Briefing paper

Associations of small and medium forest enterprise:

An initial review of issues for local livelihoods and sustainability

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Executive summary

This short paper provides an introduction to recent literature on the benefits of small and medium enterprise associations and how to realise them. An introduction is given to some of the language used by different disciplines that may have something to offer the forest sector. A framework is presented that summarises possible association objectives – and attention is drawn to the main types of association that might pursue such objectives. Some characteristics of successful associations are described. Finally, some of the links between SME associations, poverty reduction and sustainability are highlighted.

1. Introduction

Small and medium forest enterprises (SMFEs) share with other firms the need to create and / or appropriate value (Sauermann, 2002). SMFEs face a number of disadvantages in creating and appropriating value compared with larger firms on account of their small scale. For example, they may wield less lobbying power to shape the policy environment, encounter difficulties in procuring inputs (including finance) at reasonable rates and struggle to produce the volumes or uniformity or environmental sustainability of product necessary to secure markets. In addition, they have comparatively few resources with which to innovate and a comparatively smaller range of skills with which to implement improved practice. In short, SMFEs have often been seen as the poor cousin of mass production firms – a transitional phase that, all being well, you soon grow out of.

Recent studies, however, have noted competitive advantages that are to be had when small and medium enterprises (SMEs) group together – principally an ability for 'flexible specialisation' with which more rigid large firms struggle to compete. The phenomenon was first noticed in clusters of SMEs in certain geographical regions of Italy (Piore and Sabel, 1984). Observers note geographical patterns of industrial growth – with faster growth linked to spatial groupings of SMEs – including in the forest sector (McCormick, 2000). While patterns of growth initially seem to have their origin in the business environment - geographic location, human capital endowments and policy environments – they also seem to be self-reinforcing. In other words, while certain environments seem to be conducive to fast growth, there are also additional competitive advantages to be had simply by belonging to groups (Burgess and Venables, 2004). Efforts to foster competitive growth have therefore shifted from those aimed primarily at optimising the business environment to those which also encourage business groupings or

Box 1. Definitions

Enterprise - "business operations aimed at generating profit". Enterprises are therefore understood to have a primary focus of making a profit, rather than merely using or managing forest resources for subsistence or conservation aims alone.

Small and medium enterprise (SME) – "any enterprise employing 10-99 full time employees or with a fixed capital investment of US$ 1,000-500,000". The latter qualifier acts to ensure the inclusion of enterprises with highly seasonal or informal workforces which nevertheless comprise substantial business entities with fixed investments.

SME association – "any formal or informal grouping of small and medium enterprise at the firm level with an articulated common purpose". This definition excludes groupings other than those based on the firm such as trade unions. It also excludes incidental industrial clustering in which firms have not articulated a common purpose, irrespective of how integrated their production systems might be.

'associations' – the term used in its broad sense in this paper.

2. Terminology surrounding small and medium enterprise associations

From sparse beginnings, the literature on business associations has exploded into a veritable paper-chase since the mid 1980s and now encompasses the fields of business strategy and industrial organisation, mainstream economics and technological change and learning (Storper, 1997). In addition, mainstream development literature has also devoted considerable attention to the issue – on account firstly of the importance of SMEs to the poor (Nadvi and Barrientos 2004a; 2004b), and secondly of the disproportionate advantage that associations bring to SMEs vis-à-vis large firms (see section 3). There are a bewildering number of terms used to describe associations and their potential benefits. Four main themes of recent research with their associated terminology are discussed below:

Focus 1 - Clusters or industrial districts (these terms denote spatial or organisational dynamics that allow competition, collaboration and cooperation between businesses).

One prominent focus is towards understanding the way in which the 'proximity' of one business to another affects the way in which they associate and the competitive advantage that this brings (e.g. Krugman, 1991; Chakravorty et al. 2003). Porter (1998) defined clusters as "geographical concentrations of interconnected companies and institutions in a particular field". More recent literature notes that, while proximity may involve geographical closeness, it may also be brought about by shared organizational practice, similar cultural norms or 'ways-of-doing-things', parallel timeframes, shared technological requirements and most significantly, the use of electronic media (Polenske, 2003). The use of electronic media has allowed the creation of virtual organisations (Bultje and Van Wijk, 1998) which effectively become 'virtual clusters'. Moreover clusters are no longer believed to be restricted to one field or sector. Enterprises often form associations between quite disparate entities in search of innovative solutions. These associations are seen increasingly as a solution to certain types of market failure rather than government intervention (Kelly and Arora, 1996). For example, when enterprises make an investment (e.g. in staff training or new technology) some of the benefits 'leak' to neighbouring firms through movement of staff or technological imitation – 'market failure' has cheated them of some of the competitive advantage that their investment should have secured. This type of market failure can be reduced if adjacent firms form an association. Within an association, any leaks from one firms investment are compensated by benefits leaking from other firms. New business support strategies now often try to develop the 'proximity' required for clusters or industrial districts to develop.

