

BRIEFING PAPER

Enhancing the Development of a Responsible SME Forest Products Sector:

Recommendations and Call to Action for National and International
Policies and Programmes

Prepared by Global Timber Forum
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SUMMARY

Globally, microenterprises and small and medium sized enterprises (SMEs) are the backbone of the forest products sector for both domestic and international markets. It is essential to engage SMEs to drive market norms that value and demand responsibly produced timber. Failure to secure involvement of SMEs will threaten legality and sustainability goals.

SMEs play a vital role in building a thriving and responsible forest and wood-based products sector that contributes to entrepreneurship, economic growth, innovation and job creation while having the potential to address illegal logging and deforestation. SMEs are numerous and disparate, making engaging with them challenging.

As governments continue to tackle the climate crisis and the global demand for resources increases forests and timber should be at the heart of emerging bioeconomic strategies. Renewable, recyclable and energy-efficient to produce, timber acts as a carbon sink and is both an attractive and versatile material. Maintaining viable working forests that support communities in a responsible manner can protect against deforestation driven by land conversion. Supporting SMEs will improve supply chain resilience, ensuring that natural resources, jobs and communities are protected from uncertainty and unexpected events.

Trade associations with which SMEs are, or may become, affiliated are a realistic and trusted institution to reach SMEs. Strengthening the ability of associations to support and represent SMEs is critical to realising the potential positive role that they can play to deliver a responsible forest sector.

With the decline in traditional international market levers to drive responsible trade there is an urgent need for national governments to play a strategic role in enabling the environment necessary for SMEs to prosper responsibly. In addition, international policy makers and programme developers should provide supply-side incentives focused on SME needs and drivers along with establishing demand-side drivers.

This appeal aims to add to the understanding of national and international policy makers and contribute to national economic development and Overseas Development Assistance (ODA) programmes. It recommends appropriate measures to support the development of a responsible SME forest products sector. The key steps for support are:

- Appreciating the role and scale of forest sector SMEs
- Recognising the multiple benefits delivered by SMEs; their contribution to economic growth and forest governance
- Building institutional support and enhancing the capacity building effectiveness of associations to maximise the potential of SMEs.

The detailed actions are mapped out in the recommendations section of this briefing, which has been developed by the [Global Timber Forum](#) (GTF). Governed by a board with over 100 years of collective experience working in or with the sector; GTF is a not-for-profit that builds the responsible trade capabilities of forest and wood-based associations.

ROLE AND SCALE OF SMEs

Micro and SMEs make up a substantial part of the forest and wood-based products sector globally. They exist in all links throughout forest and wood-based product supply chains, from forest owners to end-product manufacturers.



