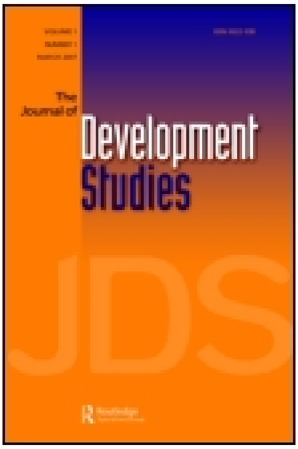

The Journal of Development Studies
Publication details, including instructions for authors and subscription information:
http://www.tandfonline.com/loi/fjds20

Assessing Small and Medium Forest Enterprises' Access to Microfinance: Case Studies from The Gambia

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Version of record first published: 05 Feb 2013.

To cite this article: Maria Fernanda Tomaselli, Joleen Timko & Robert Kozak (2013): Assessing Small and Medium Forest Enterprises' Access to Microfinance: Case Studies from The Gambia, The Journal of Development Studies, 49:3, 334-347

To link to this article: http://dx.doi.org/10.1080/00220388.2012.740018

Journal of Development Studies,
Vol. 49, No. 3, 334–347, March 2013

Assessing Small and Medium Forest Enterprises' Access to Microfinance: Case Studies from The Gambia

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Final version received July 2012

ABSTRACT *Small and medium forest enterprises (SMFEs) are commonplace in many developing economies. SMFEs often face several challenges, with access to finance frequently being cited as a key hurdle. This study aimed to evaluate the access that SMFEs in The Gambia have to microfinance, and to determine strategies for improving the delivery of these services. Data show that most SMFEs have decent access to deposit accounts, but limited access to credit. While cooperative credit unions and other non-financial institutions have been providing microloans to SMFEs, access to such financial services could be improved. Six strategies to do so are proposed.*

1. Introduction

Small and medium forest enterprises (SMFEs) are increasingly being recognised as important sources of income, employment, and wellbeing for forest-dependent communities, while also being proposed as a viable means of promoting sustainable uses of forests (Spantigati and Springfors, 2005; Donovan et al., 2006; Macqueen et al., 2006; Mayers, 2006; Kozak, 2007). While definitions of SMFEs vary (Kozak, 2007), they can broadly be described as small-scale forest-based businesses[1] that operate primarily in rural areas (Spantigati and Springfors, 2005). Many occur at the household level, employ relatives as a work force, use minimal equipment, and operate seasonally (Spantigati and Springfors, 2005). SMFEs can be engaged in an almost endless range of forest-linked activities, such as manufacturing wood products and commodities, commercialising non-timber forest products, or trading ecosystem services (Kozak, 2007; Osei-Tutu et al., 2010).

Although SMFEs can account for more than 90 per cent of forest enterprises in some nations (May et al., 2003; Nhancale et al., 2009), they regularly confront several challenges that hinder their operations and hold back their progress, especially in developing economies. In particular, SMFEs frequently lack clear and secure access to forest resources (Macqueen et al., 2006), resulting in a scarcity of raw materials (Spantigati and Springfors, 2005; Kambewa and Utila, 2008). They must also often deal with excessive state bureaucracy and unstable regulations (Kozak, 2007; Kambewa and Utila, 2008). However, most of the challenges that SMFEs face are common to the vast array of small and medium enterprises (SMEs)[2] that exist in other economic

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ISSN 0022-0388 Print/1743-9140 Online/13/030334-14
http://dx.doi.org/10.1080/00220388.2012.740018

sectors. For instance, SMEs tend to carry out their activities in the informal sector (Liedholm 2002; Macqueen et al., 2005; Mayers, 2006; Kozak, 2007) and operate under high uncertainty (Biggs and Shah, 2006) as government policies tend not to favour micro and small businesses (Mead and Liedholm, 1998; Macqueen, 2008). In general, they suffer from deficient managerial capacity, poorly organised internal structures (Spantigati and Springfors, 2005; Donovan et al., 2006; Kozak, 2007), and limited technological capabilities. They usually have little bargaining power (Spantigati and Springfors, 2005; Macqueen, 2007), poor marketing skills (Gilmore et al., 2001), and inadequate access to markets (Mead and Liedholm, 1998; Liedholm, 2002). However, one of the most frequently cited limiting barriers for SMEs (including SMFEs) relates to a deficient access to finance (Mead and Liedholm, 1998; Auren and Krassowska, 2004; Spantigati and Springfors, 2005; Biggs and Shah, 2006; Junkin, 2007; Kozak, 2007; Kambewa and Utila, 2008).