Focus 2. *Collective efficiency and collective strategy* (these terms denote the advantages that are to be had from the clusters described above, and strategies to attain them – see Sauermann, 2002).

This second prominent focus aims to clarify how clusters benefit firms. Collective efficiency has been defined as the "competitive advantage derived from (i) local external economies and (ii) joint action occasioned by clustering" (Schmitz, 1999). The first set of advantages, external economies, arise from investments which one firms makes in technology, staff training, procurement pathways etc., but which other adjacent firms can benefit from because of 'leakages' between firms (i.e. the flow of knowledge or movement of staff or use of those procurement pathways). The second set of advantages, joint action, arise from proactive collaboration or cooperation between firms in pursuit of market advantage, which they would not be able to do in isolation. Porter adds a third advantage: (iii) that clusters act to attract new businesses that reinforce the clusters' benefits (Porter, 1998). Clusters do not necessarily result in collective efficiency or joint action or new cluster entrants, but they do provide an opportunity for those advantages to occur.

The first set of advantages, external economies, are often described in terms of a reduction in the '*transaction costs*' needed to acquire specialised labour, inputs and market knowledge leading to scale efficiencies – not forgetting the trust which paves the way to joint action (see many examples in special edition of World Development 27 (9) – Altenburg and Meyer-Stamer, 1999; Kennedy, 1999; Knorringa, 1999; McCormick, 1999; Nadvi, 1999; Rabellotti, 1999; Tewari, 1999; Visser, 1999; Weijland, 1999;).

The second set of advantages, joint actions, are often referred to as a reduction in the '*adaptive costs*' associated with taking advantage of evolving markets, either by developing strategic new technologies or by jointly overcoming market constraints (Nadvi and Barrientos, 2004b). In many instances the new competitive pressures of globalisation can undermine joint actions, unless there is considerable trust between the firms involved. The creation of trust – or social capital – is therefore rightly seen as a vital ingredient in the building of associations (Nadvi and Barrientos, 2004) and it is for this reason that efforts to establish associations often require considerable time (Rosenfeld, 1999).

Alongside trust, knowledge creation and learning are increasingly seen to be a vital component of all three elements of collective efficiency (see Bell and Albu, 1999; Malmberg and Maskell, 2001). Knowledge is integral to the need of firms both to innovate (involving adaptive costs) and then consolidate (so as to reduce transaction costs). In both innovation and consolidation, firms increasingly need to optimise the collaborative and cooperative arrangements in order to compete in the global economy (Porter, 1998).

Polenske (2003) is careful to distinguish between collaboration (direct and usually contractual participation in the design, production and marketing of a product, usually between vertically related firms) and cooperation (arrangements to share information, training, marketing etc, usually between horizontally related firms). The two phenomena can result in quite different types of association. In collaborative relationships there is a risk that large firms high in the value chain can use their hierarchical market power to

generate intense competition and consequent low profits and wages in SMEs lower down the chain (as in the Japanese model described by Glasmeier and Sugiura, 1991). Such associations are very different from the much more egalitarian cooperative structures described for SME association in Italy (Pyke et al. 1990).

Focus 3. Business or enterprise associations, networks and groups (these terms denote the institutional structures that help to bring about collective efficiency)

This third prominent focus deals with the multiple different types of business arrangements that arise in pursuit of collective efficiencies. The language of associations, networks and groups is used almost interchangeably in the literature. In addition, there are many specific terms to describe the types of arrangements that result: subcontracting arrangements, partnerships, joint ventures, strategic alliances, cartels, coalitions and consortia etc.

