Executive summary

Thailand: Diagnoses and regulatory assessment of SmEs in the Mekong Region

While the forest sector in Thailand accounts for a relatively small percentage of GDP (around 1 per cent in 2009), the small/ micro and informal forest products sector generates significant income for many households and communities along its various value chains. The sector is characterised by many household and family-run businesses in rural areas, sometimes operating informally and on the fringes of legality.

Small and Medium Enterprises (SMEs) are defined by the Government based on the number of employees and fixed capital. Enterprises with less than 200 employees and a fixed capital of less than THB 200 million (USD 6.4 million), excluding land and properties, are considered medium sized enterprises. Small enterprises are those with no more than 50 employees and a capital of less than THB 50 million (USD 1.6 million).

SMEs represent a significant component of the Thai economy. More than 40 per cent of the total GDP for Thailand is generated by the SME sector, and of that 40 per cent, more than half is generated by 'small' enterprises. Small enterprises generated 29.1 % of the total GDP, and medium enterprises 12.0 % of overall GDP. For the first quarter of 2016, the country's GDP grew by 3.2 % and SMEs' GDP rose by 5.1 % –increasing its share of the country's GDP to 42.3 %. In addition, the manufacturing sector is responsible for 22 % of the country's GDP, and the second largest manufacturing sector is furniture.

Abbreviations

EU	European Union
FLEGT	Forest Law Enforcement, Governance and Trade
GDP	Gross Domestic Product
OECD	Organisation for Economic Co-operation and Development
OSH	occupational safety and health
RAOT	Rubber Authority of Thailand
RFD	Royal Forest Department of Thailand
SME	Small and Medium-sized Enterprise
SmE	Small, micro and informal economic Entities
TLAS	Timber Legality Assurance System
VPA	Voluntary Partnership Agreement

According to Turner et al, prior to the Asian financial crisis in 1997, SMEs were a low priority for the Thai Government. Since then, Thailand has become one of the developing countries paying greatest attention to SME development. SMEs have been described as the backbone of Thailand's industrial infrastructure due in large part to their high employment-generating potentials. In 2000, Thailand's SME promotion policy was officially introduced. It aims to enhance the competitiveness of SMEs and encourage them to play more important roles as drivers of economic growth.

The Thai Government has been working with the European Union (EU) on Forest Law Enforcement, Governance and Trade (FLEGT) since 2010. In particular, on the negotiation of a Voluntary Partnership Agreement (VPA) on FLEGT.

This report analyses the preparedness of the timber sector to meet the increasing market expectations in relation to legality by looking at four value chains. This analysis is carried out in the context of the ongoing VPA process in Thailand and current market demands for legal timber from the EU, the United States, Japan and Australia. In these countries, restrictions on timber trade and due diligence requirements have led to growing pressure on the Thai export market to provide sufficient assurance of the legality of the timber products it exports.

The four value chains

Value chain 1: Domestic plantation rubberwood for the export market

Value chain 2: Domestic plantation teak (Tectona grandis) for the domestic and export market

Value chain 3: Rain tree (garden trees) for the domestic and export market

Value chain 4: Reclaimed / recycled hardwood timber for the domestic and export market

selected form an important part of the SME sub-sector in Thailand. They are relevant to the broader discussion about potentially illegal, or undocumented supply chains in Thailand. . Field work findings indicate that many households and micro-enterprises will not be able to provide the evidence of legal sourcing that is and increasingly will be required by export markets. This report aims to identify the obstacles faced by SmEs to be legally compliant and how to support them to comply with increased legal and regulatory enforcement. Three documents prepared in the context of the VPA negotiations between Thailand and the EU have provided a basis for this study: *the Draft of Timber Legality Definition in Thailand - Issued* on 29 May 2017; the 2016 Gaps-Issues Annex, referred to as the Gap / Issues Paper; and the 2018 yet unpublished Results of the Field Testing of the Legality Definition, referred to as the Field Testing Report.

1. Main findings

The main findings related to the challenges faced in the value chains analysed and policy recommendations of this study are as follows:

1. Land tenure insecurity of smallholders is a challenge for legality, particularly in relation to rubberwood and teak grown on or near National Reserve Forests.