Like all SMEs, SMFEs in both developed and developing economies require capital to operate. Many also require financial services for starting-up, running, and upgrading their businesses (Donovan et al., 2006; Kozak, 2007; Macqueen, 2008). SMFEs – especially those in developing nations – are generally located in rural and remote areas, meaning that the transaction costs of providing financial services to them can be prohibitively high (Junkin, 2007; Spantigati and Springfors, 2005). To complicate matters even further, many SMFEs cannot provide collateral, which affects their ability to qualify for loans from financial services providers (Auren and Krassowska, 2004). Concurrently, banks and lenders may perceive SMFEs as high risk ventures, either because they operate seasonally (Cossío et al., 2011) or because they lack adequate business and financial management skills (Spantigati and Springfors, 2005).

Microfinance, broadly defined as the provision of a range of financial services to low-income individuals, is increasingly being proposed as an effective mechanism to reduce poverty (Khavul, 2010). Microfinance includes the provision of credit, deposit (savings) accounts, insurance, and money transfers, among other services. Microfinance for small-scale enterprises enables impoverished people to build their assets over time, expand their sources of income, cope with uncertainty and hard times, and assist them in planning ahead (Spantigati and Springfors, 2005). Traditionally, low income individuals in developing countries have often employed the services offered by non-formal financial institutions, since outreach by formal organisations has been limited (Helms, 2006). However, during the past two decades, banks and other formal providers have expanded their services to more economically disadvantaged locations (Helms, 2006) and microfinance has gained traction globally (Goldmark, 2006). That said, in some economic contexts, formal financial service providers are still very limited (Macqueen, 2008) and microfinance has not yet been widely offered to small scale enterprises, particularly in the forest sector (Spantigati and Springfors, 2005). This situation is potentially exacerbated by a dearth of information that exists concerning the delivery of microfinance for forest-based communities and their enterprises (Spantigati and Springfors, 2005).

The purpose of this paper is to evaluate the access to microfinance for SMFEs operating in the Western Region of The Gambia and to suggest strategies for improving the delivery of these services. We use case studies from the developing economy of The Gambia, since it has been cited as a place where SMFEs are emerging (Donovan et al., 2006) and as a promising example in terms of generating an enabling environment for community forestry enterprises (Bruni and Grouwels, 2007; Macqueen, 2010).

2. Methods

(a) Case Study Selection

Based on the available literature, The Gambia presented itself as an interesting model for SMFE research. The Gambia is one of the smallest nations in Africa with a land area of 11,300 km^2. Its population in 2010 was roughly 1.7 million people, with more than 40 per cent living in rural areas. It is considered to be one of the poorest nations in the world, with one of the lowest human development indexes, ranking 168 out of 187 countries as of 2011 (United Nations Development Program, 2011).

Forests cover 43 per cent of The Gambia, but just a small fraction is considered to be closed woodland; the majority is tree and shrub savannah (Thoma and Camara, 2005). Forested ecosystems have experienced a high rate of degradation, due mainly to bushfires, the expansion of agricultural lands, and overexploitation (Food and Agriculture Organisation of the United Nations [FAO], 2005). Since the 1990s, the Forestry Department of The Gambia has been implementing more collaborative approaches and community forests were instituted as a means of distributing forest tenures into the hands of communities, with the objective of engendering local interest in the conservation and sustainable use of local natural resources (The Forestry Department of The Gambia, 2005). As of 2005, more than 260 villages were involved in this initiative, accounting for slightly more than six percent of Gambian forests (Thoma and Camara, 2005).

The Forestry Department of The Gambia has also played an important role in promoting and developing SMFEs. With support from the FAO, it implemented the Market Analysis and Development (MA&D) methodology in a number of villages with community forests. The MA&D is a tool that aids communities in planning forest-based enterprises and takes into account four aspects of sustainability: social, environmental, market, and technological. By 2005, 72 community-based enterprises were incubated in 26 villages and 11 products were effectively marketed (FAO, 2005; Thoma and Camara, 2005). These enterprises trade goods and services such as firewood, honey, handicrafts, ecotourism, and oil palm, among others.

Despite the support that these SMFEs have received, anecdotal evidence from The Gambia suggests that they are experiencing difficulties in accessing microfinance. For instance, many of the enterprises formed as a result of the MA&D model implementation have since sought additional funds from donations, local funds, and individual contributions, while none have accessed a bank loan (Thoma and Camara, 2005). Furthermore, there is little documentation regarding the sources of credit that these enterprises may be using and the possible financial struggles that they currently face.

