SUPPORTING SMALL AND MEDIUM ENTERPRISES (SMES) IN THE FOREST SECTOR:

HOW CAN WE DO MORE?

THE RATIONALE FOR A MULTI-SECTORAL APPROACH

SPEAKERS

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OLC Webinar Series, Webinar 1, December 7, 2017
PROFOR financed programmatic ASA (PASA) focused on enhancing the contribution of SMEs in the forest sector to poverty reduction, jobs and growth.

A three GP team composed of GENDR, T&C and FM

PDO: identify multi-sector solutions that support sustainable growth of SMEs in the forest sector and improve knowledge of these solutions among key stakeholders.

2 pillars:

1. **Knowledge**: (i) bringing together the relevant information for SMEs in the forest sector from work that was done by ENR, T&C and FM on SMEs; (ii) generating a guidance note that draws on global experience and country cases; (iii) developing webinar/training series.

2. **Country diagnostic**: diagnostic on SMEs in the forest sector in three countries.

Justification:

1. Augment how activities in the forest sector contribute to jobs, poverty reduction and growth;

2. Bring in a more user friendly formatted knowledge on SMEs that is relevant for the forest sector and improve how the Bank engages with such enterprises in the forest sector (IEG report);

3. Inform investments that are trying to support enterprises in the forest sector and ensure greater inclusion in terms of access to finance and access to services to enhance competitiveness.
SMEs in the Forest Sector
WE USE MANY FOREST PRODUCTS
FORESTS CONTRIBUTE TO THE PATHWAY OUT OF POVERTY
DEMAND FOR WOOD AND FOREST PRODUCTS EXPECTED TO GROW

- Formal Timber Sector - $600 billion to global economy
- 50 million people derive jobs from timber activities
- Expect to see a four-fold increase in industrial roundwood demand by 2050
- Also steady growth for wood and paper
- Africa alone – with rates of urbanization – expect significant growth in industrial wood demand as shown in graph
WHERE WOULD THE INCREASED SUPPLY COME FROM?

Tanzanian Wood Supply Projections

Tanzania theoretical harvesting potential

Source: Indufor
COULD SMES IN FOREST SECTOR HELP ENSURE DEMAND FOR FOREST PRODUCTS IS SUSTAINABLE?

- Need to ensure global increase in demand for timber and non-timber products does not fuel unsustainable and illegal trade flows.

- SMEs in forest sector can account for up to 80–90% of employment in all forest enterprises and contribute to a large share of the demand for timber at the domestic level.
SMES IN THE FOREST SECTOR

• Span a range of business structures
• Business models are widespread in the forest-dependent economies
• Need to assist these enterprises to overcome some of the challenges they face – insecure rights to resources, weak sector and enterprise competitiveness, limited access to finance
COMMUNITY FORESTRY IN MEXICO

- Assist the communities to effectively organize and meet regulatory requirements regarding forest management.

- Provide technical assistance with identifying and implementing viable value addition activities.

- Augment their competitiveness.

- Between 2003 and 2008 the project increased jobs by 27 percent in targeted communities and ejidos.

- Net value of forest goods and services they produced increased by 36 percent.

- 97% of the Community Forest Enterprises analysed have positive Net Present Value for a 30 year rotation.
INTEGRATED FORESTRY DEVELOPMENT IN CHINA

- Formalization of land titles for 74,906.00 ha
- Provided long-term security for farmers in 20 farmer-based associations operating in the area
- Channel investments into commercial timber and fruit tree plantation
- Incremental income from economic trees of 1,300.00 RMB Yuan/ha/year (188$)
COSMETICS FROM BRAZIL & ECOTOURISM IN BURUNDI

Access to worldwide markets - Brazil

WORLD BANK GROUP
WBG FOREST ACTION PLAN CALLS FOR ACTION ON SMES IN THE FOREST SECTOR

- Build on past successes
- Engage different actors to increase links between SMEs in forest sector, regulators and markets,
- Improve efficiency of resource management, generating jobs, and boosting shared prosperity
Growing SMEs

Ellen Olafsen
December 7, 2017
About 30 percent of start-ups close in less than two years.

