

# Supporting wood-based MSMEs in the Mekong region to operate legally and sustainably

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# Sida-funded MSME support

- Sida-funded support for wood-based MSMEs in Laos, Myanmar, Thailand and Vietnam. Focus on understanding the challenges faced by MSMEs and supporting them to work legally and sustainably.
- Through pilot projects, solutions are tested to MSME challenges.
- Primary target groups are timber-based micro and small businesses. Direct engagement with owners and workers.
- Also working with industry associations, local authorities, policy makers, CSOs, international organizations, etc.



# Challenge: low productivity and operational capacity

- The challenge leads to weak compliance with regulations, poor workshop designs, resource wastages, poor work safety, etc.
- Solutions tested: technical trainings and collaborations between MSMEs and more established enterprises
- Lessons learnt:
  - MSMEs are generally willing to commit their time to capacity-building activities.
  - Production management training and coaching were effective and well received by MSMEs.
  - Better workshop layouts and processes reduced their waste and increased productivity.
  - Workers are benefiting from a better and safer work environment.

Before



After



# Challenge: low productivity and operational capacity (2)

- MSMEs welcome the opportunity to collaborate with more established companies and benefit from knowledge transfers and contracts.
- In Vietnam, larger companies started to supply engineered materials made from legal sources to MSMEs which increased efficiency, reduced waste and increased legal timber use.
- For example, MSMEs in Lien Ha wood village saved 779 m3 of timber in 2020 by using customized boards from domestic plantations supplied by Woodlands.



# Challenge: access to finance

- IFC estimates that 40% of formal MSMEs in developing countries have an unmet financing need of \$5.2 trillion every year.
- For informal businesses, in some countries, access to finance can be an existential challenge because their lack of formal registration prevents them from accessing loans at preferential rate in state-owned banks.
- Lack of formal registration prevents informal businesses from accessing legal timber and government support. It also exposes them to abuse.
- For tree growers, access to finance challenges are land titles, collaterals and poor understanding of the value of their assets.

# Challenge: access to finance (2)

- Solution tested: financial management training and support to formal registration
- Lessons learnt:
- Financial management training is a practical and effective tool to improve business practices. It is well received by the MSMEs and attracts female trainees (in some cases as high as 70%).
- Trainings helped households in Vietnam, Myanmar and Thailand to make financial records. This is important because:
  - It helps them to formally register their businesses.
  - Once formal, they can apply for loans and other forms of support.
  - Financial knowledge helps them to determine product costing. This is key for the sustainability of their business.
  - Industry associations can act as service providers to help businesses to formalise.



# Challenge: access to finance (3)

- Solution tested: support tree growers in using trees as collateral for loans and create the conditions for market access
- Lessons learnt:
  - Tree growers were encouraged to form a group. As a group, they are more attractive for financial institutions and timber processors.
  - Through trainings, the tree growers learned how to calculate volumes and values of their trees which made them understand that trees are assets.
- Establishing collaborations between the tree growers and local branches of development banks is effective. The pilot's tree growers are applying for loans from Thailand's Bank of Agriculture and Agricultural Cooperatives.
- Tree growers were trained in complying with legal requirements for timber commercialization. A trading place was set-up and connections with processors established. Access to finance and markets encourages farmers to maintain and replant trees.



# Challenge: poor representation in policy processes

- Micro businesses often do not see the benefits of joining associations. Their lack of formal representation as a group prevents them from advocating for their interests, such as revising regulatory frameworks that are not scale-sensitive.
- Solution tested: Facilitating the communication between MSMEs and policy makers, encouraging the formation of new associations, and supporting the uptake of MSMEs' interests and concerns by the relevant policy processes.
- Lessons learnt:
  - Exposing MSMEs to policy makers encouraged MSMEs to form new associations.
  - Advocating for MSME interests in policy processes can trigger regulatory reforms in support of these enterprises.
  - FLEGT VPA structures proved useful platforms for connecting MSMEs with policy makers.



# Resources and publications



Resources available at <https://www.euflegt.efi.int/smes-mekong>

Thank  
you!