(b) Data Collection

We employed a multiple case study approach and purposively selected a variety of financial institutions and forest-based enterprises in The Gambia to interview. In an attempt to collect as broad a range of perspectives as possible, microfinance institutions as well as commercial banks[3] were selected. However, we limited our selection to the main urban areas of The Gambia, where these institutions have their offices. In total, we studied 14 financial institutions; six commercial banks and eight microfinance providers.[4] The microfinance providers consisted of four Non-Bank Financial Institutions (NBFI) and four government agencies/projects. Three out of the four government agencies are long-term initiatives, whereas one is a four year project.

We chose SMFEs according to their geographic location, restricting our selection to the Western Region of the country which generally has better access to the main urban centres. We also aimed to select as wide a range of enterprises and manufactured products as possible. In total, 16 SMFEs that focus on five different activities and that operate in four rural villages were included in our analyses (Table 1). We chose villages that owned community forests and that participated in the MA&D process, as based on Thoma and Camara (2005). We assumed that these communities were more likely to encompass functional forest-based enterprises than other villages that did not receive this training. Access to each of the communities differed slightly: Village A is located beside a main road, Villages B and C are situated a few kilometres away from a main road, and Village D is the most remote.

Each case enterprise is dedicated to a particular activity and utilises different products or services from the forest. Table 2 describes these activities and lists whether the enterprise is community owned or individually owned.

Fieldwork was carried out in February and March 2010. Fourteen semi-structured interviews were conducted with executives from case study commercial banks and microfinance institutions. These interviews examined the types of products and services that the institutions offer, who their main customers are, and their perceptions about rural clients and SMFEs. Twenty-three semi-structured interviews were conducted with village leaders, members of Village Development Committees, executives of producers' associations, and owners of enterprises and/or enterprise members. Six group interviews with enterprise members/owners of firewood, ecotourism, and some branchwood enterprises were also conducted. These interviews covered a range of topics related to each enterprises' financial situation, capacity for savings, access to credit, and barriers to obtaining financial services. Interviews were recorded using a digital recorder. We complemented data from the interviews with other sources of information, such as observations, photographs, and documents pertaining to the enterprises and financial institutions.

Table 1. SMFEs classified by village and type of enterprise

	Village				
Type of SMFE	A	B	C	D	Total
Firewood	+		+	+	3
Ecotourism		+			1
Beekeeping		+		+ + +	4
Handicrafts / Furniture				+	1
Branchwood	+ + +		+ +	+ +	7
Total	4	2	3	7	16

Note: Each '+' sign represents a single enterprise. Source: Tomaselli et al., 2012.

Table 2. SMFEs included in this study, classified by activity and type of ownership

Type of SMFE	Activities	Ownership
Firewood	Splitting wood from dead trunks for sale in local markets as fuel wood. These enterprises use resources from community forests.	Community owned
Ecotourism	Lodging tourists and providing them with various recreational activities based in the forest, in the river, and on traditional culture.	Community owned
Beekeeping	Installation of wooden boxes used as bee-hives with the purpose of honey (and occasionally wax) production. These boxes are installed in mangroves near the villages.	Individually owned, except Village B which has a community owned enterprise.
Handicrafts/Furniture	Production of furniture (i.e. chairs, tables, beds) from Rhun palm leaves. Raw materials are not collected from community forest areas.	Individually owned
Branchwood	Collecting dead branches and selling them as fuel wood in local markets. The majority of enterprises do not use resources from community forests.	Individually owned

(c) Data Analysis

Interviews were transcribed from the digital recorder to Microsoft Word and then to NVivo 8 qualitative software. Once in NVivo, data were segregated according to whether they related to financial institutions or SMFEs. This information was then classified into codes; some were created based on the interview protocol, while some emerged from the data. The main codes used to evaluate financial institutions were: number of operational branches and their location, types of customers, requirements for accessing financial services, and challenges of working in rural areas with forest-based enterprises. The key codes used to evaluate accessibility to microfinance for SMFEs were: ease of access to deposit accounts and credit, reasons for selecting specific financial institutions, and perceptions about the services offered by financial institutions. A code by code analysis identified the most recurring and meaningful issues for financial institutions and SMFEs. For financial institutions, the emergent issues from each code were grouped into data related to banks and data pertaining to microfinance institutions. For SMFEs, issues were grouped by the type of enterprise, so that data related to firewood, tourism, beekeeping, handicrafts / furniture, and branchwood businesses could be independently assessed. This process enabled us to establish comparisons and/or identify patterns among cases.

3. Results

(a) Financial Institutions

Financial institutions in The Gambia (commercial banks and microfinance providers) offer their services in urban and rural areas of the country. All of the commercial banks included in this study located the majority of their branches and agencies within the main urban area,[5] and most of their clients come from this area as well. Most microfinance institutions – seven out of eight – have the majority of their branches, agencies, or kiosks in rural areas of the country; however, for half of the cases, the majority of clients come from the urban area.

