Forest Policy and Economics 20 (2012) 112–119

Contents lists available at SciVerse ScienceDirect

Forest Policy and Economics

journal homepage: www.elsevier.com/locate/forpol

# Financial status of small and medium scale enterprises based on non-wood forest products (NWFP) in Central Africa

Julius Chupezi Tieguhong [a,*], Sophie Grouwels [b], Ousseynou Ndoye [a], Armand William Mala [a], Ignace Fokou Sakam [a], Marcel Useni [c], Jean Lagarde Betti [d]

[a] FAO-NWFP, P.O. Box 281 Yaoundé, Cameroon
[b] FAO, Rome, Italy
[c] FAO-NWFP, FAO Representation, Kinshasa, The Democratic Republic of the Congo
[d] University of Douala, Cameroon

ARTICLE INFO

*Article history:*
Received 13 March 2011
Accepted 30 January 2012
Available online 25 February 2012

*Keywords:*
Small and medium scale enterprise
Non-wood forest products
Financial status
Market analysis development
Enterprise development plan

ABSTRACT

This paper analyses the financing gaps of small and medium forest enterprises (SMFEs) in two countries located in central Africa. Total capital required for the development of 151 pilot enterprises in Cameroon and the Democratic Republic of Congo was evaluated at US$ 1335025 out of which enterprises own contribution was 63% and the remainder was subject to external assistance. There was consistent variation in capital requirements, own contribution and level of assistance sought among the enterprises. The paper recommends the provision of both technical and targeted financial assistance to SMFEs in central Africa.


## 1. Introduction

For households with access to forest resources, empirical research shows that the valorisation of non-wood forest products (NWFP) can enable households and small and medium scale forest enterprises (SMFE) to improve their economic well-being leading to overall poverty reduction (Tieguhong et al., 2010; Macqueen and Morrison, 2008; FAO, 2007a, 2007b; Kozak, 2007; Macqueen, 2007; Warner, 2007; Donovan et al., 2006; Mendes and Macqueen, 2006; Tieguhong and Ndoye, 2006; Belcher et al., 2005; Spantigati and Springfors, 2005; Sunderlin et al., 2005; Shreckenberg, 2003; Arnold and Townson, 1998). In conformity, the Commission for Africa (2005) reiterated that poverty reduction through growth requires a focus on the indigenous private sector, which in Africa is composed of a myriad of micro, small and medium enterprises, including those involved in the gathering and selling of NWFP in forested regions. However, harvesting forest products to reduce poverty can be hindered by several factors including poor management skills, lack of capital and access to credit, exploitation of harvesters by buyers, poor market information, poor organisation, and absence of a favourable policy and legal framework (Tieguhong et al., 2006, 2009a, 2009b; Macqueen et al., 2009; Tiveau, 2008; Nair, 2007; Donovan et al., 2006; Mayers, 2006; FAO, 1987, 2005; Ndoye and Tieguhong, 2004; Feige, 1994; Fisseha, 1987, 1991; Fisseha and Mcpherson, 1991; McPherson, 1991). The results provided in this paper shed light on the financial situation of small and medium scale forest enterprises involved in the NWFP sector in Cameroon and the Democratic Republic of Congo (DRC) as part of a four-year multi-partnership project aimed at mobilising and building capacities of SMFE involved in the value chains of NWFP in Central Africa. According to Berger and Udell (2005) the availability of external finance for small and medium enterprises (SMEs) is a topic of significant research interest to academics and an important issue to policy makers around the globe. Thus, the results presented in this paper attempt to answer some salient questions that are persistent subjects of discussion: how much financial assistance for each SMFE being promoted by a project? Could this assistance be homogenous across all pilot enterprises controlled by common initiative groups irrespective of their financial requirement? Where will the money come from and how can financial requests be tied to project budgets?

## 2. Conceptual framework

The analysis gives a quantitative estimate of the possible financial support that can reach common initiative groups willing to improve their economic status through the development of SMFE supported by a project. Thus, the assessment and the recommended financial contribution of the project are targeted interventions, which are similar to the targeted social programmes approach (Dutrey, 2007).

* Corresponding author. Tel.: +237 75622222; fax: +237 22 204811.
*E-mail address:* chupezi@yahoo.co.uk (J.C. Tieguhong).

1389-9341/$ – see front matter 
doi:10.1016/j.forpol.2012.01.009

According to Dutrey (2007), targeted social programmes became widely accepted in late 1980s and 1990s as an effective way to reach the poor while maintaining budgetary constraints. This contrasts with universal models of social provision that transfer resources equally to all members of a society (Mkandawire, 2007; Coady et al., 2004; Imai, 2004). Targeting has the theoretical advantage of earmarking limited resources for social transfers to designated subgroups of the population while excluding those not in need and concentrating resources on the poor (Dutrey, 2007; Coady et al., 2004). Giving that there are several approaches to targeting, the analysis provided in this paper adopted targeting by needs approach, which contrasts with targeting by category (e.g. age, sex, disability, and employment status), targeting by means (e.g. assessment of income levels, assets) and geographic targeting (Baker and Grosh, 1994). In the context of this project with specific objectives and duration, the latter three approaches seem to be more prone to leakages, mistargeting and the use of complicated/costly methods of identifying beneficiaries (Dutrey, 2007; Mkandawire, 2007; Coady et al., 2004). The advantage of the former approach is within the context of a specific project, where the needs of the beneficiaries were assessed and understood by the project. However, exclusion error associated with under-coverage of project's beneficiaries as well as the reliability of the information used by the project to define its beneficiaries may constitute bottlenecks to the efficiency of targeting in general and targeting based on needs in particular (Dutrey, 2007; Mkandawire, 2007; Pritchett et al., 2002). However, it must be cautioned that no model of social assistance is perfect and the levels of under-coverage and leakage reported to judge its efficiency may not be extreme under targeting, and could have suffered from a random evaluation of any targeted social programme (Castañeda et al., 2005; Tekleselassie and Johnstone, 2004; Grosh and Baker, 1995; Cornia and Stewart, 1993). Convincingly, several successful social programmes in the American continent have been described, where targeting efficiency in the individual studies varies between 1.68 and 4.0 in relation to universal schemes, demonstrating that social programmes transfer considerably more resources to the poor than universal schemes (Dutrey, 2007; Castañeda et al., 2005). This gives the theoretical foundation adopted by this paper and on which the project considered the key recommendation to make financial contributions in supporting 151 community groups in implementing their enterprise development plans in Cameroon and the Democratic Republic of Congo.