Land tenure security is a long-standing issue for smallholders in Thailand, and may pose an obstacle to future compliance with the Legality Definition under the FLEGT VPA. In Thailand, areas of land with secure individual land tenure have been demarcated as private land. Land without secure land tenure is, by default, classified as public land, and frequently exists around or within National Reserve Forests. To legally grow and harvest timber from National Reserve Forests, concession rights must be granted for the use of public land. Smallholders whose plantations have not been demarcated from National Reserve Forests frequently do not have these use right and are thus not allowed to legally fell the trees.

Between 1984 and 2004, the Thai Government (with support from the World Bank and the Government of Australia) undertook a large-scale land titling programme. More than 11.5 million titles were issued and the programme was considered a success. Approximately 40 per cent of the territory in Thailand has been classified as private land, of which 71 per cent is agricultural land. While those issued titles enjoy high tenure security, the system has not reached residents of urban informal settlements or occupants of forest land. In such cases, other types of temporary occupancy and use rights are issued, with fewer rights than for full ownership.

This challenge was observed in the rubberwood, teak and rain tree value chains.

This issue has been addressed in a number of the documents prepared during the VPA process in Thailand, including the 2013 Stakeholder Mapping Report, the 2016 Gap/Issues Paper and the Field Testing Report of 2018.

2. Corruption is reported across all value chains, bribes in association with the issuance of transport documents and trading permits are common.

SmEs Actors in all four value chains reported frequent corruption as one of their biggest challenges. Interviewees in all value chains particularly reported being asked for bribes when applying for transport documents and trading permits. Many actors routinely are asked to pay bribes to cover the day-to-day operations of officials. As is the case with corruption in most countries, the corruption in the Thai timber sector is difficult to both identify and quantify – fraudulently received documents appear to be legal and correct. This will be a challenge in the design and implementation of the Timber Legality Assurance System (TLAS) under the VPA.

There are high risks of corruption in most sectors in Thailand, and corruption may even have become more entrenched since the military coup of 2014. The Thai Government has taken many steps to eradicate corruption from Thailand, including the introduction of the Organic Law on Counter Corruption, establishing a new anti-corruption watchdog and specialised corruption courts, and improving and accelerating investigation and enforcement proceedings. Investigation and enforcement activities for corruption offences have become more widespread, with the focus of corruption investigation proceedings expanding from high-ranking political officials to state officials, local government officials and officials of state enterprises. GAN Integrity posits that the anti-corruption measures are inadequately enforced, facilitation payments and gifts are common, and the enforcement and prosecution of high-level corruption is politically motivated.

While the information provided by interviewees about the prevalence of corruption in their value chains is anecdotal, all actors interviewed in the teak and recycled wood value chains experienced some form of bribery or extortion.

3. The economic slowdown in Thailand had a significant impact on SmEs that are heavily reliant on the domestic market.

Thailand is South-East Asia's second largest economy, after Indonesia. The historically resilient economy serves as an economic anchor for its developing neighbour countries. The economic slowdown in Thailand after the global financial crisis had a significant impact on the Thai forestry sector, and particularly on the value chains analysed since they rely heavily on the domestic market. This impact has been more sever since the 2014 coup. Many enterprise owners reported difficulty with securing payment from their customers, who increasing requests for lines of credit.

These perspectives are somewhat contradictory to the economic data, which shows significant improvement in economy since the low of 2014. Many SmEs in the value chains analysed are making products destined for the domestic market. These domestic industries are still experiencing slow demand, a lack of investment and consumer caution.

Several support mechanisms have been put in place to support SMEs in Thailand, including the creation of the Office of Small and Medium Enterprises Promotion. While the Thai Government is investing significantly in supporting the SME sector in Thailand, the effects of this support are not being felt in a tangible way by the SmE actors in the value chains analysed. Ongoing support for the sector is clearly needed, and careful consideration and effort should be given to the development of a TLAS that is robust but not unnecessarily burdensome on the SmE sector.

Field work revealed that several households had diversified into multiple business areas and had a few sources of income that were not all reliant on the turbulent timber sector. These households, often with members of the younger generation involved in the household planning, appeared to have better uptake of technology and be more open to innovation. These households also reportedly found it easier to find and undertake appropriate training to upskill, and had an easier time accessing the financial services available. It appears that the issue with the timber SmE sector is not necessarily one of a lack of services and support, but more of an issue of access and uptake.

4. Despite ongoing measures to support SMEs access to finance, SmEs still struggle to access finance from commercial banks.