Perhaps the best known attempt to develop a typology of such associations was the work of Hage and Alter (1997) who restricted their understanding of associations to those entities organised under the control of 'a collective' rather than under the hierarchical control of a single firm. This understanding may exclude some of the vertical collaborative arrangements of Polenske (2003). Sauermann (2002) also describes the range of relationships that can exist between firms from pure competition through contractual agreements (equivalent to the collaborative arrangements of Polenske) to non-contractual collusion. Many associations tend towards the latter extreme of non-contractual collusion, although it is rare for there to be no written agreement to govern the terms under which that collusion takes place.

Hage and Alter (1997) argue that the principal axes of any typology of associations should be based around their complexity. These authors argue that the direction of interorganisational evolution is towards more complex linkages and alliances – away from vertical integration. This, they contend, is a natural product of the specialisation in knowledge and sophistication of production which results from continued competition. A simple model of the types of association is given in section 3 below.

Focus 4. Association drivers and 'upgrading' (the causal reasons behind association formation, durability, equity and independence)

A final focus of the literature is directed towards understanding the causal factors behind the formation and successful, or unsuccessful functioning of associations. What makes associations work and how can they help to upgrade the functioning of member firms? (e.g. Humphrey, 2003 or for the furniture sector, Kaplinsky et al. 2003)). A good overview is that of Doner and Schneider (2000) with their extensive use of case material from different countries. This type of research relies on much more detailed and intimate surveys of actual associations. The drivers of association formation and functioning often require an understanding of the business environment or on the particular behaviour of member firms (Polenske, 2003) – and these factors

may be difficult to quantify, involving such ethereal notions as inter-firm trust (Lorenz, 2002). Moreover, data is often complicated by the fact that perceptions on the success of an association vary depending on whether one is a member of it or not and that identical models of social organisation can have quite different outcomes depending on the characters involved in those organisations (Alatas et al. 2003)

An important but difficult distinction is to determine whether an association has formed purely out of the reactive need to survive (e.g. in the fiercely competitive world of mass production sub-contracting) or whether they constitute dynamic modern groups with real prospects to improve the well-being of those involved (Altenburg and Meyer-Stamer, J. 1999). Storper (1997) notes the danger that large and particularly trans-national firms often opt for low transaction cost locations involving "quick entry – quick exit" sub-contracting networks with significant downward pressure on the costs of subcontracted SMEs. With fierce downward pressure on costs, SMEs often get locked into patterns of production that cut environmental and social safeguards to an absolute minimum – a 'race to the bottom' (Schmitz, 2003). Larger firms that drive such associations benefit from low costs and the option to disown social and environmental responsibility. For large firms, the quick entry and exit options of this type of 'association' are preferred to the more significant and long-term capacity investments through egalitarian associations that are usually restricted to geographical clusters in the region of origin of such firms.

3. The purposes of association – enhancing collective efficiency

The literature provides both a broad understanding of the two main purposes of association which can be broken down into much more specific motives to do with collective efficiency (see McCormick, 2000). Figure 1 describes the main potential motives for the formation of different associations. As noted above, there are two main dimensions to the advantages of forming an association (Hage and Alter, 1997) (setting aside for the time being the third advantage - that groups tend to attract new members and so reinforce the first two sets of advantages):