More than half of the financial institutions studied have opened an average of one branch per year since their founding. Additionally, all banks except one have branches located in rural areas,[6] many of which have opened only recently. For instance, four out of six banks opened their last branches between 2009 and 2010 and three expressed plans to keep opening new agencies, both in urban and rural areas. One bank executive explained that his institution is also involved in the delivery of microfinance: 'That is the only way you can take financial services to the grass roots level. If you look at most of the banks in our country, they are concentrated in the urban sectors [. . .].' Respondents from two microfinance organisations explained that banks are becoming increasingly competitive as they expand into rural areas. However, one executive mentioned that this competition revolves mainly around the collection of deposits.

The majority of respondents from financial institutions did not recall forest-based enterprises being major clients. Only one bank executive recalled a customer that works in carpentry, while another one mentioned a government forestry project. Most microfinance executives were able to name at least a few forest-based enterprises that they have as clients, and an agent from a community credit union even pointed out that an important customer is a community forest account.

For most financial institutions in this study, savings and guarantees are a requirement for providing loans. An executive explained the importance of savings: 'We also encourage our customers to save. You see, before you have access to financial services, you need to have a bank account.' The costs of opening these accounts vary among institutions. Commercial banks can require a minimum opening balance of 250 Dalasi ($US 9.5)[7] for savings accounts, although the average balance in most banks is 500 Dalasi ($US 19). In general, the average opening balance for microfinance institutions ranges from 25 to 50 Dalasi ($US 1 to 2). Deposit accounts for groups require slightly higher opening balances.

Guarantees are another requirement for acquiring credit; however, depending on the institution, these can be strict or flexible. For instance, one respondent from a bank explained the importance of collateral for her institution: 'Collateral is a basic requirement and it is an area where many people cannot meet, especially in rural areas. Not to ask for collateral is discouraged by our regulators, auditors, shareholders.' Some bank executives explained that salary is often used as a guarantee, highlighting the difficulties for non-salaried individuals to access loans. In contrast, the executive from a microfinance agency conveyed more flexibility regarding this issue: 'In some instances, we extend our loans to people in rural areas without collateral. [. . .] They [field officers] go there and they see something in the ground that looks tangible, even if you don't have collateral, we can give you money on a gradual basis.' Similarly, another microfinance executive explained: 'We look at what you have as collateral and that's what we take.'

Some institutions in The Gambia are employing interesting mechanisms for delivering their services. Various respondents described extending loans to groups or associations as a way of increasing the outreach of their services. A bank executive explained that groups generally have good repayment records, as individuals exert pressure on each other. He added: 'What we are trying to encourage is people to come in clusters, in associations. [. . .] Then at least you know you are dealing with a body that you can approach for the collection.' Along the same lines, the executive from another bank stated that group loans are less likely to default than personal loans. Several microfinance institutions are already implementing this mechanism. For instance, one respondent reported that his institution extends credit to group representatives, who then redistribute the loan to their members. A microfinance executive clarified that, in group loans, members are guaranteed by their aggregated savings and by the other individuals within the same group.

During several of the interviews, the connections and linkages that exist among financial institutions were discussed. Some respondents explained that commercial banks occasionally deliver credit to microfinance institutions for the purposes of re-lending. As one bank executive explained: 'Actually, the first loan we gave out to [microfinance institution] [8] was, I think, at [an interest rate of] 16 per cent. You try to make it competitive, so they can lend it out and make profit.' Another respondent described current negotiations between two commercial banks for developing financial products for village savings and credit associations. Additionally, various executives explained that the deposits gathered by microfinance institutions frequently end up in commercial banks. One microfinance executive declared: 'We have bank accounts everywhere. Any amount that you collect is deposited.' A community credit union agent also revealed that their institution does not have the physical capacity to store large sums of money; therefore, when deposits exceed a certain amount, cash is taken to a bank.

Even though SMFEs were not considered to be major customers for most financial institutions, some respondents were able to identify challenges regarding the delivery of their services to this sector. One of the issues mentioned was the possibility of sudden changes in forest policy. Two executives considered that delivering financial services to forest-based enterprises could be risky, due to the potential development of restrictive policies by the government which could impact on business operations and their ability to pay back loans. One respondent further explained: 'These groups or individuals who are focusing their activities on the forest eventually might face some challenges because either the government might come up with an embargo or they might come with new rules and regulations against the use of the forest [. . .].'