Many SmEs have limited access to credit (or finance), which constitutes a significant obstacle in their business. Many reported a constant struggle to remain financially viable and have sought additional financing to keep their business afloat. They indicated having limited access to finance, especially low interest credits/loans, despite several SME-specific financial programmes being in place. The loans available to SmEs from commercial banks have high interest rates, which are not viable for their business. Many individuals and households are not eligible for commercial loans as they are not formally registered.

The Wold Bank reports that commercial banks have been instructed not to lend to businesses that do not have tax records approved by the Revenue Department. By March 2016, approximately 400,000 SMEs had registered with the Revenue Department, just under 15 per cent of the 2.7 million SMEs in Thailand. Only 600,000 of this total are operating in a corporate form, while the rest are individuals.

A 2011 report of the Organisation for Economic Co-operation and Development (OECD) on SMEs and Entrepreneurship states that less than half of the 2.7 million SMEs in Thailand can access formal finance. The OECD also notes that some SMEs have collateral constraints and lack credit history, limiting their access to bank loans. Several Government initiatives aim to assist Thai SMEs to develop and innovate. No forest or timber sector-specific financial initiatives were identified in this study.

Cooperatives have access to the Cooperative Empowerment Fund through the Department of Agricultural Promotion. The cooperative submits a proposal for a low-interest loan (4.5 % interest) from the Fund once a year. Some female actors in the value chains analysed accessed micro credit from the Thai Women Empowerment Fund under the Department of Community Development, Ministry of Interior.

5. SmEs face bureaucratic obstacles, stemming from insufficient, unclear or unnecessarily burdensome legislation as well as weak enforcement.

Bureaucratic obstacles can be a significant impediment to SmEs' business' viability. SmE reported facing two types of issues: insufficient, unclear or unnecessarily burdensome legislation; and improper or inadequate monitoring and enforcement. Frequently, these two issues were encountered together and led to lower levels of legal compliance.

SmEs interviewed pointed to definitional issues in the reclaimed wood and rain tree value chains (specifically a lack of clarity around the definition of these two sources of timber). This was also raised during the Field Testing of the Legality Definition.

In addition, the licensing/permit process for chainsaws was cited a number of times as a bureaucratic obstacle. Under the Chainsaw Act 2002, chainsaws must be licensed and operators must hold a permit. Licences are geographically specific and cannot be used outside the permit area. Stakeholders felt this process was unnecessarily burdensome and have suggested the relaxation of the geographic limits imposed on chainsaw licences. They also recommended that the regulation of chainsaws be limited to those with 15 inches or over. The question of whether the timber cut by an unlicensed chainsaw, or outside the geographic scope of the licence is 'illegal' must be considered in the TLAS development.

Other bureaucratic obstacles raised in the Field Testing of the Thai Legality Definition, and the Gap / Issues Paper, which were also observed in the analysis of the current value chains include:

- The existence of numerous different Royal Forest Department of Thailand (RFD) permits for the transformation of timber, manufacturing of timber products, and operation of a timber trading place.
- Inconsistent monitoring of timber transport, dependent on the species in question. Transporters of unrestricted species are not stopped / inspected / verified.
- For community forests and small-scale initiatives, regulatory compliance is difficult to prove due to the absence of conventional documentation and the pressure (and desire) of local smallholders to operate simple systems with minimal internal regulation and control.
- On Private Land (other than registered plantations), Thai law (under section 7 of the Forest Act) requires verification of legality for 17 restricted species only. The absence of regulation for all other species cultivated on (non-plantation) private land is a traceability gap that Thai stakeholders are currently addressing.
- Relevant for the teak value chain, the Field Testing Report found that 'stakeholders have asserted that operators on private land should not be subject to the 17 restricted species under the Forestry Act, and should be able to manage private land as they wish'.
- Currently there is no reliable evidence or documentation that identifies and accompanies the purchase or sale of unrestricted species.
- RFD may issue alternative documentation if the original documentation was lost or damaged, false or incorrect, etc. The procedure for issuing such alternative documentation is unclear and not included in the current draft of the Legality Definition.

Other elements identified as contributing to limited or inadequate monitoring and enforcement include: the centralised, top down governance system; varied expertise, training and competence of some enforcement RFD officers; a strong and entrenched bureaucracy; limited budgets for regional offices, especially limited budget for ongoing training; out of date technology and equipment (for example, Global Positioning System / Geographic Information System tools); inadequate support/benefits to local staff; insufficient human resources in provincial RFD offices; and corruption and nepotism.

