Supporting forest sector micro, small and medium enterprises at scale

The experience of the FAO-EU FLEGT Programme
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Micro, small and medium enterprises (MSMEs) across all sectors are well-recognized as drivers of economic growth, forming the backbone of industrial supply chains. In emerging markets, seven out of ten new positions in the formal sector were created by MSMEs. Employment contributions are even higher when informal MSMEs are considered (World Bank, 2021). The small-scale and local nature of MSMEs means that their creation and growth are more likely to create jobs that directly benefit vulnerable and marginalized groups, such as women and youth (UNDESA, 2020).

Within the context of the forest sector, a number of challenges prevent these opportunities from being realized amongst MSMEs producing timber and other wood products. These types of enterprises often have difficulties accessing raw materials, and despite their limited size and resources, they are expected to comply with legal requirements that are often designed for industrial-sized companies.

Forest sector MSMEs require support to ensure that they are not inadvertently discriminated against in accessing markets that demand evidence of legal or sustainable production. Along these lines, targeted interventions are needed to shift MSMEs away from illegal practices, particularly regarding sourcing material and products, and ensure that they benefit from operating legally.

The work of the FAO-EU Forest Law Enforcement, Governance and Trade (FLEGT) Programme with forest sector MSMEs – based on demand-driven requests submitted by local partners – has focused on providing direct support to MSMEs and their partners and on building an enabling environment through:

- **Direct support**: Awareness raising; capacity building and/or long-term coaching of MSMEs by partners, usually towards formalization; improved legal compliance and integration into supply chains.
- **Support to MSME partners**: Capacity building and institutional strengthening of organizations that work with MSMEs, such as private sector associations, government ministries and local civil society organizations (CSOs).
- **Enabling environment**: Policy and regulatory reform to ensure that the legal framework is more appropriate for MSMEs, improved law enforcement and growing market demand for legal timber.

Taken together, these interventions can shift MSMEs towards the responsible production practices that would enable them to realize their potential in contributing to the Sustainable Development Goals by creating decent jobs, providing public goods and services and generating livelihoods that contribute to poverty alleviation. The challenge of working directly with forest-sector MSMEs is that there is a seemingly limitless demand for support, typically the provision of capacity building or linkages with markets. This demand is driven by the fluidity of the MSME "ecosystem" – bringing together MSMEs and their partners along the value chain who work within an environment of continually fluctuating market opportunities and regulatory requirements.

Even when such support is available, it is difficult to provide it at the pace at which small-scale operators are entering, exiting
or even "pausing" their engagement in the timber business as their livelihood strategies change over time. These fluctuations are shaped by market demand for commodities, shifting policy environments, ad hoc opportunities and bankruptcies. For example, tree growers that receive training in one project may decide to give up their tree crop and plant cacao instead. Chainsaw millers may struggle to access raw materials and find themselves working as farmers the following year. Partners in Ghana have noted that, inevitably, some of the businesses they train "die out" due to lack of resources. Meanwhile, other businesses may face turnover amongst the employees who previously received training, and new MSMEs may arise. As new operators and employees enter the "MSME ecosystem," there is a need for continuous outreach and capacity building to reach these new entrants.

The sheer number of MSMEs raises the question of how can they be supported at scale.
Between 2016 and 2021, the FAO-EU FLEGT Programme (hereafter the Programme) funded 105 projects supporting forest sector MSMEs in 20 countries globally. These projects reached an estimated 5 600+ MSMEs in total, but the 74 projects with a specific capacity building focus were only able to train an average of 122 MSMEs per project. Although these projects targeted strategic MSME groups or production chains and were instrumental in helping beneficiaries operate legally and access new markets, the number of MSMEs reached remains small compared to the estimated number that require support in tropical timber-producing countries. The current engagement scale is not entirely limited by investment and resources, but also by several challenges that make it inherently difficult to effectively engage MSMEs linked to timber-product value chains in tropical countries. This includes a lack of data on forest sector MSMEs and the inability to reach MSMEs located in remote areas without connectivity.

As part of a global Programme-wide experience capitalization process, staff members conducted interviews with local partners who had implemented MSME support projects across multiple results areas and, where possible, with end beneficiaries of these projects. Local partners were asked to reflect on strategies that could have allowed them to reach more MSMEs in their projects and on the broader enabling conditions that would need to be put in place for MSMEs to participate in legal timber production at a larger scale.