Another challenge that was brought up during the interviews is related to sustainability. A bank executive expressed his concern regarding the future availability of raw materials for forest-based businesses, especially if forestry activities are not carried out in a sustainable manner. Likewise, a microfinance institution representative stated: 'Yes, there is a real challenge in forestry, in the rational use and sustainable use of resources.' It is interesting to note that one microfinance institution, due in part to concerns regarding environmental sustainability, only extends credit to licensed operators that act within the guidelines of the Forestry Department. This executive clarified that requesting forest enterprises to present their licenses is an effective strategy for reducing risk (of their products being seized, for example). Interestingly, although this study did not aim to explicitly evaluate the impacts that SMFEs have on the sustainability of forest resources, a few respondents from the SMFEs provided relevant information regarding this issue. Some mentioned that the establishment of community forests have positively influenced villagers to manage forest resources in more sustainable ways. However, others expressed some concerns such as increasing pressures from buyers of forest goods and some decreases in forest cover.

(b) Small and Medium Forest Enterprises

The case study SMFEs have varying levels of access to microfinance. Most enterprises – 12 out of 16 – have a savings (deposit) account with a financial institution; six keep an account in a commercial bank, while eight keep an account in a community credit union. Only two beekeeping enterprises from Village D have accounts with both types of institutions.

Some enterprises maintain their accounts with financial institutions despite not having a current ability to save. Some respondents explained that these accounts are used when the enterprises or its owners have greater capacities for saving. For example, a beekeeping entrepreneur mentioned that he opened his bank account when he worked in the urban area and had permanent earnings. Other respondents added that due to family needs, they are not able to save money on an ongoing basis. One-quarter of the case study SMFEs do not have accounts with any formal financial establishment; one entrepreneur stores her money at home, another saves with a shopkeeper, and two explained that they lack savings capacity.

Respondents frequently mentioned that proximity and security are two important reasons for choosing to use financial institutions. A number of villagers explained that their money is safer in a financial institution than in other places, and it also encourages them to save. Some respondents added that saving with the community credit union also increases their probability of acquiring loans. A member of a firewood enterprise explained: ‘To get loans from them is easier than to get loans from the bank. If you save in the credit union, it is given to community members on loan and it becomes a revolving fund within the community.’ Most SMFEs revealed that they are pleased with the services they receive from financial institutions, specifically pointing out the simplicity and ease of opening deposit accounts.

Regarding SMFEs’ access to loans, more than half of the studied enterprises – 10 out of 16 – have acquired credit previously. Three enterprises obtained loans from community credit unions, one acquired credit from a microfinance institution, and the rest were provided by other organisations or individuals. Only one beekeeping enterprise from Village D acquired credit twice; from his association and the other from an international NGO. No loans were provided by a bank. Table 3 illustrates the number of SMFEs from each village that acquired loans from different institutions or individuals. Several of the studied enterprises that have been able to access loans do not have a savings capacity.

Table 3. Number of SMFEs from each village that have acquired loans

	Villages			
Loaning institution/individual	A	B	C	D
Community credit union	1			2
Microfinance institution				1
International NGO				2
Producer’s association				2
Government project			2	
Shopkeeper	1			

Most of the SMFEs that have received loans explained that they have invested them in starting up or expanding their businesses. For example, beekeeping entrepreneurs used these funds for buying hives, some branchwood businesses invested in equipment for the transportation of their products, and one respondent explained that she used this money for starting a charcoal business. One branchwood entrepreneur mentioned that obtaining credit has been fundamental for the survival of her business.

Some of the institutions mentioned in Table 3 employed interesting mechanisms for delivering their credit services. For example, respondents from two beekeeping enterprises explained that the international NGO that had provided a loan had local partners (community credit union and producers' association) that facilitated its delivery. Also, two branchwood entrepreneurs mentioned that they received credit from a government project by establishing groups or clusters. The owner from one enterprise explained this mechanism: 'It was sort of re-loaning. The loan was given to the group and the group has to give it to the individuals.'

A few SMFEs also detailed some of the limitations that they have faced when seeking credit. Members from one firewood enterprise required finance for purchasing a truck for transporting their products directly to markets. The credit needed was approximately 400,000 Dalasi ($US 15,180) at the time of the study. Respondents explained that a microfinance institution required them to be registered with the government, have minimum savings of 100,000 Dalasi ($US 3,795), and update the management plan of their community owned forest. Villagers explained that they were able to fulfil all the requirements, with the exception of presenting an updated community forest management plan.[9] They mentioned that the local officer from the Forestry Department was supposed to write a draft of this plan for subsequent approval with the community; however, this officer never came back with such a plan.[10]

Two beekeeping enterprises – one that required financing for purchasing honey collection equipment and another that required funds to open a store and diversify his product offerings – revealed that another limitation related to loan access is their lack of savings, which is often required by financial institutions. In addition, the type of bank account in place seems to be a constraint. For instance, members from the ecotourism enterprise mentioned their need for funds to renovate and upgrade the camp; however, some banks require clients to have a chequing account (as opposed to a savings account) as a requisite for accessing credit, which they did not have. Finally, one respondent also expressed some displeasure about the amount of time that it takes for the community credit union to provide loans.

