



# 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
- **Community forests** 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



- **Small-Medium wood processing industries** : 300 units (2009) and 393 units (2016) :
- Annual production from community forests : **400 000–500 000 m<sup>3</sup>** per year;
- Supplies manufacturers of **mouldings, panels and furniture** in West and Central Java.
- Small sawmills **produced semi-processed timber products** (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 **not bankable**
- The forestry sector is still in **a negative list for Bank loan**, in 1998 renewed in 2011
- Many small industries need a loan for working capital from the bank, but they **cannot meet the requirements** (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 m<sup>3</sup> per year**
- 3) SMEs with **legal permissions from the local government** but which lack access to finance.

# Mechanism of credit scheme:



## The mechanism of the ITTO credit scheme portfolio :

- ITTO acted as collateral guarantor : *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*

# Credit Recipients (three small-scale wood processing companies)



- **Cianjur District**: 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
- **Ciamis District** : CV Bintang Timur and CV Kaindo ; signed on August 2015; credit used for processing equipment (chipper, grinder, pellet press ) and working capital



# Constraints on banks



- SMEs need working capital loans but do not meet bank requirements
- 393 community-scale wood-processing enterprises in the district , only nine have complete business permits.
- Lack assets in the form of land or buildings 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 plans to revolve that loan to an SME 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 **do not meet the requirements of banks** and other financial institutions,
- SMEs need to **increase their technical and administrative capacity**
- **Assistance in the first year of credit implementation** 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 **efficient and profitable products**.



**Thank you**