Through these interviews and the collective experience of these MSME support projects, the Programme has identified strategies for overcoming the challenge of how to reach more MSMEs. Future interventions could adopt these strategies to reach tens of thousands – rather than hundreds – of MSMEs.
Resource limitations prevent reaching large numbers of MSMEs through traditional training models

In the context of capacity building, there is a growing realization that traditional classroom-based training models are insufficient for reaching large numbers of MSMEs, given the costs of participant travel, accommodation, venue rental and trainers’ fees. When beneficiaries require extensive long-term support and coaching beyond the training, short-term projects risk reaching even fewer MSMEs. Alternative support models are needed to replace – or complement – traditional classroom-based capacity building training.

Based on the experiences of local Programme partners who directly support MSMEs, extensive one-on-one support is needed to help MSMEs become legally compliant and negotiate purchase or supply contracts with new business partners. Under these circumstances, success comes at small scales. A project in Ghana may help ten MSMEs sign timber utilization contracts, and another project in Indonesia may help 13 MSMEs achieve full legal compliance – while thousands of other MSMEs wait to receive such direct support.
In 2019, recognizing the need to strengthen the capacities of small entrepreneurs, the Programme supported the Centre for Wood Production Innovation and Technological Transfer (CITEmadera) in Peru, in collaborating with the World Resources Institute (WRI), the Global Timber Forum (GTF) and the International Tropical Timber Organization (ITTO) to pilot a training programme for MSMEs who produce timber and timber-based products. The pilot training was structured around modules on Business Skills for Timber Industries, Administrative Management and Formalization, Operations Management and Improving Business Management. Following the initial pilot, the modules were adapted and delivered in Colombia by the Colombian National Federation of Wood Industries (FEDEMADERAS). The virtual training programme followed the “Massive Open Online Course” format, meaning that the open-access courses are available for anyone to enrol. These focus on a smaller subset of topics such as legal aspects, gender equity, production management and responsible purchasing. Virtual training programmes offer many advantages: they can reach a larger audience at a lower cost, they can be made accessible to those who cannot travel and can be offered at more flexible times, such as outside work hours.

Recognizing that many MSMEs lack Internet connectivity or computer equipment to participate in virtual trainings, the following lessons are offered to make virtual training more accessible:

- All modules need to be thoroughly tested before deployment, together with project beneficiaries, to ensure that the training process and options are easy, flexible and accessible.

- Live training needs to be offered at times suitable for business owners; in Colombia, virtual pilot training was split into 15 sessions of 90 minutes, with a choice between early morning or evening sessions, allowing the trainees to continue running their businesses.

- Videos can be made available online on the training platform; in Colombia, a no-cost self-tutorial was developed, which ensures that MSMEs can access training materials at any time, even when live courses are not being run.

- Production of additional short review videos can ensure that key messages and information get across.

- Hard copies of training materials can be sent to registered participants to ensure that those who cannot access videos after the training can still refer to the training materials after the course.

To date, 425 individuals have been reached through virtual training, with MSMEs accounting for 50 percent of the participants, with other participants coming from government, civil society and academia. This demonstrates significant interest from non-MSME actors in participating in training and increasing their understanding of MSME concerns. This approach shows the important role of virtual training in engaging with the public sector – breaking down public–private barriers while building capacity for supporting partners who work with MSMEs.

In the closing year of the Programme, this training programme has been adapted for implementation in Central America by the Guatemalan Forest Industry Association (Gremial Forestal) and translated into English for implementation in Guyana.
Low level of interest in receiving support for legal compliance

Even when projects have budgets and resources to train hundreds of MSMEs, they may face challenges in securing the interest and active participation of their targeted number of beneficiaries. Firstly, small businesses find it challenging to commit staff to attend multi-day training sessions. Secondly, small businesses often have little available capital to make significant changes to the way they operate. They will often only change when necessary for their business, such as in response to a significant regulatory requirement. The key lesson is that training programmes for MSMEs must have a "business" approach that will concretely improve their operations and yield economic benefits. When these programmes package together business support with legality compliance, MSMEs will be better equipped to run their businesses efficiently and profitably and will be better positioned to continue to comply with regulations in the long term. If training leads to legal compliance and better economic performance, other MSMEs are more likely to adopt practices from the trained MSMEs.

Some countries have sought to generate more interest in legal compliance through conducting large-scale communications campaigns which target both operators and buyers. The added benefit is that communications materials can be used to reach MSMEs who cannot attend workshops. They can be made publicly available online to reach large numbers of people.
Lack of capacity to receive support

Many MSME owners and their employees do not meet the minimum requirements for participation in a capacity building programme or entry into a business partnership with a lead company, such as basic literacy skills, access to the Internet and/or phone signal, possession of a bank account or language abilities. For example, a CSO initiative in the Democratic Republic of the Congo screened artisanal chainsaw millers to supply legal timber in a shipment to Uganda, and very few were able to meet the basic criteria of possessing a logging permit and being located in a secure area with communications connectivity where they could receive support from the CSO.