As contextual information, it is important to note that all community owned enterprises maintained financial records[11] of their businesses, while only three individually owned businesses did so at the time of the study. All but one of the enterprises included in this study were profitable.[12] The ecotourism camp was, by far, the most profitable enterprise with an annual revenue of about 140,000 Dalasi ($US 5,313), while the handicrafts / furniture business generated the least annual revenue of approximately 2,400 Dalasi ($US 91).[13] SMFEs distribute profits differently depending on their type of ownership; entrepreneurs from individually owned enterprises tend to spend most of their income on personal expenses such as food, education, and health, while community owned enterprises generally allocate their profits to forest management and village development activities.

4. Discussion

(a) Financial Institutions and SMFEs in The Gambia

Our data indicate that financial institutions in The Gambia – especially banks – are expanding. Many have opened a number of branches since their founding, and some expressed plans to continue broadening their branch networks. Reports from the Central Bank of The Gambia confirm that, at the end of 2007, there were nine commercial banks (Central Bank of The Gambia, 2007), while in 2010, there were 14, representing a 55 per cent increase in the number of institutions in only three years. This expansion has intensified competition, which in turn, has improved the services offered by the banking sector (Central Bank of The Gambia, 2007). Moreover, competition puts pressure on banks to diversify their reach to include low income people (United Nations, 2006), which may partly explain why the banks in this study are expanding into rural areas.

Even though financial institutions in The Gambia are already operating in the countryside, our data suggest that they are still not offering SMFEs a full range of financial services, particularly credit. That said, the studied SMFEs do have easy access to deposit accounts, which is important given that safe savings services have been shown to assist poor people in buffering against uncertainty and hard times, and in building their financial capital (Spantigati and Springfors, 2005). Data from this study show that it is affordable to open accounts with banks and microfinance institutions, but that it is five to ten times more expensive to open an account with commercial banks. In general, banks restrict deposit collection with requirements for high opening balances (Basu et al., 2004), thus precluding small savers (Gulde et al., 2006). In The Gambia, these high costs have limited people from accessing bank accounts (Gulde et al., 2006). However, our data also indicate that opening a bank account is still affordable for some SMFEs.

Our cases illustrate that the delivery of credit from financial institutions – especially banks – is much more limited than their ability and willingness to mobilise deposits. The case study SMFEs have been successful in acquiring finance from credit unions and other organisations, but none of them had obtained bank loans at the time of the study. In The Gambia, formal financial institutions have generally not been successful in attending to the poor (Sanyang and Huang, 2008). This could be due to the fact that most institutions require guarantees for extending credit, something that many people cannot provide (Helms, 2006). Our data illustrate that microfinance institutions are more flexible than commercial banks in their requests for collateral, as some accept different types of guarantees, like small property and household items, or individuals securing one another within group mechanisms (Helms, 2006). Some of them even set out to improve their clients' repayment capacities by delivering loans gradually.

Interestingly, our data also show that, in the absence of credit from formal private financial providers, other organisations, such as international NGOs, producer associations, and government projects, are filling the gap to meet SMFEs' credit needs. In some African countries, NGOs have been very effective in reaching communities where microfinance institutions are barely present (Basu et al., 2004). In The Gambia, donors and NGOs are supporting microfinance projects, with the aim of promoting rural development and reducing poverty (Sanyang and Huang, 2008). Donor based microfinance tends to be focused on credit only schemes, and in general, does not require savings as a condition for extending other services (Basu et al., 2004). The activities by these non-financial institutions represent a positive step as they can partially meet rural credit demand and contribute to poverty reduction, especially when credit is directed to viable income generating endeavours. Nevertheless, these interventions tend to have limited outreach and may be unsustainable (Macqueen, 2008), especially when they are without proper financial management and backing (Spantigati and Springfors, 2005). In addition, when these initiatives are highly subsidised, they can '[...] undermine the development of sustainable microfinance and distort the market' (Spantigati and Springfors, 2005: 83).

Community credit unions can be a strategic option for remote communities that have no access to other financial services' providers. Our data show that all SMFEs in Village D, which is located at a greater distance from the main road, have a savings account in their community credit union. Credit unions have a crucial role to play in reaching the most remote communities and poorer populations (Spantigati and Springfors, 2005; Helms, 2006). For example, in Africa, cooperative groups and village associations have been essential for collecting savings and expanding the outreach of financial services (Basu et al., 2004). In various rural areas, they 'are still the only source of deposit and credit services, apart from the informal financial market' and they are characterised by delivering inexpensive loans. Also, they can be advantageous for

SMFEs as they can reduce transaction costs and offer specialised services (Spantigati and Springfors, 2005: 34).