6. SmEs experience difficulties in demonstrating the legality of their timber products.

When small-scale operations do not have the requisite permission to harvest timber (no land title or harvesting permission), the harvesting activities on such land are technically illegal. Insecure land tenure has therefore significant knock-on effects throughout the supply chain. The control of illegal timber through supply chains, as well as challenges with demonstrating the legality of timber in supply chains was also raised in both the Field Testing Report and the Gap / Issues Paper. Options to address these issues were tabled during the first VPA negotiation with the EU.

Within Thailand, illegal logging and illegal encroachment have historically been serious issues. Laundering of timber logged illegally in Thailand was once common practice. In recent years, the Government has tightened control over cross-border trade on round logs. Imported logs must be accompanied by export permit and sealed with hammer mark.

The legality of the wood products produced by the households and smallholders in the value chains analysed varies, but all face challenges in demonstrating the legality of the products to their customers. Households and smallholders face difficulties in providing evidence of the legality of the land and the wood.

7. Many SmEs are not compliant with occupational health and safety requirements and lack the necessary capital to set up safe facilities.

Thai law imposes stringent obligations on employers (and contractors) to ensure they provide safe workplaces for their employees. Compliance is, in theory, monitored, including through the obligation to prepare a report on occupational safety and health (OSH), which must be signed by a licensed person.

Many SmEs lack the necessary capital to set up a safe facility and to buy modern, safer equipment. There is also a lack of knowledge and awareness of Occupation Health and Safety (OHS). Most individuals have never had proper training.

A lack of compliance with OHS requirements was also observed during the field testing of the Legality Definition, as operators frequently did not have copies of the relevant documentation or proof of compliance.

The Thai Government has implemented a number of measures aimed at improving OHS in Thailand, including a number of Master Plans on Occupational Safety and Health. In partnership with the International Labour Organization, a participatory training programme known as WISE (Work Improvement in Small Enterprises) was widely applied in Thai SMEs Thailand and successfully mainstreamed into national policies in Thailand.

Wood furniture production has been identified as one of the most hazardous industries. Despite these hazards, SMEs' working environments and conditions are substandard or worse than that of larger enterprises.

The non-compliance with the OHS laws observed in the value chains is likely to pose a significant challenge to the design of the TLAS, in particular if scale-sensitive solutions are not identified.

8. SmeEs have limited opportunities for upskilling, poor uptake of innovative practices and lack of capital to invest in new technologies

Apart from the rubberwood value chain, SmEs lack of skilled carpenters / woodcarvers, mainly because of the lack of incentives for young people to enter the trade. Young people perceive the industry as complicated to operate in, due to overregulation, the difficulties in obtaining permits and the corruption. Field work indicated that micro credit and access to loans would assist, but regulatory and public-sector reforms should be priorities.

The skill training programme offered by the Department of Skill Development of the Ministry of Labour and organised by cooperatives had little success. Most people who would benefit from the training were reported to be too busy to attend and unable to afford to take time off work to learn and practice new skills.

Reports on the challenges faced by the SME sector in Thailand cite a slow uptake of innovation, and lack of educational improvements as major barriers to improved outcomes for sector participants.

9. Despite the Government's commitment to promote gender equality, women's participation in decision making and representation in leadership positions in the forestry sector remains low.

Women are important actors in the household-based forest product enterprises, engaged as owners and operators, as well as workers. Most SmE households are husband-wife owner operators. In households where the husband and wife have their own separate businesses, some support each other (the pattern is the more successful/profitable one will support the less successful/profitable one).Even where women are not directly involved in the value chain, it is often the other businesses that they are involved in that financially underpin the forest product enterprise. Many of the households examined in this study operate portfolio livelihoods where each business – agriculture, wood-based, services - is needed to maintain the security of the household. For some households at either end of the wealth spectrum, the wood-based enterprise are their sole source of income. . This field study was unable to quantify or scale up these observations.

The Field Test revealed the predominance of men, especially within the formal sectors. But within the SMEs and informal sectors, women are much better represented, although the overall percentages are unknown. The Test also identified some very competent and entrepreneurial women in positions of control and influence.

Workers' roles and pay are also clearly differentiated. Men, in general tend to work with larger machinery, requiring higher levels of skills and experience, or work as skilled carpenters and wood carvers. Women typically work on manual tasks and are paid as daily wage labourers. Men are more highly paid, and more likely to be paid on piece-work rates than daily labour rates. Regulatory impacts fall equally on men and women and informality in the sector also hits both genders. The lack of formal employment contracts is equally applicable to women as to men and effectively removes them from the formal protection and entitlements provided by the State.