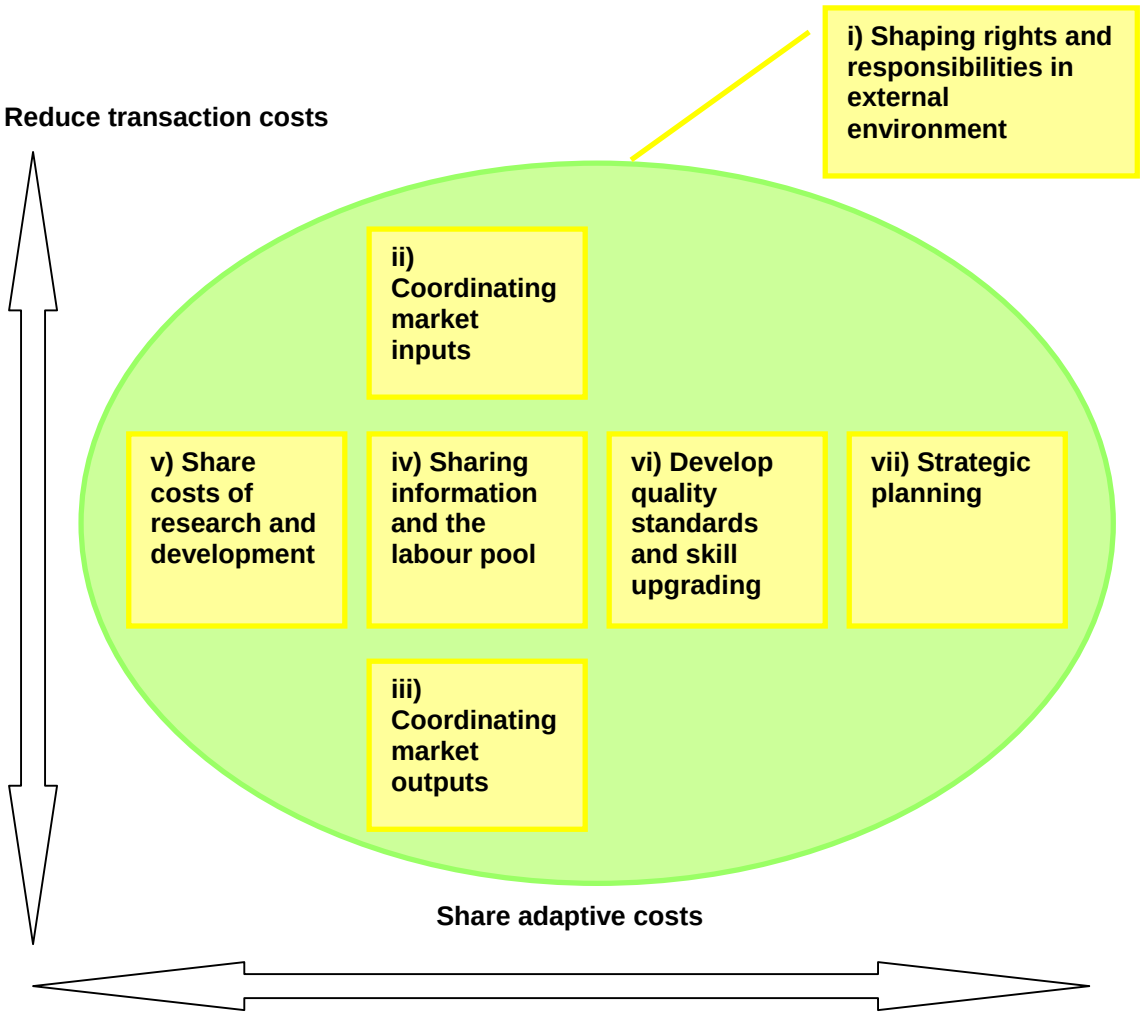
- Static advantages - through reducing transaction costs of member firms. These transaction costs advantages often need little strategic investment, arising from the simple proximity of member firms. They correspond to the vertical axis in Figure 1.

- Dynamic advantages – through sharing adaptive costs. These adaptive cost advantages require dynamic joint action to unlock new opportunities and are increasingly seen as more important than productivity and cost-cutting associated with reduced transaction costs (Doner and Schneider, 2000). They correspond to the horizontal axis in Figure 1.

Based on Figure 1, it can be seen that there are seven more specific motives why associations might form. These are described briefly below:

i. Shaping rights and responsibilities in the external environment. One important motive why associations form is to clarify rights and responsibilities concerning property ownership and use, for example by lobbying for improvements which favour member firms. Lobbying might have a general focus (such as macroeconomic stability) or might be orientated towards specific policy reforms – often to do with the simplification of legislative steps through which firms need to pass to operate legally (see for example the damage done by inappropriate business legislation – World Bank, 2004). Lobbying can both reduce transaction costs and shape the environment for joint action.

Figure 1. The main motives for the formation of small and medium enterprise associations



ii. Coordinating market inputs – Firms can gain considerable transaction cost savings by cooperating to secure financial inputs, share the screening of labour, maintain joint infrastructure, cooperate in the procurement of primary or intermediate products and maintenance services, etc. (McCormick 2000).

iii. Coordinating market outputs – Associations may also form in order to coordinate their market outputs. This may involve research into market trends, limiting production to agreed quotas in order to fix prices, cooperating to advertise products (e.g. a specific type of timber harvested by many firms in a region), funding product information and promotion centres (e.g. the Malaysian Timber Council in the UK). The coordination of market inputs and outputs can involve both vertical (collaborative) associations and horizontal (cooperative) associations (Doner and Schneider, 2000)

iv. Sharing information and the labour pool – An important and often central role of business associations is to share information about the market, product

technologies, business environment and so forth – developing trust and enhancing the general pool of labour shared across association members (Kelly and Arora, 1996; Rosenfeld, 1996). The sharing of such information can reduce transaction costs, but is also pivotal to sharing the adaptive costs associated with joint action. Trust on which such information sharing is based is thus a central concern of association management.