About 10 percent of those that remain grow.

- So if you start with 100 start-ups, 70 survive after two years and 7 actually grow.

Indeed, not all entrepreneurs want to grow the enterprises.

Subsistence and growth-oriented entrepreneurs respond differently to policy interventions.

Pick your target beneficiary carefully, and manage expectations about impacts.
LIVELIHOODS OR COMPETITIVENESS?

Livelihoods

- Social security
- Self-employment

Competitiveness

- Growth
- Exports
- Job Creation
WHERE SHOULD WE FOCUS?
GROWTH REQUIRES MULTIPLE FACTORS TO COME TOGETHER

Access to Finance

Growth-oriented SMEs

SME Capacity Supports

Scalable, Accessible, and Viable Markets

Scalable Production Potential

Reliable Infrastructure

Conducive Regulation

Clear, Ready Champions

Diagnostic Framework
SME DEVELOPMENT OBJECTIVES

What are you aiming to do?

- Build firm-level capability?
- Facilitate market access?
- Create incentive to start or grow?
- Enable access to finance?
- Overcome infrastructure constraints?
- Create entrepreneurial talent?

SME Development Approach
SME CAPABILITIES – MORE THAN BUSINESS PLANS!

**Product Development**
- Production equipment
- Technical expertise
- Packaging and design
- Leveraging suppliers
- Graphic designers
- Compliance
- Lab tests
- Inputs
- Quality control

**Sales**
- Logistics
- Materials
- Distribution
- Contacts
- Promotion
- Staff
- Channels
- Access to markets (import/export)
- Market intelligence

**Financial Management**
- Business plan
- Accounting system
- Cashflow management
- Investment readiness

**Operations**
- Manufacturing practices
- Qualified staff
- Legal
- Accounting
- IT
- Logistics
- Sourcing of inputs
- Acquiring and managing facilities
SME NEEDS DIFFER
- BY LIFECYCLE STAGE AND...
- BY MARKET SOPHISTICATION.
SME FIRM CAPABILITY SOLUTIONS

Training
Consulting/BDS
Mentoring/Coaching
Acceleration
Business Incubation
Competitions
Supplier Development Programs
Matching Grants

+infrastructure:
• Shared Facilities/Co-packers
• Food Parks/Zones
• *InfoDev AEC Approach*
SME ACCESS TO FINANCE

Roy Parizat
December 7, 2017
ACCESS TO FINANCING CAN ASSIST SMES IN FOREST SECTOR—EMPOWERING THEM TO INVEST AND GROW

A critical constraint to SME growth is financing.

SMEs use financing to invest in more efficient technology and build scale and operations.

These improvements give SME’s improved financial stability and greater traction to grow.

As SMEs expand they use increased profits to invest in further operational improvements.
IF FINANCING WORKS, WHY CAN’T SMES ACCESS IT?

Because in most developing countries, banks don’t lend to small agri-focused enterprises.

- Banks aren’t equipped with the tools and training to invest in SMEs;
- They are unsure how to develop profitable and sustainable portfolios with SMEs;
- Banks have a (mis)conception that SME business is inherently riskier;
- Loan tenors are challenging as are repayment processes reliant on frequency;
- Financial institutions are restricted by limited collateral available from SMEs;
- Because they don’t lend, both—banking and SMEs—miss out on growth opportunities.

Banks lend to large-scale businesses because it makes business sense.

The challenge: Help banks see the business sense in lending to SMEs.

So that SMEs can access the financing they need to grow.
Practical steps include:

- Development of modern moveable collateral registry systems and secured transaction frameworks;
- Develop loan classification systems not reliant primarily on collateral;
- Build capacity to better assess and quantify SME borrower risk;
- Use alternative data to assist credit scoring on thin-file clients.
A few select examples of interventions with proven success in expanding SME financing:
THANK YOU!

Questions and Answers

Ongoing Activities

Next Steps:
- Global Study
- Country Diagnostics
- Webinar Series

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