Policy Issues and recommended actions

Below are the policy recommendations formulated based on the analysis of the four value chains researched.

Value Chain 1. Domestic plantation rubberwood on public land for the export market

Policy issues and options	• Land tenure: approximately 50% of plantations do not have land titles due to the demarcation of National Reserve Forests, and up to 80% of the households do not have legitimate landholding. Despite government efforts in this area, this issue is felt keenly by members of this value chain. • Harvesting permission: Where plantations do not have land titles or proper land documents, harvester-SMEs that have been hired to fell the trees will have to operate illegally, as harvesting permits are impossible to obtain. • Chainsaw permits: As many harvesters work across districts, the geographic restriction on chainsaw permits validity is a challenge. • Corruption and bribery: There is a risk of transport documents and trading permits being falsified or obtained through bribery. While this is reported on more frequently in the high value hard wood value chains, the insecure land tenure of the rubberwood value chain exposes it to higher risk of corruption to secure harvesting permission. Despite the Government's efforts high levels of local corruption is reported. • Economic obstacles: Price fluctuations are reportedly a significant hindrance to the security and expansion of the rubberwood industry in Thailand. • Bureaucratic obstacles: Multiple authorising institutions and a complex, decentralised governance system has led to uneven oversight and compliance throughout the value chain.
Policy issues and options	Land tenure: • A comprehensive review of the land laws in Thailand to adequately recognise customary land ownership and recognise the ownership rights of all land holders. Such a process should be carried out through the collaboration of the Ministries of Interior, Agriculture and Cooperatives, Natural Resources and the Environment, Commerce and Industry, as well as the Royal Forest Department. Such efforts should complement and expand on existing efforts in the country, including the passing of the Community Forest Bill and implementation of the Community Forest Management Divisions' plan to issue rights to communities living near Reserve Forest Land and other Public Land. Potential partners: RECOFTC, the Thai Working Group of Community Forest Management, and the National Land Bank committee. • An education programme for land owners, to ensure that all stakeholders can be recognised in the process. This could be coordinated through the Rubber Authority of Thailand (RAOT) and the Village Rubber Plantation Fund Cooperatives. • The development of baselines and socioeconomic assessments, giving attention to women and ethnic minorities. Design and implement appropriate affirmative interventions to ensure that legislation and initiatives improve and strengthen the rights of these groups.

	• The development of local programmes to ensure that land registration offices and development programmes take affirmative steps to ensure that women's rights to own and manage land are well received. • Support and enforcement of women's legal rights with legal aid services that work with local dispute resolution forums. • Support for landowners who operate at the fringes of the National Reserved Forests to obtain proper title for their land and facilitate simple and timely process for them to do so. This could be carried out through and in concert with the Community Forest Management Division plans to issue rights to communities living near Reserve Forest Land and other Public Land. • Support for landowners who operate at the fringes of the National Reserve Forests to seek alternative livelihoods if their land ownership cannot be formalised. Chainsaw permits: • Amendments to laws regulating the use of chainsaws, including potential: - A user carried licence for permit holders (like a driver's licence) which would be simpler to verify in the field. - Relax or remove the geographic limits imposed on chainsaw licences. This could be led by the RFD. - Increase the size or horsepower thresholds for chainsaw licences so that smaller chainsaws are not captured by the regulatory requirements. - Completely abolish the chainsaw permit requirement. Any such changes should be led by the RFD in consultation with national stakeholders. Discussions are already ongoing under the VPA negotiations. Corruption and bribery: The following activities could supplement ongoing efforts to combat corruption and bribery: • Providing training and capacity building for all RFD staff about both their roles and responsibilities relating to integrity and corruption. This could be centrally coordinated, but should focus on capacity building at the provincial level. • Exploring options for incentivising good (non-corrupt) behaviour from RFD staff. • Following up intuitionally (including prosecution) of officials caught requesting or taking bribes. • Ensuring that forestry officials, particularly provincial RFD staff, are well paid. • Ensuring the transparency/checks and balances are in place throughout the RFD. • Reducing red tape in the forestry sector by eliminating as many needless regulations while safeguarding the essential regulatory functions is argued by many to be a positive influence on instances of corruption. • Enhancing the work on international conventions - Such as the OECD's Anti-Bribery Convention of 1997 and the UN Convention Against Corruption of 2004).

