

Information paper

# **SME assessment by the EU FLEGT Facility**

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## Summary

The EU FLEGT Facility received funding from the Swedish International Development Agency (Sida) to increase the knowledge about small and medium enterprises (SMEs) and smallholders in the Mekong region and to address potential challenges for these timber companies to operate legally, economically, socially and environmentally successfully in the context of FLEGT Voluntary Partnership Agreements (VPAs).

The work will first fill critical information gaps by assessing these sectors in Laos, Myanmar, Thailand and Vietnam, paying particular attention to potential impacts of VPAs on women. It will then help national stakeholders to identify ways to ensure SMEs and smallholders can more easily participate in supply chains described in national timber legality assurance systems.

## Background

Countries across the Mekong region are engaging in processes to negotiate Voluntary Partnership Agreements (VPAs) with the EU to address illegal logging and promote trade in legal timber products.

VPAs are among the measures of the EU Forest Law Enforcement, Governance and Trade (FLEGT) Action Plan. Under a VPA, a country commits to develop a timber legality assurance system and to export to the EU and possibly other markets only verified legal timber products of types listed in the VPA. This involves defining legality and, often, changing regulatory frameworks.

It has become clear that, in some countries, strictly enforcing the existing regulatory framework could harm small and medium enterprises (SMEs) in the formal sector and smallholders in the informal sector. Unintended social, economic and environmental consequences could happen because of factors that include:

- More stringent enforcement of laws and regulations
- Costs of demonstrating compliance with applicable legality standards
- Modernisation of value chains to meet new VPA requirements
- Inclusion of domestic as well as export markets in VPAs

As a result, implementing a country's VPA could potentially stifle small-scale businesses and increasing rural poverty. In contrast, by taking account of the special needs of small enterprises and the informal sector, VPAs could raise understanding, create economic opportunities and alleviate poverty.

It is therefore important that VPA processes consider such risks and already early in the processes explore specific support mechanisms for SMEs and smallholders to overcome barriers to operate legally, economically, socially and environmentally successfully.

A fundamental challenge, however, is the near absence of reliable data on this sector. Very little is known about how many people are involved, about material flows and value chains, or about current levels of compliance with relevant laws and regulations. There is also little information on differentiation of gender roles in the region's small and informal forest products sectors.

This EU FLEGT Facility, supported by the Swedish International Development Agency (Sida), aims to fill these information gaps and help stakeholders to develop solutions.

## Goals and activities

The overall objective of this work is: To contribute to poverty eradication and sustainable forest management in Asia through support to the implementation of the EU FLEGT Action Plan.

Over three years (2016-2018), the project aims to:

- Improve understanding of how small forest products enterprises, including those in the informal sector and supplying domestic markets, operate in Laos, Myanmar, Thailand and Vietnam. This will include research on the structure, dynamics and governance of selected value chains, including the different roles of women and men. The research will consider barriers that prevent small-scale producers and processors from participation in the formal sector and/or high-value markets.
- Analyse the regulatory obstacles faced by small enterprises and the resulting impacts on the viability of such enterprises and their potential contributions – both economic and environmental – to national economies in Laos, Thailand and Vietnam.
- Prepare recommendations for relevant policy and regulatory reforms that take account of the needs of small enterprises, and of women in particular. The EU FLEGT Facility will work with stakeholders from governments, the private sector and civil society to define measures that could support the participation of SMEs and smallholders in supply chains regulated by VPAs.

The activities will run in parallel with VPA processes, contributing where possible to VPA preparations, negotiations and future implementation while avoiding disruption to these processes. Each stage of the project will involve consultation with stakeholders to seek their input and share results.

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**Disclaimer.** This internal working paper has not been edited. Please review the ideas presented, knowing that the contents may be edited at a later stage in development.