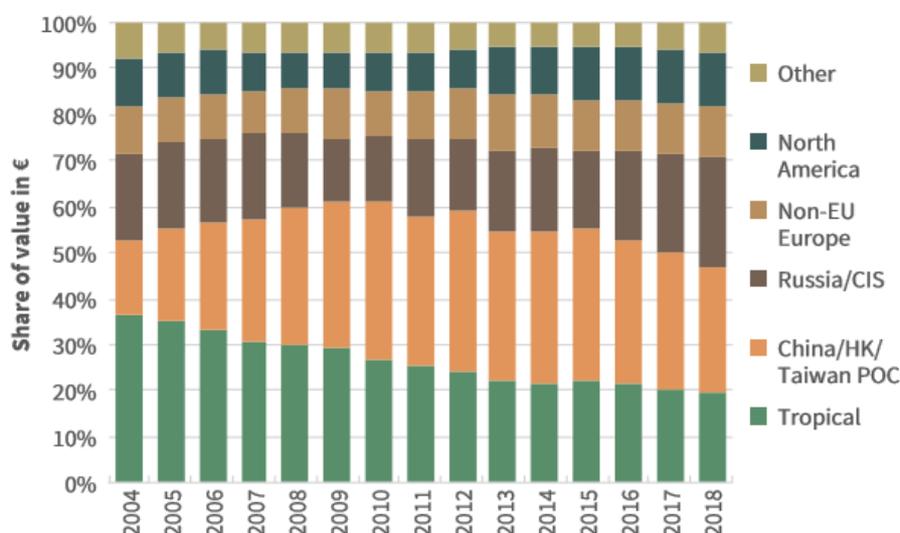
GTF Summit, Lima, Peru – Nov 2017

Globally, over 50 percent of forest-related employment is in SMEs. Including the ‘informal sector’, 140 million people are estimated to be employed in forest-related SMEs.¹ Many of these are in developing countries within the tropics; Africa, Asia and Latin America. The World Bank predicts that demand for global industrial roundwood alone will quadruple by 2050. Natural forests will not meet these demands, nor should they as this would limit their delivery of essential social and ecosystem services.² Enabling increased efficiency, utilisation to reduce waste, supply chain integration and increasing forest resources reduces costs and risks for all SME operators. This guarantees long-term incomes for smallholders and provides continuity of supply for SMEs.³ Increasing efficiency and utilisation for SMEs will lead to management improvements making due diligence and traceability initiatives much more achievable. Since the start of the COVID-19 pandemic the need to secure supply chain resilience has become critical.

MARKET DRIVERS FOR CHANGE

International forest programmes largely focus on access to international markets as a lever to encourage governance reform. However, the export of tropical timber products to higher value markets, like Europe, has declined.⁴ The figure below shows that tropical timber has decreased by approx. 18 percent from 2004 to 2018. In contrast, domestic and less sensitive timber markets have grown, and this is expected to continue.⁵

Figure 1: Share of EU import value of wood products by source of supply, 2004 to 2018⁶



CHALLENGES FACED BY SMEs

The common challenges for SMEs as reported by the Association Surveys for Knowledge (ASK)⁷ programme include:

1. Lack of access to verifiable raw material i.e. ‘legal wood’
2. Lack of support to both understand and comply with government policy and regulatory changes
3. Lack of understanding of international market and customer requirements
4. Lack of effective business support to improve competitiveness
5. Lack of access to affordable finance and low profitability deter innovation and investment
6. Lack of knowledge in applying appropriate marketing tools

These challenges, compounded by ineffective institutional support, contribute to the inability of SMEs to increase responsible trade activities and competitiveness. Most SMEs are not directly connected to international markets so are less influenced by standardised legality and environmental requirements.⁸

CASE STUDY: ROLE OF SMEs IN VOLUNTARY PARTNERSHIP AGREEMENTS

Voluntary Partnership Agreements (VPAs), a component of the EU Forest Law Enforcement, Governance and Trade (FLEGT) Action Plan, are trade agreements between the EU and timber producing countries that aim to make trade contingent on a timber legality assurance system (TLAS) tailored to partner country laws.



GTF Academy to support FLEGT Communications, Ghana – March 2019

VPAs aim to advance another goal of the EU FLEGT Action Plan, to facilitate a thriving legal forest and wood-based product sector that enhances rural livelihoods for forest dependent communities. To that end, VPAs entail multi-year multi-stakeholder processes focused on improving forest governance by clarifying and reforming national laws and strengthening their enforcement. Timber and timber products that comply with the TLAS receive a FLEGT licence and are considered legal under the EU and UK Timber Regulations.

The EU’s evaluation of the EU FLEGT Action Plan (2004 - 2014), published in 2016, emphasised that while the objective of achieving ‘equitable solutions’ in the forest sector “*has seen great achievements, particularly in the engagement of diverse national stakeholders in VPA processes at the same time, many SMEs are or risk being negatively affected by the implementation of VPAs. ...Capacity building of civil society and government has been relatively effective, but effective engagement of private sector stakeholders has remained weak[.]*”⁹ In relation to the cost-effectiveness of FLEGT actions and instruments, the evaluators noted a need for “*stronger private sector involvement and for simplification of*

procedures to comply with VPA/EUTR requirements in order to increase cost-effectiveness for forest businesses.”¹⁰

Likewise, the European Forest Institute (EFI) noted in its *EU FLEGT Facility Highlights and Insights from 2018*, a “growing recognition” that SMEs are “are a major force in the forest sectors of many timber exporting countries involved in FLEGT processes” and yet significant challenges to engage them in FLEGT processes persist. EFI attributed these difficulties to their great diversity, informality and generally that they are poorly understood due to a paucity of robust, systematic available data.¹¹ In 2020, CIFOR¹² noted that “a large part of the informal sector – if this were to remain one target impact of the VPA process – needs further capacity building and awareness raising efforts for better compliance and understanding of the added value that compliance can bring”.

EFI’s 2018 *Highlights and Insights* report noted that:

“...recent assessments...also showed that timber-sector policies and laws do not adequately reflect the needs of household enterprises even though they play a key role in local – and, increasingly, international – wood markets and provide jobs and livelihoods for many people.