Current situation	• Investigating options for using technology to tackle corruption and bribery, for example a digital and fully integrated barcoding system, further implementation and integration of the National Single Window and community monitoring initiatives. • Potential partners: The UN Office of Drugs and Crime has a number of collaborative projects with the Thai National Anti-Corruption Commission of Thailand that could be leveraged for these purposes. Discussions on mainstreaming regulations and RFD local performance are already ongoing under the VPA. Economic obstacles and access to finance: • Encouragement of relationship-based lending within commercial banks with support provided to banks to understand the unique situation of the SME wood sector. A partnership could be coordinated between the Office of Small and Medium Enterprises Promotion and the ROAT to implement this. • Credit guarantees provided by the Thai Credit Guarantee Corporation should be promoted in the wood sector, especially start-up SMEs, which have insufficient collateral. This could be coordinated by the Office of Small and Medium Enterprises Promotion, with the RAOT, and implemented at a village level by the cooperatives. • Strengthening of the network among the Thai Credit Guarantee Corporation, commercial banks, and other government-owned State Financial Institutions, with the aim of helping Thai SMEs to obtain sufficient credit in a timely manner and allow the institutions to share financial information on SME. • Direct outreach and training to SmEs to make them aware of the options available to them through the various Government initiatives. This could be coordinated by the RAOT, and implemented at a village level by the cooperatives with support from the Office of Small and Medium Enterprises Promotion. • Exploration of the development of a group scheme/s for rubberwood smallholders. This could also be facilitated through the RAOT. • Bureaucratic obstacles: • Where possible, permits and licences should be streamlined, and each enterprise should be required to obtain fewer permits with a broader scope. The Gap / Issues Paper suggests that a simplified one-permit system for processing which specifies purpose(s) of activity should be introduced. This work should be led by the RFD in collaboration with the industry through the RAOT. Some other industry associations of note (not specific to the rubberwood sector) include the Thai Timber Association and the Thai Furniture Industries Association.

Value Chain 2. Domestic plantation teak for the domestic and export market

Policy issues	• Insecure land tenure: Insecure land tenure is a significant issue in the teak value chain. In the study region, the settlement pre-dated National Reserve Forests and in one village alone, more than 50% of the 165 households are now in the National Reserved Forest. Despite government efforts in this area, this issue is felt keenly by members of this value chain. • Corruption and bribery: Significant corruption in officials throughout the value chain was reported in the field study. Stakeholders reported bribery and extortion in every step Since the military coup in 2014, a lot of effort has gone into combating corruption and bribery. As a result, investigation and enforcement activities for corruption offences have become more widespread. A general trend has been for the focus of corruption investigation proceedings to expand further from high-ranking political officials to state officials, local government officials and officials of state enterprises. • Economic challenges: The economic slowdown, both in Thailand and globally, has reduced demand. Teak SMEs suffer from the economic declinesince 2006. A number of economic measures have been put in place by the government to support the economic viability of SMEs . It appears that the issue with the timber SME sector is not necessarily one of a lack of services and support, but more of an issue with access and uptake. • Outdated equipment and infrastructure: SmEs have poor and/or insufficient processing infrastructure, an issue is closely related to access to finance as detailed below. • Lack or organisation or collectivism amongst SmEs: Without Government support and facing regulatory obstacles, SmEs in this value chain is limited by a lack of: bargaining power, collective marketing, knowledge on marketing and understanding of the market. While there are some wood cooperatives, there should be support for expanding their scope. • Limited access to finance: SmEs have very limited access to finance because of their lack of collateral and the high interests charged by rural lenders. SmEs can benefit greatly from low interest credits/loans without collateral. This is despite ongoing government efforts to increase access to finance for Thai SMEs Thai banks very reluctant to accept risky loans. The Cooperative Empowerment Fund, through the Department of Agricultural Promotion and the Thai Women Empowerment Fund under the Department of Community Development, Ministry of Interior were both specifically mentioned by actors in this case study. • Poor OHS: SmEs lack the necessary capital to set up a safe facility and to buy modern, safer equipment. There is also a lack of knowledge and awareness of OHS. Despite strong legal requirements and public training programmes, wood furniture production is one of the most hazardous industries. The working environments and conditions at SmEs are substandard or worse than that of larger enterprises.

