



# **FINANCING STRATEGIES FOR SMF: SHARING EXPERIENCES FOR THE FACILITATIVE PROCESS IN PRACTICE**



**Side event at UNFF-9  
New York, NY  
26 January 2011**

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**INTERNATIONAL TROPICAL TIMBER ORGANIZATION**



## ITTO's policy work in promoting further investment in tropical forest

- International Tropical Forest Investment Forum (2006)
- Latin America Tropical Forest Investment Forum (2006)
- Asia-Pacific Tropical Forest Investment Forum (2007)
- Round of National Investment For a (2008-2009):
  - Bolivia (March 2008);
  - Congo (February 2009);
  - Philippines (August 2009); and
  - Ecuador (September 2009)





# ITTO's work in promoting further investment in Tropical Forest

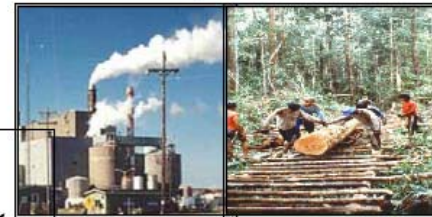
The aim of the fora was to identify opportunities for investment in natural tropical forests, based on their multifunctionality, and propose ways forward to overcome the barriers and risks involved in such viable investment opportunities.

**SM of NTF for  
Timber and NTFPs**



By SME and  
Community enterprises

**Larger scale pulp, paper and  
wood based panel Industries**



**Plantation Based  
Timber & Fibre Supply**

**Emerging  
Investment  
Opportunities**

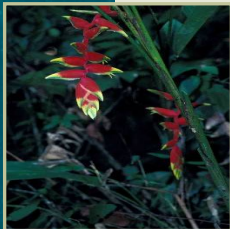


**Environmental  
Services**





# Major findings from the Investment Fora



- Enabling environment for investment is a must in order increase financial resources for SFM at national level,
- Actions to create a favorable environment shall be taken at the highest political level.
- Common elements for a favorable environment for investment and financing include:
  - securing land tenure and access rights,
  - strengthening forest governance,
  - developing less complex and more equitable taxation,
  - simplifying bureaucracy.



# Major findings from the Investment Fora

- Forestry operations should be linked to capital markets by:
  - managing forest for multiple uses,
  - developing alternative business models for NTFPs and PES,
  - investing in technology, infrastructure, innovation and productivity improvements.
  - creating a balance between small and large scale enterprises through vertical integration,
  - building capacity to improve the managerial business skills,
  - better marketing of forest products,
  - incorporating social responsibility principles,
  - developing risk insurance mechanisms,
  - considering new financial mechanisms like carbon markets.





# Major findings from the Investment Fora

- Other options to enhance investment and financing in the forest sector include:
  - adjusting financial incentives for SFM in natural forests in comparison with other land uses,
  - developing appropriate public procurement policies for timber,
  - promoting accessible credit lines for small-medium forest enterprises.





# Major findings from the Investment Fora

- SFM requires adequate capacity in planning, implementation, monitoring and enforcement,
- Capacity building should encompass all stakeholders from public and private sectors including policy makers, managers, forestry professionals, technicians, skilled laborers, NGOs and communities.





## **SPECIFIC EXAMPLE OF ITTO PROJECT WORK IN FINANCING**



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# Natural forest: Financing for adding value

*PD 233/03 Rev.2 (I)*

*Application of Intermediate Technologies for Sustainable Forest Harvesting in Peru*

- The project aimed at strengthening the industrial capacity of small and medium forest concessionaires in the Peruvian Amazon, by introducing the use of intermediate technologies for harvesting, and facilitating access to credit for its acquisition.









# Natural forest: Financing for adding value

*PD 233/03 Rev.2 (I)*

*Application of Intermediate Technologies for Sustainable Forest Harvesting in Peru*

- The project had a component for training and promotion in the use of intermediate technologies for forest harvesting (portable sawn-millers):
  - Transformation of logs into sawn-timber at the concession
    -  income and market access
    -  logistic and transportation cost
    -  losses caused by lost and damage to logs due to river transportation
    -  impact in the forest
- The project had a component for financing the acquisition of the intermediate technology through the establishment of a guarantee / revolving fund.



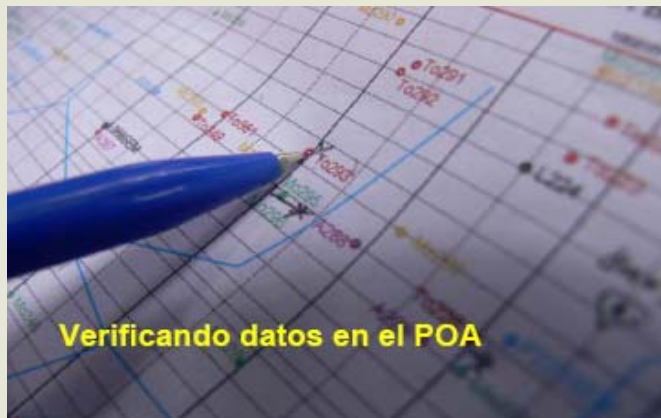


# Natural forest: Financing for adding value

*PD 233/03 Rev.2 (I)*

*Application of Intermediate Technologies for Sustainable Forest Harvesting in Peru*

- Business and managerial assistance is provided:
  - Analysis on the return of the investment for the concessionaire,
  - Training in the proper use of the technology,
  - Development of a business plan,
  - Follow-up in the repayment of the credit by the concessionaire.





# Natural forest: Financing for adding value



1

Identification of small / medium forest concessionaire

2

Technical evaluation and assistance to initiate the credit application

3

Financial evaluation and economic assessment

4

Credit approval and disbursement (direct payment to the supplier of the technology)

5

Follow-up (business plan and payment of the credit)



# Natural forest: Financing for adding value

*PD 233/03 Rev.2 (I)*

*Application of Intermediate Technologies for Sustainable Forest Harvesting in Peru*

- The total value of the guarantee fund is \$50,000.00
- The fund guarantee 50% of the credit, the other 50% is guaranteed by the portable sawn mill itself
- Credits are given up to a value of \$16,000.00
- The rate of repayment of credits has been higher than 85%
- Repayment allows to extend further credits to more interested concessionaires
- This means that \$7,000 have serve to mobilize credits for value of approximately \$200,000.00





# Lessons learned

- Political will and commitment at the highest levels are necessary in order to create a favorable environment for forest financing;
- Financing SFM requires adequate capacity in planning, implementation, monitoring and enforcement;
- Simple financing schemes with smaller or local financial institutions can be effective to facilitate access to credit for SFM and have potential for replication:
  - It builds trust;
  - It provides more exposure of the forestry sector to the financial institutions





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# Challenges still to overcome

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Commercial banks know and understand very little about forestry businesses:

- Need to establish a more proactive dialogue with the banking institutions (profitability of plantations, management criteria, rate of return, etc.),
- It requires time and trained personnel.



The artisanal sector still needs to be modernized:

- Technical aspect,
- Capacity in business management.



Commitment and political will towards SFM still remains low in many countries.



**Thank you for your attention!**



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