

# Financial mechanisms to promote quality timber production from smallholder plantations of teak and other valuable species

Temesgen Zana Jaffo and Eliza Zhunusova  
Thünen Institute of Forestry



# Outline

## 1. Introduction

- Why are smallholder plantations important?
- Key challenges of smallholder plantation owners

## 2. Why the selected financial schemes?

## 3. Project countries' profiles

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- **Objectives** of the study and target groups
- Research tools – mixed method approach
- Field data collection process
- Time schedule for data collection

# 1. Introduction: why are smallholder plantations important?



≈ 4.35 billion ha of the world's forest and farm landscape is own/manage

**Smallholders**, local communities, and Indigenous Peoples (FAO 2022)



80 % of the extreme poor live in rural areas

→ correlation between forest proximity and extreme poverty?



\$0.8 - 1.29 trillion estimated gross annual value (Macqueen et al. 2018)



Increasing importance in timber, pulpwood and environmental services (Anne et al. 2019).



Crucial for reaching UN SDGs

# Smallholder plantation owners: Key challenges

- Drawn from 11 international dialogues on Investing in Locally Controlled Forestry (ILCF)) :
  - insecure tenure;
  - inadequate technical capacity;
  - lack of business and market know-how;
  - and limited cost efficiencies and bargaining power.
- Access to finance **‘while a real problem in its own right, is also often a symptom of other difficulties’.**

Source: Macqueen et al. (2018)

# Smallholder plantation owners: Key challenges (continued)

## Limited financial resources:

- The long rotation/gestation periods and associated cash flow gap in forestry
- Lack of access to adequate i.e., forestry specific and affordable financing
- Smallholder forest growers are considered as high-risk debtor class due to their small-scale and lack of collateral
- Increased reliance on informal rural finance.

Source: Starfinger (2023)

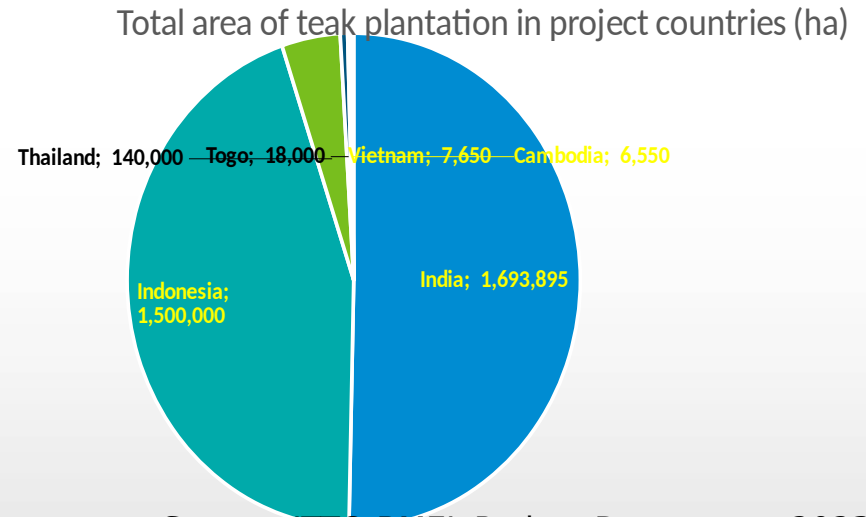
## 2. Why the selected schemes?

S/no	Financial constraints to improved timber quality	Selected schemes for analysis*	
1.	Lack of access to credit/finance to bear the associated costs	Micro-lending schemes	voluntary carbon markets
2.	Cash flow gaps to support their livelihoods	Out-grower schemes Micro-lending schemes	
3.	Uncertainty about the future timber prices	Out-grower schemes	
4.	Inefficiency caused by smallness of scale	Forest grower associations	
5.	Lack of infrastructure or market access	Forest grower associations	

\*Respondents will also be asked of any other important support schemes for smallholder plantation owners in each country.

### 3. Project countries' profiles

- The selected financial mechanisms need to be prioritised based on each project country contexts:
  - Growth/size of plantation forest
  - Production systems and history
  - Governance and market structure
  - Financing schemes available