(b) Potential Strategies for Improving SMFEs' Access to Microfinance

Our data suggest that the delivery of microfinance to SMFEs in The Gambia could be facilitated by the implementation of six strategies that include: establishing group based mechanisms, endorsing linkages and connections between institutions, maintaining stable forest policies, encouraging formality among SMFEs, promoting sustainability in forest practices, and updating community forest management plans on time. Various actors, such as the government, producers' associations, financial institutions, or SMFEs themselves, can undertake specific roles in promoting or implementing these strategies.

First, the formation of groups or associations can be instrumental in increasing the outreach of microfinance for SMFEs. Group lending is a 'microcredit innovation' that can reduce transaction costs, improve the likelihood of repayment, and relax guarantees (Spantigati and Springfors, 2005, p. 19). Financial institutions can reduce costs by lending to a group rather than to individual enterprises (Macqueen, 2010). Additionally, groups decrease risk, as individuals guarantee each other, thus increasing the likelihood of loan repayment (Basu et al., 2004; Spantigati and Springfors, 2005; Helms, 2006). Moreover, groups can enhance access to credit, since they can act strategically to aggregate individual savings and use them as collateral (Basu et al., 2004). Even though some banks and microfinance institutions in The Gambia are already using group based lending, it is important for other financial institutions to recognise the benefits of implementing such a mechanism. Similarly, it may be in the best interest of SMFEs to strengthen collective action as a means of facilitating their access to microfinance. The government could also play a role in supporting the formation of new associations (or assisting already existing ones) in becoming stronger and more organised.

Second, the delivery of financial services can be improved by the generation of linkages and strategic alliances among institutions. In The Gambia, commercial banks and microfinance institutions are working together to improve the delivery of their services, showing that they can combine forces instead of replicating them (Basu et al., 2004; Gulde et al., 2006). Banks do not necessarily need to downscale directly into microfinance since they can reach remote populations by creating alliances with organisations already working at the community level, and can do so at very low costs and risk (Pagura, 2008). With the development of these linkages, 'the prospects of enhancing financial deepening have improved' (Basu et al., 2004, p. 11). It is important for financial institutions to recognise the advantages of cooperation and advance it as a means to increase the reach of their services. Additionally, governments and donors can play important roles in the promotion of these linkages (Spantigati and Springfors, 2005). For instance, the Central Bank of The Gambia encourages financial companies to invest in village banking associations, thus enabling banks to use local branches for delivering services, and concurrently, benefiting microfinance institutions as they become capitalised (Central Bank of The Gambia, 2007).

Third, maintaining stable policies is fundamental to promoting investments in the forest sector. The possibility of sudden modifications in forest regulations may hold back financial institutions from investing in forestry, as these policy changes could hamper the operations of SMFEs, and thus, their capacity to repay loans. 'Unpredictable changes in government policy or regulations increase risk in the business environment and produce large disincentives for investment' (Hellman et al., 2000: 16). In The Gambia, few financial institutions expressed concerns regarding this issue, which could have been exacerbated by a current forest policy that suspended the use of powered saws in Gambian forests and halted the operations of timber and log enterprises. It is important for governments to determine the real impact of their policies (and policy reforms) and to be cautious when designing forest policies that not only have the ability to affect the operations of some enterprises, but have the potential to negatively impact the entire Gambian forest sector.

Fourth, promoting formality among forest-based enterprises could incentivise investment in SMFEs. Formality may prove important for some financial institutions as it ensures the legality of forest products, thus reducing the risk of confiscation and loss of products. Nevertheless, this could be challenging for a large proportion of SMFEs in developing countries, which remain informal, primarily as a means of avoiding excessive regulations and bureaucracy (Macqueen et al., 2005). Indeed, governments have a vital role in promoting formality by establishing simple and inexpensive procedures that allow forest-based enterprises to register. Additionally, it is important that SMFEs perceive that the benefits of formality exceed the costs (International Finance Corporation, 2006).

