

## **Identifying key elements of strategies for promoting enabling political and institutional frameworks**

About two thirds of rural people in developing countries live on agriculturally marginal lands, where commercial forestry offers one of the few viable livelihood options. Although the participation of rural people in forest activities may be limited in terms of relative market-share, the contribution of these activities to people's income is often high.

Under favorable economic and political conditions, there is potential for rural development and poverty reduction through people's active involvement in commercial forestry. Engaging rural people in sustainable commercial forestry operations will also permit large scale forest conservation. But no sustainable forest enterprises and forest management can work without effective institutions and enabling political and institutional frameworks.

The following are the main findings and conclusions on the key elements of strategies for promoting enabling political and institutional frameworks, provided by private forest sector representatives, community-based entrepreneurs, researchers, non-profit providers of technical, business and financial services, funding and donor agencies.

- Sometimes sustainable resource use, poverty reduction and rural development are threatened by laws and enforcement practices which promote resource and revenue drain from rural areas more than conservation and increase of local production assets. The benefits move away from the poor, although they are close to the resource, and towards rich outsiders, private corporations.
- Forest policy reforms have actually favoured communities i.e. forest concessions to communities in Guatemala, or Agrarian reform laws at the beginning of the XX century in Mexico that allowed 80 per cent of forest land to be managed by communities. Community-based forest enterprises in many countries have property rights and process in place; but there is some ambiguity in law about forest resources. Therefore, it must be kept in mind that redefinition of property and access rights affect wealth thereby affecting also decision-making and success of community and small forest enterprises.
- In the past policy reforms have favored communities by giving them access to ownership or control over forest and land resources, then why not creating policies that give small and medium enterprises access to markets and services.
- Over-regulation by governmental agencies and institutions creates paper work and high costs that small enterprises cannot afford, these measures favour products and practices more suited to larger operations. This forces many small enterprises to operate illegally, even when they manage their forests better than larger "legal" operations.
- The path ahead will require balancing democracy and bureaucracy through major policy reforms, clear and fewer rules and better public and private support services aimed to create an enabling environment for small and medium forest enterprises.

- Research and exchanges of information and experiences can help identify the bottlenecks, make the case for policy reforms, and provide the small-scale commercial producers with information they need to succeed.
- The implementation of enterprise development methodologies such as Market Analysis and Development have shown that small enterprise development helps to reveal and address constraints concerning policy issues. Many projects bring to light key policy-enabling conditions that should be present for successful small enterprise development for poverty reduction. Among them:
  - Land use (ownership or use rights) that ensure access to natural resources is key pre-condition for enterprise development based on forest products. Once the own or have long-term use rights of the resource, communities are encouraged to protect and to use it.
  - Logging restrictions fixed by central government often encourages price increase and thus increased illegal timber harvesting.
  - The legal registration of the enterprise at a certain stage of its development lead to increased access to funds and provides official recognition.
  - Quality standard and taxes regulations and procedures should be tailored to small entrepreneur's technical and financial capacity. Specific tax exemption should exist for new enterprises.
  - Simplified procedure and timely delivery of licenses and permits are key for small business development.
- Communication, facilitation and policy briefs aimed to creating an enabling environment for small and medium forest enterprises may be also provided to governments.
- Government regulatory, financial, trade, and fiscal policies all tend to favor wealthier groups. Subsidies and other benefits as tax cuts are usually provided to large scale enterprises and exclude small and medium enterprises. Policies to subsidize the poor and the creation of value chains in favour of the poor are necessary. These should be value chains where empowerment, and decision-making by poor communities are links of a chain aimed to improve their livelihoods.
- But care must be taken to avoid financial dependency from governmental agencies as variations in those institutions affect flow and distribution of resources.
- Small and medium forest enterprises may develop markets both, at the local and the global level. It depends on opportunities, comparative advantages, and national policies in place. Local market demands should be paid attention to, going global is not always positive for small and medium enterprises, the same applies for certification.
- Local markets are extremely important. Some market trends favor small-scale forest-based enterprises. Urban domestic markets for furniture, construction wood,

medicinal plants, charcoal and other forest products are growing rapidly in many developing countries. In Brazil, China, India, Indonesia, South Africa, and Thailand.

- Trade liberalization and the participation of large economies and enterprises may hamper the operation and profit-making of small and medium enterprises. For example, opening the Chinese and Indian markets to pulp imports is a major threat to small-scale plantation growers in those countries, as is the opening of Mexico's markets to the United States and Chile. Many governments have explicit incentives for large-scale plantation development and indirectly subsidize large producers through various mechanisms, which make it harder for small producers to compete.
- In Mexico, a study carried out about community enterprises showed that these enterprises are very much connected to global markets for timber and labor but policies to incorporate them into the market still have a long way to go to position them to compete in the market and develop economically.