Current situation	• Regulatory obstacles: Teak requires various processing, trading and transport permits depending on the stages of production and trading. Furthermore, there are several permit types under timber processing permits. • Illegal harvesting of teak: Laundering of timber logged illegally in Thailand was once common practice, in recent years, the Government has tightened control over cross border trade on round logs. Distinguishing processed and semi processed teak from Thailand from teak from Myanmar is not easily possible.
Current situation	In addition to the policy options provided for Value Chain 1 covering insecure land tenure, economic challenges and access to finance and regulatory obstacles. Lack or organisation or collectivism amongst SmEs: • Develop financial support mechanisms to encourage SmE participation in cooperatives. This may include further direct Government investment in cooperatives. Support for existing wood cooperatives should be provided, and financial assistance could be facilitated through industry associations such as the Thai Timber Association and the Thai Furniture Industries Association Occupational health and safety • Develop financial support mechanisms for organisations establishing new facilities to enable them to set up a safe facility and to buy modern, safer equipment • Ensuring that engineering controls are built into the design and establishment of any new facility to minimise the risk of exposure to hazardous machinery • Enforcement of scale-sensitive national safety regulations • Provision of occupational health and safety information to workers through safety training with the aim of increasing knowledge and assisting workers in adopting safety-based behaviours • Consideration of a continuous improvement model of compliance for SMEs in the TLAS • More rigorous monitoring of the OHS requirements, including a risk-based auditing programme, to further support compliance of SmEs. The focus of such a programme should be as much on training and capacity building of the SmEs, as enforcing the letter of the law • Provision of low-cost or free access to personal protective equipment for SmEs These measures could be rolled out by the Ministry of Labour of Thailand and the Department of Labour Protection and Welfare (through their Master Plans on OSH) and further opportunities for collaboration with the International Labour Organization could be explored.

<table>
<tr>
<td></td>
<td>
Regulatory burden
Options for reducing the regulatory burden led by the RFD could include:

Revise the Forest Act so that no species on Private Land are restricted
Revise regulations to remove the need for harvesting permits for restricted species on private land
Introduce a traceability system (potentially including local authorities certifying that the operator has private title to land and has sourced the timber from this land)
A self-certification system for restricted species backed by a verification system

Note: Given the issues with the traceability mechanisms mentioned in this report, the authors of the current study cannot (without further investigation) endorse fully any of these options. The authors took note that these options are discussed in the VPA process and already further specified.
</td>
</tr>
</table>

Value Chain 3. Rain trees for the domestic and export market

Policy issues	• Corruption and bribery: Raintree and most garden trees are not restricted species, so permits are not hard to obtain and there were no reports of bribes to issuing officers. Owner-operators said bribe is still expected in the form of gifts (liquor/beer) to the local police. This is in spite of the ongoing efforts to combat corruption and briber in Thailand. • Financial insecurity and access to finance: Many SmEs struggle financially, and many make their money doing piece work. Extreme poverty was observed and reported during the field work, having many knock-on effects. Many families are unable to become member of the local Wood Cooperative, and thereby get access to micro credit. Money lenders in the community offer quick access to cash, but require villagers to mortgage their farm lands, houses, cars, jewellery and many have lost lands as a result. This is despite a number of economic measures have been put in place by the Government to support the economic viability of SMEs. • Regulatory obstacles: The rain tree (Albizia saman or Samanea saman) does not belong to the group of restricted species under the Forest Act. However, SmEs are still required to obtain various permits issued by the Forest Department depending on the operation. Very poor SmE households are not familiar with forestry laws and other regulations. They want to avoid paying bribes/actual fees but may ask/are advised to ask for permits that they actually do not need. • Upskilling: The cooperative in the study region recognises that most wood products in the community are sold unfinished and unpainted. Training on wood painting offered to local SmEs attracted little interest. Also cited was a weakness in research and innovation, demonstrated by the low levels of research and development investment in Thailand. According to the OECD, the education and training systems have failed to produce qualified labour commensurate with market demands. The Industrial Technical Assistance Program, established under the National Science and Technology Development Agency, has provided technical and financial support to the wooden furniture industry since 2004. The Department of Skill Development, Ministry of Labour, offers a skill training programme. Local cooperatives organise training on timber coatings, paints, finishes, to its members.