Source: ITTO-BMEL Project Document, 2023

### 3. Project countries' profiles...contd

	India	Indonesia	Thailand
Profile Descriptions	<ul style="list-style-type: none"> <li>• Many farming households integrate teak in agroforestry systems</li> <li>• Dominant global importer (97% of total trade volume)</li> <li>• Minor exports due to high domestic demand</li> <li>• Financing:               <ul style="list-style-type: none"> <li>- National Bank for Agriculture and Rural Development (NABARD)</li> <li>- microfinancing and credit lending face impediments</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• 1.5 million farm families grow teak in Java               <ul style="list-style-type: none"> <li>- &gt; 1/2 million depend on teak as a source of income</li> </ul> </li> <li>• Financing schemes:               <ul style="list-style-type: none"> <li>- Kredit Usaha Rakyat (KUR), Kredit Usaha Kecil (KUK),</li> <li>- Forestry Financing Program (FFP), and Teak Plantation Revitalization Program (TPRP)</li> </ul> </li> <li>• Farmers' cooperatives</li> </ul>	<ul style="list-style-type: none"> <li>• 30% production forest under private smallholder</li> <li>• FIO is a key player managing &gt;78K ha</li> </ul> <p>Market:</p> <ul style="list-style-type: none"> <li>• Key regional player with growing export</li> <li>• dominant domestic consumption (wood-processing industries)</li> <li>• Financing:               <ul style="list-style-type: none"> <li>- tree collateral and Tree Banks emerged (limited uptake)</li> <li>- effectiveness of microfinance?</li> </ul> </li> </ul>

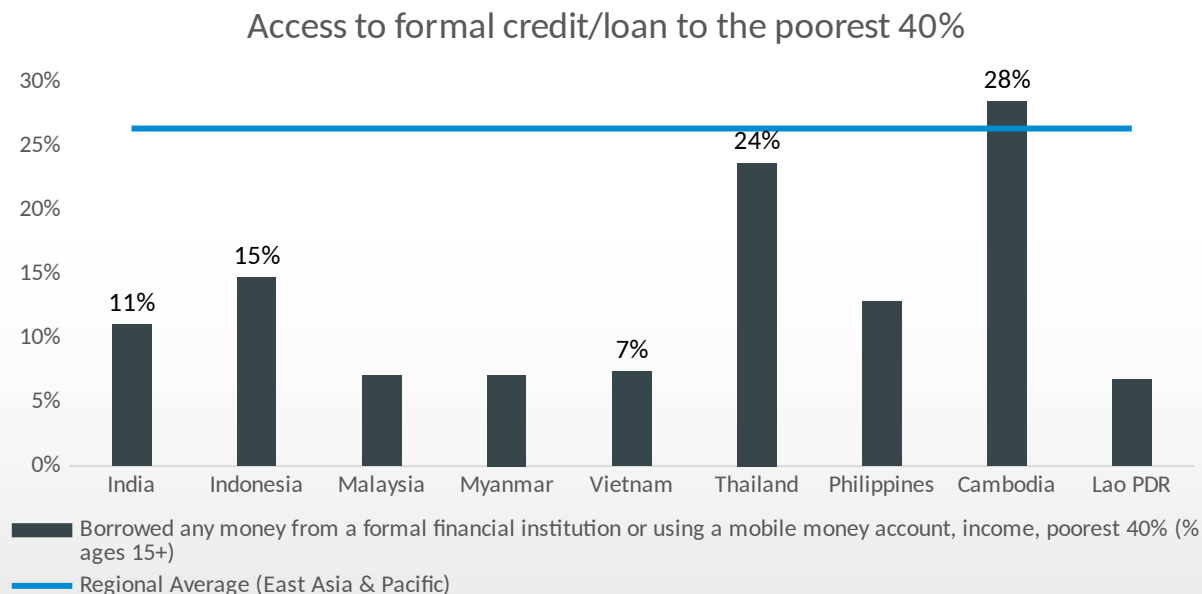


### 3. Project countries' profiles...contd

	Cambodia	Vietnam	Togo
Profile Descriptions	<ul style="list-style-type: none"> <li>• 80% teak plantation under private investment               <ul style="list-style-type: none"> <li>- Smallholders contributed to the rapid plantations increase.</li> </ul> </li> <li>• Market: Emerging exporter, and increasing private investment plantations</li> <li>• Financing:               <ul style="list-style-type: none"> <li>- Gov't provides incentives (monetary and non-monetary)</li> <li>- Financial institutions are reluctant to finance</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Smallholders: Manage 74% plantation area on 2-3 ha per household</li> <li>• Market position:               <ul style="list-style-type: none"> <li>- Imports significant quantities</li> <li>- Export-oriented wood furniture industry</li> <li>- High domestic demand for wood products,</li> </ul> </li> <li>• Financing:               <ul style="list-style-type: none"> <li>- Bank for Agriculture and Rural Development</li> <li>- low rate of non-state microfinance lending</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• 70% of the private plantations are <math>\leq 5</math> ha</li> <li>• Market position:               <ul style="list-style-type: none"> <li>• Primarily exports to international markets</li> <li>• 2<sup>nd</sup> largest teak sawn timber exporter to India.</li> </ul> </li> </ul>