v. Sharing costs of research and development – As associations move from static to dynamic alliances they may wish to share the costs of developing new technologies or products (Storper, 1995). In effect, these technological alliances sacrifice competitive advantage over immediate rivals in order to gain such advantage over the wider group of competitors beyond the bounds of a particular association.

vi. Developing quality standards and skill upgrading – Having developed new technology or products market development often depends on perceptions of quality surrounding those new lines. Since variable quality in even one firm from a region can jeopardise the reputation of a group of industries, associations often form to develop and enforce quality standards. Intrinsic to such shared quality standards is the necessary skill upgrading of staff throughout the association. In some cases associations may wish to differentiate themselves not only on product quality but also on the social and environmental ethics of production. The FSC timber buyers group in Brazil is an example of one association set up along such lines.

vi. Strategic planning – in addition to the specific adaptive research and development and skill upgrading, associations also form in order to assess longer-term business trends and to develop strategic responses to new and evolving situations. The role of such business association is to anticipate critical challenges in the environment of member firms such as changes in technology (McCormick, 2000).

4. A framework to describe association types

The starting point in developing a framework for association types is the recognition that associations exist on a spectrum from survival (often artisanal) clusters to mature dynamic and modern clusters (McCormick, 1998; Altenburg and Meyer-Stamer, 1999). Small and medium enterprises are often trapped into survival groups, but there are many examples of mature SME associations that allow substantial progress for member firms (Doner and Schneider, 2000). Part of the reason why SMEs are occasionally forced into survival groupings is because they have greater need of the synergies and scale economies that often come naturally to those larger firms (Storper, 1995; Schmitz et al., 1997; Schmitz, 1999). But examples can readily be found of larger firms who need each of the seven functions described in the preceding section. Moreover, it may be the case that associations inevitably start with basic internal structures and few market linkages and then evolve through various stages to competitive wider clusters linked to global markets (McCormick, 1998).

An excellent overview of association types is given by McCormick (2000) who differentiates peer groups from supply chain arrangements. McCormick notes the similarity between this division and the commensalist / symbiotic distinction of Astley and Fombrun (1983), the horizontal / vertical distinction of Schmitz (1999) and the cooperation / collaboration distinction of Polenske (2003). An adapted version of these frameworks is given in Figure 2.

Figure 2. Framework of the different types of business association

		Nature of interaction		
		Dispersed Unrelated Independent Competitive	**Vertical hierarchy Supply Chain Symbiotic Collaboration**	**Horizontal Peer Group Commensalist Cooperation**
Balance of power	**Equal**	Multiple firms within sector compete with one another for market share	Multiple firms have balanced supply chain relationships (e.g. joint venture or producer user collaboration)	Multiple firms in same sector and industry cooperate to develop nodes of flexible specialisation
	Unequal	Powerful firms use scale economies to monopolise sector and exclude less powerful firms	Powerful firms develop subcontracting that enforces competition and drives down prices but maintains competitive network of SMEs	Powerful firms help develop cooperate arrangements in strategic areas to stimulate and capture innovation

In some countries, associations can be based on very distinct geographical clustering patterns of SME firms – such as those of artisanal SMEs in Italy (Pyke et al. 1990; Criscuolo, 2002) but also found in many developing countries such as Brazil (shoe industry) and Pakistan (surgical instruments) (Schmitz et al, 1997). In other countries (e.g. Japan) associations are primarily linked to large mass production dominated by large firms connected into powerful alliances by independent and financier-driven intermarket groups (*keiretsu*) and supported by far reaching government intervention (Glasmeier and Sugiura, 1991). Such large firms depend on intricate subcontracting arrangements. Among subcontractors there are independent associations that further members' interests (*shokokai*), but large firms incite fierce competition for technological innovation and price between small subcontractors (who account for more than 60% of all SMEs). In these situations, SME associations may tend towards survival operations. With the advent of globalization there has been an increase in the number of global producers with a core based on the Japanese model but outsourced production of an entirely competitive nature to various low transaction cost locations (Polenske, 2003).