Fifth, sustainability in forest practices could incentivise investment in SMFEs. In the forest sector, sustainability is frequently related to formality as governments are inclined to make laws that promote the sustainable use of resources; nevertheless, forest practices can be legal yet unsustainable, or the other way around (Contreras-Hermosilla et al., 2007). Our data revealed that some financial institutions in The Gambia are becoming increasingly aware of the ethical and practical implications of unsustainable forestry. This is not surprising considering the rising global concern related to forest conservation and climate change. An increasing number of businesses are taking into account sustainable practices among their guiding principles, and for some financial institutions, environmental requirements are now a condition for lending (Spantigati and Springfors, 2005). This could represent a significant challenge for many SMFEs that act unsustainably or illicitly; on the other hand, it could also be an important opportunity that may lead to the pursuit and implementation of more sustainable forest practices. Governments can play a crucial role in promoting and offering incentives for sustainable forest management. Additionally, they can decrease the costs and burdensome regulations associated with law compliance and discourage illegal and unsustainable production through the implementation of more effective monitoring and enforcement (Contreras-Hermosilla et al., 2007).

Finally, our data indicate that updating community forest management plans on time could also facilitate SMFEs' access to microfinance. These plans provide evidence of an enterprise's ability to plan and may provide a higher degree of confidence with respect to the continuous supply of raw materials, thus lowering the perception of risk associated with SMFEs. For instance, annual forest management plans have been accepted by local banks in other parts of the world (Paudel et al., 2010), and as these plans must be approved by government, they provide added confidence about the legitimacy of forestry activities (Junkin, 2007). Moreover, community forest management plans are strategic in nature and of great advantage to SMFEs because they can also convey the enterprise's capacity to act sustainably. The Forestry Department of The Gambia should ensure that these plans are approved and delivered on time; its value as a document that can facilitate an enterprise's ability to access microfinance cannot be overstated.

(c) Study Limitations and Recommendations for Further Research

It is important to highlight that data for this research in The Gambia were primarily obtained from semi-structured interviews conducted with executives, members and owners from the case study SMFEs, and financial institutions. Whenever possible, this information was triangulated with other sources of data; nevertheless, it is largely qualitative, and mainly represents the views and perspectives from our respondents. Additionally, we want to point out that the SMFEs included in this study only provide insight on the situation for enterprises located in the Western Region of The Gambia. Future research should explore SMFEs situated in more remote regions of the country in order to gain a better understanding about their particular situations and specific challenges. Finally, our data indicate that formality and sustainability of forest enterprises could be important factors determining their access to microcredit; therefore, we recommend further research for investigating the extent to which these factors come into play for financial institutions, as these could be strategic areas where SMFEs require further support.

5. Conclusions

In summary, our data show that financial institutions in The Gambia – especially banks – are in a process of expansion; however, the delivery of financial services to forest-based enterprises is still limited. While SMFEs do not face major restrictions in accessing deposit accounts for savings, they do face limitations when accessing credit from financial institutions. Cooperative credit unions have played an important role in delivering microcredits; however, other actors external to the financial sector have taken the lead in satisfying SMFEs' credit demands. By implementing various strategies, such as group based lending, partnerships among institutions, stable forest policies, formality and sustainability among forest-based enterprises, and the timely delivery of community forest management plans, it is possible that SMFEs in The Gambia can improve their access to financial services, and specifically, credit. Finally, it is important to point out that these efforts should not be one time isolated events, but rather form part of a holistic approach focused on generating an enabling environment for the development of SMFEs.

Acknowledgements

The authors would like to acknowledge the Forestry Department of The Gambia for their support. Sincere gratitude is expressed to Mr. Alkali Jarjusey, research assistant for this project, and the many people who participated in the interviews. They also acknowledge the comments of two anonymous reviewers. Funding was made possible by the Africa Forests Research Initiative on Conservation and Development (AFRICAD) at the University of British Columbia.

Notes

1. This study is focused on microenterprises that operate with unpaid voluntary labour or as one-person ventures.
2. For the purposes of this paper, SMEs encompass business operations with less than 100 employees (Macqueen, undated).
3. Commercial banks also have the capacity to deliver microfinance services.
4. The names of these institutions are not revealed as this study offered them confidentiality. The same holds true for the names of villages and SMFEs in the study.
5. In this study, urban implies the region within the Greater Banjul area.
6. Rural bank branches are mainly located in the administrative headquarters of each region. Even though these settlements are considered to be rural in this study, they are in the midst of becoming semi-urban towns.
7. The currency exchange at the time of the study was 26.35 Gambian Dalasi per $US 1 Dollar.
8. The name of this microfinance institution has not been revealed to maintain anonymity.
9. In The Gambia, these plans are prepared by the Community Forest committee with the assistance of local forest officers. Their final approval resides with the Regional Forest Officer.
10. Members from another firewood enterprise also expressed frustration over the time that it takes to update their community forest management plans.
11. These records mainly register the expenses, revenues, and profits of the businesses.
12. One branch-wood enterprise from Village A was not yet profitable, since it just began operations at the time of the study.
13. These numbers should be approached with some caution, as not all enterprises keep written records and not all respondents had these records with them at the time of the interviews.

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