“As VPA processes lead more countries to clarify their legal frameworks, increase law enforcement and change policy, smaller-scale entities could be vulnerable if their needs and challenges are not well understood. More work needs to be done to understand this group of actors so that practical solutions can be developed to help integrate them into verifiably legal supply chains.”¹³

This concern is not new. In a 2011 report commissioned specifically to examine the relationship between FLEGT and poverty alleviation, researchers recommended providing support to small-scale private sector producers and enterprises to help build their capacity to effectively engage in FLEGT policy dialogues, particularly through support to ‘associational networks’ to ensure that “an otherwise diverse, scattered but large number of workers do not have a dispersed and therefore unheard voice.”¹⁴ The researchers specifically underscored that:

“[T]his will require support to building the capacity of associations representing remoter, smaller and fragmented businesses and interests, including those that involve large numbers of poor people (e.g. carpenters, furniture makers, or women bark-stripper associations). Voice requires good access to information and the capacity to use this information to influence decision-making and to ensure that those who are affected by decisions understand what is being proposed and what can be done to mitigate the effects, if necessary.”¹⁵

Similar observations have been made by other forest sector analysts and yet, to date, relatively few resources provided by ODA or domestic governments are available to support the SME private sector.¹⁶

MULTIPLE BENEFITS DELIVERED BY MICROS & SMEs

NATURE-BASED SOLUTIONS AND TRANSITION TO A BIOECONOMY

A thriving responsible forest and wood-based product sector largely comprised of SMEs could deliver multiple environmental and social benefits reaching beyond the wellbeing of the forest enterprises and globally support the realisation of the 2030 Agenda for Sustainable Development and the 17 associated Sustainable Development Goals.¹⁷ Nature-Based Solutions (NbS) underpin the Sustainable Development Goals; they support vital ecosystem services, biodiversity, improved livelihoods and could create new revenue streams for the forestry sector and rural communities.¹⁸

As governments develop bioeconomic strategies in response to forecast changes in climatic conditions and depletion of fossil fuel sources, forest products from renewable and well-managed resources have a key role to play. As well as those listed below, the forest-based bioeconomy contributes to the SDGs: SDG 9 “*promoting inclusive and sustainable industrialisation and fostering innovation*” and SDG 12, “*sustainable consumption and production*”. In response to the COVID-19 pandemic, there is greater need for protection of forests to preserve biodiversity and create more resilient supply chains.¹⁹

FOSTERING INNOVATION, JOB CREATION AND ECONOMIC GROWTH

The link between a robust SME sector and a healthy local economy – and the virtues of locally-based forest management for both communities and ecosystems – is demonstrated repeatedly in peer-reviewed literature.²⁰ The World Bank has found that in general SMEs play an out-sized role in developing economies. SMEs have advantages; they work with less capital, have low management costs, have intensive labour inputs and therefore tend to return a greater proportion of the income generated by their activities to workers.²¹



Moreover, the production of end products such as handicrafts and furniture can provide opportunities for skill development for a local workforce. The COVID-19 pandemic has exacerbated poverty. Rural livelihoods depend on agriculture and rural areas are likely vulnerable and ill-prepared to deal with the consequences of the pandemic.²²

SAFEGUARDING AGAINST CONVERSION AND SECURING A THRIVING ECONOMY

Where forests fail to deliver economic benefits to the local communities that depend on them, it is likely that these forests will be converted to large-scale agricultural or other profitable land uses.²³

Community and smallholder forestry is an important pathway for securing rural livelihoods as SMEs provide local markets for wood as well as the sustainable management of forests.²⁴ Forest conversion is less likely where forest tenure rights are secure and the benefits of forest sector resources and markets flow to local communities.²⁵ Reducing administrative burdens encourages SMEs to ‘formalise’ and therefore improve their operating conditions and prospects for growth.²⁶ Failure to support SMEs has the potential to create barriers to entry and limits economic and employment growth.



BUILDING INSTITUTIONAL SUPPORT AND INCENTIVES FOR SMEs

REACHING SMEs THROUGH ASSOCIATIONS

Associations are the practical way to reach SMEs to support the adoption of responsible trade practices. The figures summarised in Table 1 demonstrate that a limited number of associations have the potential to reach thousands of SMEs and micro-businesses.