Taking recognition of the fact that there is no globally acceptable definition for small and medium scale forest enterprises (Kozak, 2007), some insights on the level of financial assistance within limited project budgets may be drawn from three definitions of SMFEs by some reputable development workers. Mayers (2006) defines a SMFE as 'a business operation aimed at making a profit from forest-linked activity, employing 10–100 full-time employees, or with an annual turnover of US$10,000–US$30 million, or with an annual roundwood consumption of 3000–20,000 m3.' Macqueen et al. (2009) defines SMEs as enterprises "employing 10–99 full-time employees or with a fixed capital investment of US$1000–500,000." Spantigati and Springfors (2005) provide a more general definition as "forest-based enterprises whose economic activities are undertaken mainly at the individual or household level, usually employing members of the family or close relatives and neighbors, and where salaried labour is negligible." The above three definitions give some guides to formulate an operational definition for SMFE involved in the NWFP sector that may be applicable in Central Africa considering the high level of poverty and small size of common initiative groups in rural forested areas. Thus, the operational definition used in this paper is 'SMFE involved in the NWFP sector are enterprises employing less than 60 persons mostly on a temporary basis with access to business proceeds usually based on individual input and annual turnover oscillating between US$ 500 and US$ 30,000.' This definition excludes SMFEs involved in the timber sector as well as larger well-established enterprises with capital outlays of over US$ 30000 that can easily gain access to credit from banks in the region, especially in Cameroon.

## 3. Methodology

This study was conducted in selected sites of a four-year multi-partnership project dubbed "Mobilisation and capacity building for small and medium enterprises involved in NWFP value chains in Central Africa", funded by the European Union and implemented by the Food and Agriculture Organisation of the United Nations (FAO) and its partners, the Centre for International Forestry Research (CIFOR), the World Agroforestry Centre (ICRAF), and the Netherlands Development Organisation (SNV), under the overall patronage of the Central African Forestry Commission (COMIFAC) in both Cameroon and DRC.

Without raising hopes for possible direct financial assistance (OECD, 2006), key members of 151 pilot enterprises (63 in Cameroon and 88 in DRC) owned by common initiative groups that had undergone training in enterprise development modules using the market analysis and development approach (MA&D) (Tieguhong et al., 2010; Lecup and Nicholsen, 2009) and are in control of established enterprise development plans (EDPs) were interviewed by 14 facilitators on their financial status. The focus group approach was adopted for the exercise and focus groups were mainly composed of key members of each common initiative group. Information sought was on the estimated amount of capital required for their enterprises to take roots, their personal contribution already mobilized and the financing/technical gap being sought from possible development partners, donors or financial houses. Also, detailed information was sought on the specific activities that needed financial and/or technical assistance per enterprise and the possible collaborators that could provide such assistance. In this light, the interviews followed certain general guidelines with the EDP of each enterprise used as a working document for each interview session. All the activities of each of the pilot enterprises as listed in their EDP were noted. For each activity, the total cost linked to the implementation of the activity/action or technical support was estimated, closely followed by the estimate of what the group itself could mobilise to implement the activity/action. The possible contribution of partners or outside support being sought was calculated by the simple arithmetic of subtracting their personal contribution from the estimated cost for each activity/action. Concomitantly, all requests for technical supports were noted alongside the collaborator/partner to bear the cost/responsibility of the activity/action. The scope of the paper is limited on assessing the financing gaps faced by common initiative groups that were trained by the aforementioned project and are willing to own their own SMFE based on NWFP rather than the overall portfolio of SME or microfinance structures and functioning in the countries under study.

## 4. Results

The total capital required for the development of 151 pilot enterprises (63 in Cameroon and 88 in DRC) was evaluated at US$ 1,335,025 out of which the own contribution of the enterprises was US$ 843,433 (63%) and remaining US$ 492,159 was subject to external assistance. For the two countries under study, the overall mean capital of a pilot enterprise was US$ 8841 (SD = 20341) with mean personal contribution of US$ 5586 (SD = 18340) and expected assistance of US$ 3259 (SD = US$ 4480). In Cameroon the maximum capital, own contribution and assistance sought by a pilot enterprise were US$ 42,328, US$ 40,568 and US$ 5230 respectively, while in DRC the corresponding amounts were US$ 232,200, US$ 216,000 and US$ 45,706. In contrast, the minimum capital, own contribution and assistance sought in Cameroon by a pilot enterprise were US$ 110, US$ 83 and nothing (meaning the enterprise is self-financing)