etc. Normally, investment requirement is low, and entry is relatively easy, individuals can take the risk and invest in small enterprises and leave the business when it faces difficulty. According to the, US Small Business Administration, over 50% of small business fail in the first year and 95% fail within 5 years' period. Business with fewer than 20 employees have only a 37% chance of surviving 4 years and only 9% chance of surviving 10 years. Future of small scale enterprises including those in the forestry

sector will depend largely on their ability to adopt to change market, technological improvement, transition from the informal to the formal sector and value chain in which they operate.

🚩 OBJECTIVES

1. Assess the Strengths, Weakness, Opportunities and Threats (SWOT) of small sale Forest Enterprises.
2. Provide Solutions for improve economic viability of small scale forest enterprises.
3. Provide policy recommendations for improve economic viability of small scale forest enterprises.

🚩 CURRENT SITUATION OF THE SMALL-SCALE FOREST ENTERPRISES

To understand the current situation of the Small-scale Forestry Enterprises, it has been used SWOT analytical framework. Based on the SWOT, strengths weakness opportunities and threats of the small-scale forestry

enterprises were assed. Based on the results of this analysis, it was required to convert each weakness in to neutral position or convert in to strengths. Similarly, it is required to neutralize the threat and as much as convert the threats

SWOT Analysis	
Strengths	Weakness
<ol style="list-style-type: none"> 1. Owners management 2. Existing knowledge and skills 3. Greater motivation and flexibility 4. Less overheads 5. Flat management structure 6. Closeness to market 	<ol style="list-style-type: none"> 1. Lack of Business Plan 2. Lack of innovation 3. Poor managerial capacity and leadership 4. Informal nature of business 5. Insufficient capital 6. Lack of understanding on value chain
Opportunities	Threats
<ol style="list-style-type: none"> 1. Local and international market 2. Availability of local raw material 3. Availability of inexpensive labor 4. Supportive projects and organizations 5. Favorable rules and regulations 	<ol style="list-style-type: none"> 1. Under estimating competition 2. Government rules and regulations 3. Inability to understand changing market and scale of production 4. Access to credit facilities 5. Access to improved technology. 6. Poor research and development

to opportunities of the small-scale forestry

enterprises.



PROPOSED SOLUTIONS

- Due to the non-availability of business plan, most of the small-scale entrepreneurs don't know vision, mission, objectives, outcomes, outputs and activities of their business. Development of business plan will facilitate them to understand their production plan, marketing plan and the financial plan. It will provide insight to business owners about their small business, through the entrepreneurship and capacity building training program small business owners can develop their own business plan or otherwise they can hire consultant to develop their Business plan with their inputs. This can be achieved through establishment of Business Development Services.
- To face changing market situation, small business owners, need to properly understand the market dynamics. Economic of scale is particularly significant in mechanized processing, transportation, innovation and marketing. Based on the market demand, he/she may have to use the technological improvements as well as new innovations. It is required to invest substantial amount of resources on innovation to create new product or improve existing product or services. Further, investing to compete with competitive enterprises in the market will enable them to cover substantial market share.
- Since, most of the small-scale forest enterprises are cottage level small business and involving family level non-managerial non-technical persons. Many of the small-scale forest enterprises are govern by village women, it is important to empower the women enterprisers. Therefore, it is required to enhance their managerial and leadership capacities by conducting awareness training and business coaching exercises. Further, their entrepreneurial skill can also be improved though continuous capacity building training programs.
- Those small-scale forest enterprises with low technology intensity are likely to be overtaken by others that are more technology intensive and efficient. Therefore, investing on technology improvement including introduction of new machineries and equipments will result greater volume of production with adequate quality efficiently and effectively to compete with rival product.
- A large portion of small-scale enterprises, especially in developing countries operate in informal sector, outside the framework of established rules and regulations. Further, most of such small-scale enterprises are operating in part time or seasonal basis. Therefore, it is easy to enter and leave from informal sector, where it is prominent in low income situation.

- This informality also compels enterprises to operate on a small-scale. Creation of an enabling environment for small business in particular, removes many of the obstacles that impose high transaction costs on small enterprises, including complex rules, procedures and regulations. In many countries, registration of small enterprises extremely hard, involves substantial amount of cost and time consuming tasks. So, that it is obvious to review and amend the exiting government rules and regulation in favor of entering more and more small enterprisers in to the formal sector through small enterprises registration process.
- Research and Development should be needed for the development of cottage or small scale forest enterprises on the basis of customer's choice, product development, value addition, quality improvement, etc.
- Since, most of the small-scale forest enterprises are informal in nature and are operate in session basis most of the banks and financial institution are unwilling to provide them credit facilities or some banks ask them to provide bank collaterals. Therefore, it is advisable them to develop a bankable business plan prior to request credit facilities. In addition to that, it can be organized awareness workshops for banks and financial institution to review the exiting business plan and issue their credit facilities to qualified business proposals.



KEY RECOMMENDATIONS:

- Establish a Small-scale Forestry Enterprise Agency (An Independent Body) in the country to address current issues and any issues that may arise in the future. Agency to deliver the following activities
- Business development services to help small-scale forest enterprises to get required services when and where necessary including development of business plan, access to credit, technology, and market information etc.
- Form and promote small scale forest enterprises association with the involvement of all the small-scale forestry enterprises and make them common plat form to discuss their own issues and make their voice.
- Creation of an enabling environment for small business in particular to remove many of the obstacle that impose high transaction costs on small enterprises, including complex rules, regulations and procedures.
- Necessary to take proper steps to protect the products of small scale forest enterprises from natural disaster.
- Introduce subsidiary scheme for small scale forestry enterprises.

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