It has been argued that horizontal or peer group associations may need more external support on account of the poorly defined market benefits of their interactions (Schmitz, 1999) but in some cases these horizontal associations do have strong binding forces – for example enabling SMEs to meet joint

orders from larger firms (Astley and Fombrun, 1983). Conversely, vertical or supply chain groups can also break down if relationships are abused (Polenske, 1996).

5. Characteristics of successful associations

The literature has few examples of detailed analysis of specific types of association – and the main recommendations of what generates success within associations are restricted to useful but general prescriptions. Doner and Schneider, for example emphasise three main drivers behind successful association: (i) high membership density (as a percentage of total numbers of firms within a particular sector); (ii) extensive selective benefits (enforced or sanctioned by the state or by outside trust relations) and; (iii) effective internal interest mediation such as voting weighted by size, flexibility in adjusting membership, transparency and opportunities to discuss. These general pre-conditions are borne out by specific cases, such as that of Criscuolo (2002) who documents Italian SME associations with high membership gaining considerable selective benefits through political lobbying and then developing credible internal payroll systems, internal administrative structures and labour standards to ensure benefits that were equally spread across members.

In assessing how to stimulate useful associations Porter (1998) notes the importance of: (i) choice of location (i.e. selecting clusters of firms with pre-existing relationships); (ii) local engagement to build up trust and social capital and (iii) processes to continually upgrade and develop joint action. Schmitz et al (1997) remark on the utility of trade fairs as a catalyst for cooperation across firms. Trade fairs and other joint business programmes open up an important opportunity for external agents such as banks, training institutions and government (e.g. Denmark's Cooperation Network Programme) (Berry, 1997).

In Rosenfeld's (1996) review of several attempts to stimulate associations, three important points are that the catalytic agencies need (i) to be clear what sort of network and function is required (ii) time to overcome lack of trust among competitors and (iii) substantial resources if success is to be monitored beyond the health of the firm to the welfare of the employees. Cegilie and Dini (1999) emphasise the central role of knowledge and trust creation in any initial phases of association stimulation. Next steps can usefully include strategic planning, pilot projects eventually scaled up to strategic projects and ultimately self management (having based these findings on field experiences drawn from Honduras, Jamaica, Nicaragua and Mexico).

Sauermann (2002) concludes that the further an association moves from pure competition to contractual level interactions and then to collusive relationships – the greater is the central ingredient of trust (Sauermann, 2002). As well as trust, Albaladejo (2001) remarks that connectivity to advancing markets is essential – as otherwise lack of pressure to change can generate inertia eventually leading to the disintegration of the association.

6. Links between associations and poverty reduction

The organisation of SMEs into associations can act to reduce poverty (Nadvi and Barrientos, 2004a). At the outset it is important to note that associations impacts go far beyond monetary poverty, which is a concept that in any case lacks consistent meaning (Stewart, 2002). Monetary poverty fails to identify the chronic poverty which involves social exclusion and the deprivation of a much broader range of human capabilities resulting in a loss of freedom (Sen, 1999). Macqueen (2004) has argued that it is not just the freedom to express capabilities, but the ethical framework that shapes what people do with their freedom that is decisive in overcoming poverty.

Associations can help to combat a number of the broader ingredients in poverty beyond helping to meet subsistence needs (Macqueen and Mayers, 2004). For example associations can also:

- combat insecurity and powerlessness – generating political influence to secure resource access (e.g. the Indian Paper Makers Association lobbying for access to degraded land - Saigal and Bose, 2003).
- combat inequitable social relationships – improving the bargaining power of members within the marketplace (e.g. the South African Forestry Contractors Association representing contractors with powerful timber producers – Lewis et al. 2003).
- combat drudgery – introducing new work practices and a diversity of employment opportunities (e.g. the Forest Products Association gaining access to training courses on behalf of its members in Guyana - Thomas et al, 2003)
- combat diminished diversity and ecological resilience – setting or adopting standards for resource use (e.g. group certification – Nussbaum, 2002)
- combating lack of identity – by strengthening culture or gender-based groups (e.g. women's groups meeting demands for culturally sensitive niche products in food and craft sectors – Haggblade et al. 2002)

Associations do this by capturing external economies (through agglomeration) and fostering joint action to adapt to evolving markets as described above. Yet caution is needed since Nadvi and Barrientos (2004b) have document how, as clusters upgrade and local links give way to external links and small firms give way to large firms, certain categories miss out, especially women and unskilled workers. They highlight the need for external support to identify capability deprivation and tailor support to associations committed to its eradication (especially towards labour and ethical issues).