Policy options	In addition to the policy options provided for Value Chains 1 and 2: Upskilling • Develop training programmes for SmEs covering the following areas: - Carpentry and technical knowledge - Management skills - Business and marketing - Legal (permits; labour rights) - OSH education This training may identify the context-specific obstacles and needs for further training, which would lead to the second round of training with invitations to SMEs and the relevant authorities at provincial level (RFD, Ministry of Natural Resources and Environment, provincial governor, police, military) and representatives from RFD in Bangkok. • Collaborate with organisation or agencies that may be able to assist with such training, including the Industrial Technical Assistance Program, Provincial Commercial Offices (Ministry of Commerce); the Industrial Promotion Center Regional Offices (Ministry of Industry) and the Department of Trade Negotiation (Ministry of Commerce).

Value Chain 4. Reclaimed / recycled hardwood timber for the domestic and export market

Policy issues	• Corruption and bribery: Reportedly, the recycled timber value chain is perceived by some authorities as an avenue to launder illegal hardwoods, and is heavily scrutinised as a result. Frequent bribery is reported in this value chain. • Economic challenges: SmEs face the effect of the economic downturn since the 2006 military coup. Several business owners reported difficulty with securing payment from their customers, and increasing requests for lines of credit from customers. • Financial insecurity and access to finance: Given the economic challenges faced by actors in this value chain, many have sought additional financing to keep their business afloat. Some female actors have accessed micro credit from the Thai Women Empowerment Fund under Department of Community Development, Ministry of Interior. • OHS and labour laws: OHS is not well protected in this value chain. Employees variously reported using gloves, goggles and/dust masks, which had to be brought by the employees themselves.. • Regulatory obstacles: There is significant confusion surrounding the definition of 'recycled timber' under the Forest Act. Upskilling: Actors report on some opportunities for participants in the value chain to upskill. The Department of Skill Development, Ministry of Labour, offers skill training programme. The local cooperative organized a training a study tour to a timber factory and coordinated an assistance programme from government agencies.
Policy option	Demonstrating legality • Developing a standard contract and delivery note that can be used by SMEs to supplement the information on the legality of their supply chains may be a cost-effective way to support their ability to demonstrate compliance. Definition of 'recycled timber' • Revise Forest Act B.E. 2484 Section 4 and/or ensure alignment with the Order No. 31/2559 of the National Council for Peace and Order on the Amendment of the Forest Act to ensure clarity in the definition of what constitutes recycled timber in Thailand. Such changes would have to be led by the RFD. • Training and outreach to ensure both enforcement officials and the regulated community understand the definition. The could be carried out via trade associations. Marketing and promotion • Support and continue the One Tambon One Product program – which provides support on market and marketing, micro credit, community organisation, market connectivity with urban consumers, and network between local producers/ artisans and distributors/exporters. • Support and expand community enterprise programmes offering micro credit, skill training and cooperatives that offer micro credit, skill training, market access. An example of this is the Wooden Handicraft Cooperative operate in the region visited.

Cross-cutting issues - gender

Policy issues	Despite the commitment of the Thai Government to promote gender equality, women's participation in decision-making and representation in leadership positions in the forestry sector remain extremely low.
Policy options	• Carrying out evidence-based research and gathering gender-disaggregated statistics in forestry to enhance understanding of the diversity of forest-dependent communities and women's concerns and priorities. • Building the capacity of SmE business associations and networks to reach women owned and co-owned enterprises. • Supporting exchanges among business women in these value chains to promote the exchange of information and knowledge about their sector. • Building opportunities for more constructive interaction between business women and the public sector through trade fairs, specific forums to explore the barriers facing business women to encourage a business environment more responsive to their business needs. • Encouraging SME associations to support women's access to information and training opportunities to access market information, financing and technologies. The Thai Women Empowerment Funds was mentioned by actors in some value chains. RECOFTC have also done significant work on women in the forest sector in Thailand.

About the EU FLEGT Facility

The EU FLEGT Facility supports the European Union, its Member States and partner countries in implementing the EU FLEGT Action Plan. The European Forest Institute has hosted the Facility since 2007. The Facility has its headquarters in Barcelona, Spain, with additional offices in Brussels, Belgium; Joensuu, Finland; and Kuala Lumpur, Malaysia.

Disclaimer

This briefing has been produced with the assistance of the European Union and the Governments of Finland, France, Germany, the Netherlands, Spain, Sweden and the United Kingdom. The contents of this briefing are the sole responsibility of the EU FLEGT Facility and can under no circumstances be regarded as reflecting the position of funding organisations.