The ability for MSMEs to receive support is further reduced when there are no materials or trainers available to share information in local languages. This has limited the number of MSMEs trained in Programme-supported projects, and consequently the number of MSMEs capable of taking advantage of business opportunities with lead companies. The time needed for technical experts or facilitators to build capacities is so high that only a finite number of MSMEs can be trained through a relatively short-term (one- or two-year) project. Local partners in Africa and Asia have sought to address this problem through fostering business-to-business training among MSMEs. In Côte d'Ivoire, a network of master trainers was created for this reason (see below).
The international non-governmental organization called Association des Volontaires pour le Service International (AVSI) Côte d’Ivoire trained nearly 1,500 MSMEs through their projects – more than any other local partner supported by the Programme between 2016 and 2021. This was achieved through developing a group of trainers, each of whom owned a wood sector business and were motivated to help others. The trainers underwent a rigorous training programme that included practical exercises and role-playing and were given clear manuals to enable them to train and teach, including a guide on the formalization process. Performance on the pre- and post-test results improved from 20 percent to 80 percent by the end of the training period. Trainers were also closely associated with the consecutive selection of beneficiaries, which strengthened ownership of their mission. Each trainer was assigned to train at least 20 MSMEs within their locality, and training sessions took place in the trainers’ own workshops, creating trust between trainers and trainees. As the trainers were MSMEs themselves, they had a better idea of the concrete challenges and constraints faced by the trainees, and were therefore able to provide practical advice. After the training, the trainers became coaches and offered additional support to their trainees to complete all the administrative formalization processes – even coming with them to appointments in government offices when necessary.

This successful approach was further boosted through partnerships with regional Chambers of Artisan Businesses throughout the country, who connected AVSI with thousands of registered artisans interested in training. While the formal training of trainers was completed by the end of 2018, AVSI reports that the trainers remain active today in supporting MSMEs in their area.
Reinforce institutional support from all stakeholders

Reach MSMEs at scale through associations. Providing the same expert training to thousands of MSMEs is time consuming and resource intensive, whereas providing training to associations allows the "multiplication of resources" whereby active associations can continue providing long-term support to their members. In Indonesia and Liberia, two local associations – the Jepara Small-scale Furniture Producers Association (APKJ) and the National Charcoal Union of Liberia (NACUL) both hired expert trainers to conduct capacity building, which also built the expertise of association staff to the point where they are now able to conduct trainings themselves. Despite the collection of membership fees, associations often require additional financial and technical assistance in order to provide this sustained support to their members, especially those located in remote areas.

Train local institutions to provide long-term support. Training local stakeholders who will permanently remain in the geographic locality (government officials or other public institutions, CSOs and local associations) can multiply the number of MSMEs reached through their ability to provide long-term support and "re-training" if necessary. In Viet Nam, the Center for Rural Development (CRD) established local CSO networks, creating a group of CSO trainers to support local operators beyond the project’s lifetime.3 While many projects have attempted to address the issue of scale through a "Training the Trainer" approach, few have succeeded in developing a sustainable training mechanism as

3 This work resulted in a "Manual on establishing networks of civil society organizations to support the implementation of the VNTLAS and organizational classification system" available to view here.
trainers are dependent upon continued funding to finance workshops, travel and honorariums. In contrast, a more sustainable approach is to train local institutions who can provide support within their jobs. In Latin America, partners have called this approach "regionalization of support", referring to the need to work at lower levels of political jurisdiction to ensure that local support is broadly available at the grass roots level.

**Catalyse a "pull" on MSMEs from lead companies.** Timber-product supply chains are interrelated, so facilitating an influential actor within a supply chain can catalyse related shifts towards legal compliance amongst their suppliers. For example, in Vietnam, the Handicraft and Wood Association of Ho Chi Minh City (HAWA) is developing an association-level Due Diligence System. All members will upload the documentation needed by buyers tasked with applying due diligence. This system enables lead companies to "pull" MSMEs towards legal compliance, as HAWA members ask their MSME suppliers to upload documentation of legal compliance to the platform, enabling HAWA's clients to apply their due diligence.