It is not just through the external economies and joint actions that associations contribute to poverty reduction. Business groups can also serve to open up underdeveloped regions, since networks helps to overcome the transaction costs associated with the lack of basic inputs in marginal locations (Fisman and Khanna, 2004).

Yet, as noted above, associations do not necessarily work for the interests of the poor. A worst case scenario is that business associations increasingly give sway to more powerful firms competing for low transaction cost environments (low wages and conditions, easy entry and exit) rather than investing in regional clusters of flexible specialisation (Storper, 1997).

7. Links between associations and sustainability

As noted above, associations can act to foster environmental sustainability (Nussbaum, 2002). An important qualification to this is that associations achieve this effect primarily when they have a specific conservation agenda and when they involve a broader range of stakeholders who can act to counter any threat to biodiversity (Salafsky et al. 1999). In comparison with large firms, the potential contribution of SMEs to biodiversity conservation lies in four areas:

- patterns of ownership, related profit motives and local accountability,
- patterns of tenure resulting in a geographical 'patchwork' at the landscape level
- patterns of investment setting limits on the technological ascendancy over nature and;
- patterns of supply and demand that often cater to diverse and culturally distinct local product and service types.

This potential contribution does not always materialise. The dispersed nature of SMEs, their frequent informality, their limited managerial and technical capacity, and the competitive environments in which they operate often result in environmental corners being cut. Associations can act to foster a positive contribution by: improving information flows about (and monitoring of) improved environmental management, increasing the formality / legality and consequent legitimacy of their operations, introducing scale efficiencies in employing and certifying improved management practices and improving market power to improve the economic sustainability of their operations.

The multiple forces of globalisation have both led to examples of massive failure among some categories of SME and (less often) rapid growth among others (for example in china - Sun and Chen, 2003). The evolution of value chains often maintains SMEs in lower production and processing tiers where low entry requirements, fierce competition and pressure from powerful buyers combine to keep environmental standards, social conditions and financial profits low (as documented in Brazil - Macqueen et al. 2004). The transition from low to high competition markets has often put additional pressure on the institutional structures governing resource access and use, to the detriment of SMEs impact on the environment. While SME associations are not the sole solution to such problems, they do offer one of the few self-help options by which SMEs can improve their sustainability and the sustainability of the resource on which they depend.

Global pressures do not always act to the detriment of the environment. International environmental concerns have also sponsored an expansion in

'sustainable trade' (Sann and Thornber, 2003) and numerous national and international actions such as the Forest Law Enforcement and Governance (FLEG) process (EC, 2004). Voluntary corporate responsibility initiatives among SMEs are also flourishing (Raynard and Forstater, 2002) and greater freedom from economic survivalist imperatives will probably be required for it to become widespread. New standards and the enforcement of them also face transaction costs associated with small scale. SME associations can reduce such transaction costs and also use their collective power to shape the content of such standards so that costs of environmental credibility are not disproportionately felt by smaller scale enterprise.

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The project "Stronger by association" was built on the premise that association lies at the heart of attempts by small and medium enterprises (SMEs) to foster pro-poor growth –fighting scale disadvantages and political marginalisation to capture the benefits of globalisation. The project draws on a previous body of work in the same six countries in which diagnostics were made of the main policy issues and challenges facing SMEs (http://www.iied.org/forestry/research/projects/sm_med_entrprise.html). The objective of this new project is to improve and spread understanding of how SME associations can work for the poor. Research will be undertaken on a broad range of forest-based association types in six countries. Four key characteristics of association will be investigated:

- cohesion – what aspirations drive association and to what extent do they foster sustainable development?
- resilience – what architecture maximises benefits over time?
- equity – what processes ensure a just distribution of costs and benefits?
- support – what enabling environment is necessary for associations to deliver to their potential?

The project will contribute to poverty reduction by increasing the preparedness of policy makers and SME practitioners to foster effective, equitable and sustainable forest-based SME associations. The project will do this through spreading understanding of how to improve the capacity of SME associations to secure investment, enhance production efficiencies, improve market access and overcome political marginalisation of the poor.

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