# Project countries' profiles

- Except for Cambodia, access to credit falls short below the regional average



Source: WB Global Financial Inclusion Database, 2024

## 4. Research component of the project implemented by TIF

### Main goal:

- **Financing schemes for quality timber production in smallholders and community-based teak and other species plantations have been analyzed and improvements have been suggested to increase economic outcomes.**
- Target groups: smallholders managing plantations of teak and other valuable timber species

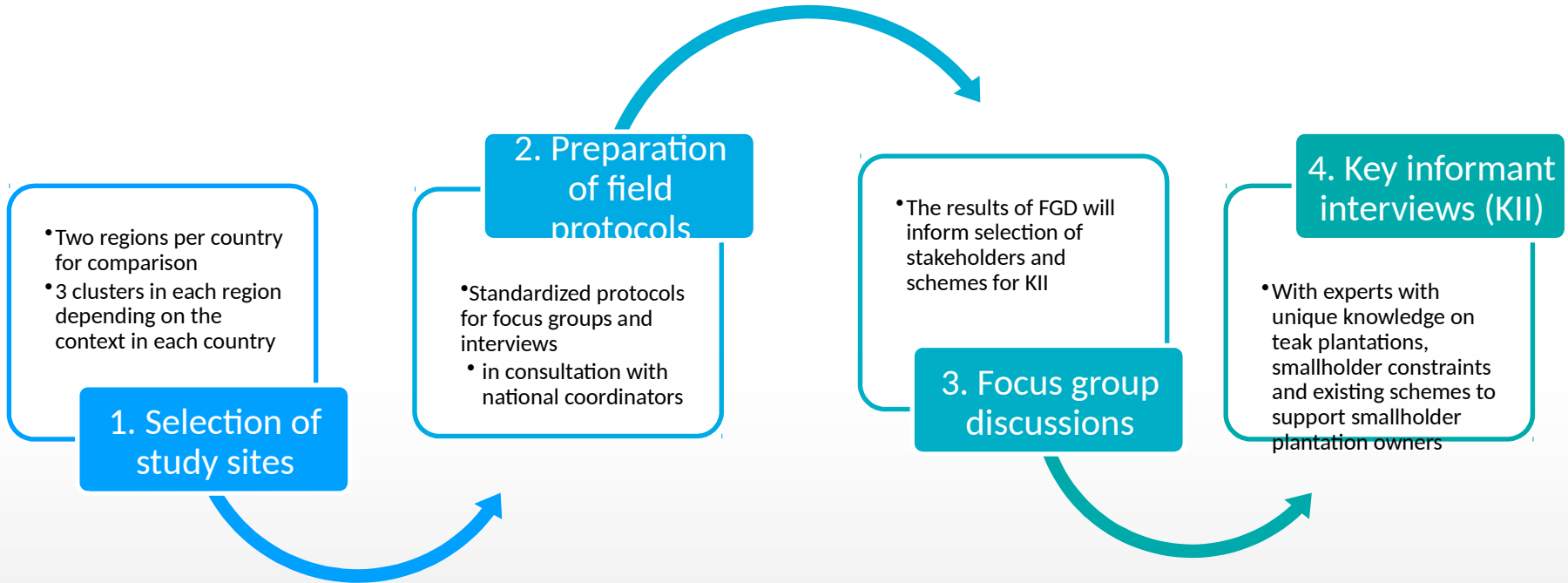
# Research questions

1. Who are the key stakeholders and their role in the financial ecosystem for smallholder plantation owners?
2. What financial needs do smallholder plantation owners have in order to produce quality timber/attain longer rotation periods in the six project countries?
3. What are the stakeholders' perceptions with regard to selected schemes (what challenges, prospects and possible solutions do they observe)?
4. What is the capacity of financial institutions, private companies, FGAs in project countries to meet smallholder needs? What are the barriers to meeting them?
5. What other scheme/s are used by smallholders and (how effective is it)?

# Research tools – mixed method approach

1. Data sources: existing literature and primary data from the six countries
2. Data analysis using qualitative and quantitative methods
  - Qualitative data from focus group discussions and KIIs
  - Quantitative data from key informant interviews
  - Comparative analyses between regions and countries if possible

# Field data collection process



# Time schedule for field data collection

Activity	Oct 2024	Nov 2024	Dec 2024	Jan 2025	Feb 2025	Mar 2025	Apr 2025
Desk study/literature review							
Hiring national consultants							
Preparation of data collection protocols							
Selection of target regions							
Training of national consultants							
Pre-tests and revision of protocols							
Conducting FGDs and KIIs							
Data entry and cleaning							

# Thank you very much for your attention

## Questions and feedback are welcome!

[eliza.zhunusova@thuenen.de](mailto:eliza.zhunusova@thuenen.de); [temesgen.jaffo@thuenen.de](mailto:temesgen.jaffo@thuenen.de)

Thünen Institute of Forestry

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