**Governments are the ultimate partners for working at scale**

**Identify strategic government partners outside the forest sector.** Multiple ministries within governments have roles relevant for engaging MSMEs. These ministries are often not engaged in project interventions due to a disproportionate focus on collaboration with forest sector ministries. Some partners have attributed their success to their partnerships with government institutions outside the forest sector, such as commerce, finance or economic development. In the Lao People’s Democratic Republic, the Department of Industry and Handicrafts (DOIH) facilitated business-to-business learning by pairing unregistered MSMEs with larger businesses to allow more practical, self-paced learning.

Similarly, the Cameroonian Federation of Wood Processing Associations and Professionals (FECAPROBOIS) collaborates closely with the Ministry of Small and Medium-Sized Enterprises, Social Economy and Handicrafts. The latter provided continuous technical support to FECAPROBOIS during the process of creating the COOP-CA EXTRABOICAM cooperative. This cross-institutional cooperation is critical, considering that MSMEs exist across all sectors beyond forestry. Engaging these other institutions can leverage support that would not be available through only engaging ministries responsible for forestry.

**Engage governments at a broader, more institutionalized scale.** Governments are often the only actor with the national networks and ability to institutionalize broad-scale MSME support. Some partners have expressed regret that they did not work more closely with government partners to include MSME support in government workplans and annual budget allocation requests. Others have noted the power of having local government bodies as partners, especially in countries where these officials are in permanent jobs. In Indonesia, partners began testing more innovative solutions to support MSMEs at scale, such as by certifying the legal compliance of MSMEs at the forest management unit level or the district level. Novel ideas such as jurisdictional-level legality certification would not be viable without close cooperation and strong buy-in from country governments.
Indonesia: Lessons learned from five years of FLEGT licensing

Since Indonesia became the world’s first country to deliver FLEGT-licensed timber to the EU, local stakeholders have diligently worked to help the country’s forest sector MSMEs comply with the Indonesian Timber Legality Assurance System (SVLK). However, uptake remains low; the Ministry of Environment and Forestry (MOEF)’s data illustrate that only 25,963 MSMEs nationwide obtained SVLK certification between 2013 and 2020 – out of potentially millions of forest-sector MSMEs within the 32.7 million MSMEs estimated to comprise the forest, fisheries and agriculture sector. Furthermore, a 2019 study conducted by the Center for International Forestry Research (CIFOR) and APKJ found that only 5 percent of surveyed MSMEs have SVLK certification. All Programme partners working in this area have independently concluded that they need the government’s broad reach, resources and staff presence to achieve widespread uptake.

“If we could redo the project, we would approach the district government again in the project areas to create collaboration and utilize the budget to increase the role and involvement of the district government in the project. That would have helped the project have an even bigger impact.” – Indra Setiawan, Project Manager, the Indonesia Furniture Industry and Handicraft Association (ASMINDO).

In Indonesia, district-level governments are well placed to provide support to local MSMEs. Not only do they possess the most credibility in clarifying misconceptions about legal compliance (i.e. misunderstandings about tax obligations), but they also issue the permits and licences that these MSMEs need to be SVLK certified. By working to ensure that MSME support is part of government workplans, governments will be more able and willing to facilitate the quick issuance of these permits and licences. They will have the capacity to enact emerging solutions to reach MSMEs at scale, such as through certifying the legal compliance of forest sector MSMEs at the district level rather than on an individual basis.

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4. Indonesia aggregates forest sector MSMEs into the same category as agriculture and fishery sector MSMEs. According to the Ministry of Cooperatives and Small and Medium Enterprises (SMEs), in 2019 there were nearly 65.5 million MSMEs in Indonesia across all sectors. New sources cite the agriculture, forest and fisheries sector as accounting for 50 percent of all MSMEs in Indonesia, so the total number of MSMEs in this category could be estimated at nearly 32.7 million. Sources: Ministry of Cooperatives and SMEs, 2020. Growth in MSMEs and large industries in 2018-2019.
Reaching MSMEs at scale is critical because only when vast numbers of MSMEs themselves demonstrate legal compliance will wide impacts be generated to reduce illegal timber trade and improve forest governance. While the strategies discussed above can reach a greater number of forest sector MSMEs on a project basis, their effectiveness can be amplified through enhancing the enabling environment for MSMEs: levelling the playing field in reducing competition from illegal timber; simplifying the regulatory framework applicable to MSMEs; and creating demand for legal timber so that businesses gain larger profits from being legal.

These two different types of interventions – direct support to MSMEs and their associations versus creating an enabling environment – are mutually supportive, and when enacted together in tandem can yield benefits for MSMEs at a larger scale. The lessons below illustrate how improving the enabling environment serves to incentivize MSMEs to act upon the knowledge gained through direct support, such as through training and awareness raising. They also emphasize how providing direct support can identify problems, bottlenecks or potential innovations that can inform what changes to the enabling environment would be most supportive to MSMEs.

