

Demonstration and Adoption of Credit Schemes for Small Medium Forest Enterprises (SMFEs) in Indonesia

(The ITTO Biennial Work Programme 2013-2014 Activity No. 2 (PP-A/49-287)

by

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Background





- PD 233/03 Rev.2 (I) "Application of intermediate technologies for sustainable forest harvesting in Peru", a credit scheme for SMEs was developed with high potential of replication and scaling-up
- ITTO Biennial Work Programme 2013-2014
- Located of the project: Ciamis and Cianjur districts, west Java
- <u>Community forests</u> initiated under GERHAN ("land rehabilitation movement programme") of Indonesian Government
- ITTO Project PD 271/04 Rev.3 (F): on "Rehabilitation of Degraded Forest Land Rehabilitation of Involving Local Communities in West Java Indonesia" 2006-2008 (produce 1,5 million seedlings per year)





ITTO credit scheme for small-scale wood enterprises





- <u>Small-Medium wood processing industries</u>: 300 units (2009) and 393 units (2016):
- Annual production from community forests: 400 000–
 500 000 m³ per year;
- Supplies manufacturers of **mouldings, panels and furniture** in West and Central Java.
- Small sawmills <u>produced semi-processed timber products</u> (rough-sawn timber and core sheets for use in blockboard)





The ITTO Credit scheme for small-scale wood industries



• MOU between ITTO and Indonesia's Natural Resources

Development Center (Yayasan Pusat Pengembangan Sumber Daya Alam—NRDC) in April 2014, part of the ITTO Biennial Work Programme 2013–2014. Activity No. 2 (PP-A/49-287): "Demonstration and adoption of credit scheme for small—medium forest enterprises".





Implementing the credit scheme





- Forestry activities are <u>not bankable</u>
- The forestry sector is still in <u>a negative list for Bank loan</u>, in 1998 renewed in 2011
- Many small industries need a loan for working capital from the bank, but they <u>cannot meet the requirements</u> (financial statement, guarantor, listed asset etc.)
- Credit of about US\$12 500 per company issued, with the aim of managing the scheme as a revolving fund that would provide credit for more SMEs over time.

The targets of the credit scheme



- 1) Small businesses/small sawmill enterprises -obtain SVLK (Timber Legality Verification System) certification;
- 2) SMEs that process wood from community forests with a capacity of 2000–6000 m³ per year
- 3) SMEs with <u>legal permissions from the local</u> government but which lack access to finance.





Mechanism of credit scheme:

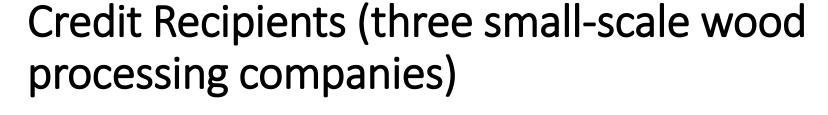


The mechanism of the ITTO credit scheme portfolio:

- <u>ITTO acted as collateral guarantor</u>: the loan provided by BRI-Agro Bank as a capital credit and investment for small sawmill industries.
- NRDC acted as a facilitator for creditors (small industries); facilitates the process/arrangement of granting the loan between the Bank and the creditors; provide technical assistance to the creditors.
- Bank as the collateral: serves to provide credit to small business/small sawmill industry.
- The central government (Ministry of Environment and Forestry)/local government Forestry and Plantation District office: serves to assist and support the implementation of the provision of credit guarantee









- <u>Cianjur District</u>: CV Sumber Kayu :Signing of credit on May 2015; credit used for pellet equipment to process wood waste and residues to be bio-composite product
- <u>Ciamis Ditrict</u>: <u>CV Bintang Timur and CV Kaindo</u>; signed on August 2015; credit used for processing equipment (chipper, grinder, pellet press) and working capital

Constraints on banks



- SMEs need <u>working capital loans</u> but do not meet bank requirements
- 393 community-scale wood-processing enterprises in the district, only nine have **complete business permits**.
- <u>Lack assets in the form of land or buildings</u> that could be used as collateral, as required by FSA (the Financial Services Authority) regulations..

Progress of credit repayments



- With the back-to-back guarantee provided by the ITTO project, the bank was able to be more flexible in its lending requirements
- As of May August 2017, Not all debtor completed repayments. One of SMEs had been delayed due to a slowdown in the global market; The Bank and NRDC are assisting these two debtors to enable them to pay back the loans in a timely way.
- NRDC now <u>plans to revolve that loan to an SME</u> in another region.



Capacity improvement need



- The competitiveness of timber enterprises: (1) the efficiency of raw-material processing; (2) the quality of processed products; technology innovation; (3) responsiveness to markets and consumers.
- SME's in west Java poorly in processing and product quality "in-house or in-factory training",
- Improving capacity and capability of managers in administrative, financial and technical are important for the improvement of the management of small scale industries.



Training





- ITTO TFL PD 033/13 Rev. 2 (M) supported the training
- In-house or in-factory training": to improve the ability to recognize (detecting) and address (solving) the various problems encountered by the industry.
- Skills enhancement to implement an efficient wood processing to produce good quality timber products
- Participants :12 small industries



Lesson learned

- Many SMEs <u>do not meet the requirements of banks</u> and other financial institutions,
- SMEs need to increase their technical and administrative capacity
- <u>Assistance in the first year of credit implementation</u> will greatly help SMEs in improving their performance.
- Access to credit enabled SMEs to develop better production processes by purchasing and operating new equipment.
- Small loans can help SMEs to manufacture more <u>efficient and profitable</u> <u>products</u>.