Table 1: Figures on SME and Micro Enterprises by Region (data ASK surveys 2017 & 2018)²⁷

Region	# Countries	# Associations	# Members of Associations	Small & Medium (<250 EMPLOYEES)	% SMEs Classed As Micro-sized (<10 EMPLOYEES)
Central Africa (Incl Mozambique)	5	10	2,768	99%	88%
West Africa	3	15	9,016	99%	72%
Asia-Pacific (Incl Aus & Japan)	6	26	12,484	83%	14%
Latin America	12	21	3,204	85%	19%
China	1	10	4,433	83%	8%
India	1	9	14,286	97%	51%
TOTALS	30	91	46,191	87%	38%

INCREASING CAPACITY OF ASSOCIATIONS

Strengthening institutional support to associations is the most realistic entry point to reach SMEs in the sector. By empowering the associations through knowledge and increasing skills, the long-term success of the sector is likely. Uptake by SMEs of programmes designed and provided by third-party organisations is limited. These organisations are perceived as having little understanding of the sector or conflicting agendas e.g. they support or conduct campaigns against or sell services to the sector.

Responsible trade guidance and training practices delivered via the associations as a part of a business support and skills package, will provide incentives for, and supplement, other national forest reform activities. Legal compliance training alone is not self-sustaining for most SME businesses. Providing business support incentivises and drives the competitiveness of SMEs. Improved business management supports SMEs to better perform due diligence,

traceability and compliance. Furthermore, harnessing the convening power of associations for service providers to reach SMEs is more effective and trusted by recipients.

Associations identify government relations as both their main role *and* their main challenge as many lack the expertise to perform this function. This hampers associations’ ability to engage in policy and regulatory processes in a proactive manner. Far too often, SMEs learn about new policies after the time for comment and consultation has passed, so are left scrambling to comply. Developing association communication strategies supports effective engagement during consultation periods and advanced notice to achieve compliance with the least amount of disruption. Therefore, building communications expertise is a priority.

SWOT ANALYSIS OF ASSOCIATIONS

To incentivise trade associations to engage, it is essential to consider their strengths, weaknesses, opportunities and threats (SWOT) – see Table 2 below.

Table 2: SWOT Analysis of Trade Associations

STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> ▪ Legitimacy in representing to the relevant authorities the challenges that their member SMEs face and advocating for appropriate policy, regulatory or infrastructure improvement. ▪ Disseminating information and channelling feedback about policy and regulation to their micro and SME members and providing a potentially supportive constituency for the successful implementation of policy and regulation. ▪ Encouraging informal enterprises into the formal sector by insisting on business registration as a condition of membership. ▪ Representing members who have political deficits based on gender, disability, size, remote location or other socially disadvantaged groups. ▪ Initiating industry standards or resolving industry conflicts and so strengthening the private sector without need for government intervention. ▪ They can make a major contribution to the improvement of the business environment SMEs operate in by representing their views, taking collective action, delivering services, and providing information and networking among members and other stakeholders. ▪ Associations many not be the most effective provider of business services, but they are the most <i>trusted</i> convenor and so can act as an effective facilitator for organisations that do provide services. 	<ul style="list-style-type: none"> ▪ Associations in the forest sector are largely under-resourced with a limited number of staff who are required to understand a wide range of issues and acquire a wide range of skills. ▪ Associations often have larger enterprises as members who can dominate and the best business environment from the perspective of small enterprises may well be different from the interests of larger enterprises. ▪ At least theoretically, associations have a democratic structure, which ensures the participation and ownership of their members. In practice, however, structures may not work as intended. One possibility is that a few influential members (or the president) use the association to serve their private interests. ▪ Associations may seek to protect their members from regulations that are beneficial to the private sector as a whole but can be costly to an individual company, for example by avoiding paying appropriate taxes or observing workplace standards. ▪ Associations can be single-issue or constituency, so limited in their scope of ambition and influence. ▪ Attracting and keeping suitably skilled and qualified staff is a concern particularly in a primary industry.

OPPORTUNITIES

- Associations can reach SMEs who contribute to job creation, innovation and poverty alleviation. They can support SMEs in their transition from the informal economy and help feed skills and opportunities back into that sector, particularly developing the potential of specific social groups such as women, rural or remote communities.
- Stronger protection of forests, avoidance of forest conversion and in response to the COVID-19 pandemic, creation of more resilient supply chains and preservation of biodiversity.
- Encouraging increased use of responsibly sourced timber policies through the adoption of a bioeconomy strategy and investing in NbS that add value to forests.

THREATS

- Longer term funding is clearly necessary to achieve long-term institution building and attitude change, but clarity is needed as to the milestones that need to be met and the consequences of meeting or not meeting them. Moreover, despite investment some associations will struggle to adapt.
- Cultural differences between regions and countries can impact the effectiveness of an association. In countries where there is a strong central government, the sector perceives that business services and support are a government responsibility.