**Direct support improves the enabling environment**

Funnelling feedback from training programmes can guide policy reform and simplification. The process of training MSMEs in legal compliance, or linking them with supply chain actors, can identify aspects of the regulatory environment that need
revision to facilitate MSME legal compliance, enabling them to produce legal timber and timber-based products. In the Lao People’s Democratic Republic, the DOIH trained household wood enterprises in the use of input-output monitoring systems, which ultimately enabled government officials to incorporate feedback from MSMEs into the final input-output monitoring regulation. Consequently, household wood processing enterprises nationwide will benefit from a more flexible compliance timeline for household businesses. At the same time, this project strengthened government capacity to provide training and oversight, which will allow them to roll out the training programme throughout the country. Similar experiences have been observed in other countries, especially when government is closely involved with the training or other interventions providing direct support to MSMEs.

Providing "proof of concept" in highlighting success stories can motivate a wider audience. By publicizing the cases of MSME owners who have benefitted from legality, this "proof of concept" can influence their peers to adopt similar behaviour and foster business-to-business learning. The Programme observed in many projects that MSMEs not reached through project activities were more interested in legality after seeing successful examples from their counterparts (or competitors). For instance, in Guatemala, the formation of an association of carpenters in Petén and the establishment of a legal timber marketplace generated interest amongst other groups of carpenters and small wood producers in initiating similar processes to form associations.

An enabling environment improves direct support

Law enforcement drives lead companies to demand legality within their supply chain. Efforts to support MSMEs at scale will be more effective when conducted in conjunction with consistent law enforcement to reinforce the message that, "When the law applies, you are not an exception!". With widespread law enforcement, more lead companies will make efforts to improve the legality of their timber-product supply chains, putting pressure on their MSME suppliers to demonstrate legal compliance. The actions of these lead companies send a clear signal to operators that they need to become legally compliant and be more receptive to training opportunities. Sanctions on illegal operators will also equalize raw material prices, which will economically reward those operators who have legalized their operations.

Domestic demand for legal timber drives MSME openness to receiving support. One partner in Guatemala noted that "entrepreneurs are motivated to do these things through any activity that generates business for them". With measures in place to promote domestic demand for legal timber, more MSMEs will overcome their reluctance to attending training if they see clearly that they will be able to increase sales as a result of their legally compliant status. While the Programme is supporting domestic market measures in many countries, such as the development of public procurement policies in Cameroon, where it is now mandatory to use legal timber in all public tenders, there are more immediate actions that can be taken and that do not depend upon long policy processes. These include communications campaigns that can shift operator practices and public perceptions. These campaigns can also complement other domestic market measures, such as the "Le bois légal, c’est génial!" campaign operated by CIFOR and the Ministry of Forests and Wildlife in Cameroon. To promote the uptake of communications strategies in Latin America, the Programme has built the capacity of partners to use free applications to develop videos and visual designs without depending on graphic designers, also emphasizing the value of using social media platforms.
The FAO-EU FLEGT Programme’s pilot project approach has yielded several models for reaching MSMEs at larger scales, which can be replicated and refined in other countries. This experience has produced the following recommendations:

**Providing targeted support at scale:**

- Flexible training options are needed to allow MSMEs to continue running their businesses. Such options include virtual capacity building programmes and training delivered with business-friendly schedules, e.g. short sessions spread over longer timeframes versus multiple, full-day commitments.
- Using fellow MSMEs as trainers can reach more MSMEs in the long term, especially when trainers remain available to support other local timber businesses in their geographic area.
- Strengthening the institutions that support MSMEs as well as the associations that directly represent their interests – such as local CSOs and local government – can create institutionalized support available to MSMEs not reached in a previous intervention, including new entrants to the timber sector.

**Supporting an enabling environment**

- Broader engagement with multiple government ministries is needed to support MSMEs across all sectors and mainstream MSME support across the government, rather than solely relying on forest sector ministries with limited mandates and resources.
- Communications campaigns ensure that key messages and information reach large audiences; social media remains an underutilized tool for campaigns that can educate operators, while also shifting public opinion and market preferences.
- Long-term support programmes can capitalize on the relationships, networks and trust built during pilot phases and give MSMEs adequate time to adopt significant behavioural changes.

On a final note, local partners emphasize the importance of building on previous strategies and providing sustained quality technical support and substantial funding, which generates strong motivation. Therefore, adopting new strategies to reach MSMEs at scale, such as those identified in this brief, must be balanced with long-term engagement and persistence with promising existing approaches that take time to fully bear fruit.
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