RECOMMENDATIONS FOR POLICY AND PROGRAMMES

ALL POLICY MAKERS AND PROGRAMMES

SMEs are largely excluded from the major national and international deforestation focused forums and processes; their voices are drowned out by larger operators who have different priorities. Therefore, legal compliance and sustainability programmes should be responsive to SME needs and designed to

incentivise and enable their development while enhancing their competitiveness and reducing unreasonable barriers to entry. Otherwise national reform processes and international legality and sustainability objectives risk driving SMEs out of business.

With the documented failure of efforts to engage SMEs to date and the urgency to address supply chain resilience, **the approach to engage the business sector needs review.** The messengers as important as the messages. Appealing to **sector and business challenges, needs and drivers** attracts their interest. It follows then, that the required capacity building is undertaken by trusted institutions. **Deploying organisations with little knowledge or experience of the sector to undertake capacity building is failing to have significant impact and is largely unwelcomed.** While weaknesses exist within associations, the answer is to support a wider number of them to foster change and reach SMEs at scale.

For associations to better represent and support SMEs, resources should be directed to **further their learning and expand their capabilities.** This enables associations to improve their governance, adopt new practices, increase their membership, grow their skill base and provide quality services that become self-sustaining through fees or subscription income.



GTF Summit, Libreville, Gabon - June 2018

The trading environment is influenced by a range of factors; **price and quality are the key market drivers**. Verification and certification schemes, while they are regarded as helpful due diligence tools and can support responsible sourcing claims, little evidence to date suggests they drive demand. Therefore, programmes need to focus on the **real value-add for SMEs; enabling activities** such as **marketing, product innovation, management and quality improvements, supply chain transparency and integration** to access business opportunities.

Finally, **initiate positive procurement policies that support climate mitigation and bioeconomy strategies by encouraging the use of responsibly sourced wood** that addresses negative stereotyping of the industry.

Specific recommendations:

NATIONAL POLICY MAKERS AND PROGRAMMES

1. **Consider SMEs central to a wide range of policy and programme initiatives** from economic growth, innovation, job creation to social inclusion and rural development.
2. **Reduce administrative barriers to incentivise SMEs to ‘formalise’**, which helps drive prosperity, encourages business development and improves compliance.
3. **Encourage investments and research in forests and infrastructure**, links to higher and technical education, provision of affordable finance to support the potential of SMEs.
4. **Urge the industry to work together** to provide information to ensure the sector is better understood and programmes can be better targeted.
5. **Support building local and international market intelligence services in partnership with associations** to understand domestic and international customer expectations and market requirements.

INTERNATIONAL POLICY AND OVERSEAS DEVELOPMENT ASSISTANCE

1. **Ensure demand-side policies are supported by adequate and attractive supply-side measures**. Otherwise unintended consequences can be detrimental to policy goals e.g. leakage to less sensitive markets, enterprise consolidation and barriers to entry.
2. **Deploy capacity building programmes that adopt a mentoring approach and coach change rather than isolated training events**. Utilise organisations that have experience of the sector and ensure they do not have conflicting agendas, i.e. they are not associated with campaigns against or sell services to the sector.
3. **Provide small grants of around USD\$5,000–20,000, which represents a significant investment** for an association to build on. This will help to organise the industry, as associations that meet members needs will prosper while others will fade.
4. **Recognise that both writing and developing proposals is not a natural skill set of associations**. Funding programmes will need to factor in assistance for associations to write proposals as well as ongoing support to manage projects.
5. **Review a programme’s Theory of Change regularly**, to reflect evolving local and global market drivers and regulatory changes.

DEFINITIONS

There are numerous definitions used across different sectors and countries to describe small and medium sized enterprises. In this briefing, GTF adopts the European Commission’s definition of an SME as a “*business with fewer than 250 employees with a turnover of less than €50 million*”. A further breakdown defines microenterprises as those with “*fewer than 10 employees*.”²⁸

For GTF, ‘*responsible trade*’ concerns efficiently achieving high standards in environmental and societal aspects of the wood product trade and also ensuring these high standards are both accessible to all businesses and relevant to markets around the world.

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11 *Ibid* at 11.

12 Cerutti P. O, et al. 2020. *Collecting Evidence of FLEGT-VPA Impacts for Improved FLEGT Communication. Synthesis report*. Bogor, Indonesia: CIFOR. https://www.cifor.org/publications/pdf_files/Reports/FLEGT-VPA-Report.pdf

13 *Ibid* at 11-12.

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