



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

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BY

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# Background

- The ITTO project PD 233/03 Rev.2 (I) “ Application of intermediate technologies for sustainable forest harvesting in Peru” recommend to replicate and scaling-up findings on credit scheme for SMFEs.
- Ciamis District (West Java), from 2006 to 2008, the community received assistance from ITTO Project PD 271/04 Rev.3 (F): on "Rehabilitation of Degraded Forest Land Rehabilitation of Involving Local Communities in West Java Indonesia". The production capacity of nursery is about 1,5 million seedlings per year.
- Ciamis district alone: production of timber from community is about 400.000 to 500.000 m<sup>3</sup> per year. A lot of small forest industries developed in Ciamis since 2009.

# Development of small-medium industries in Ciamis

- In 2009, the SM wood processing industries reached 300 units, increase 14% from the previous year. Now more than 393 sawmill industries operated in the district.
- Only 9 sawmills have processed permits properly.

# The ITTO Credit scheme for small-scale wood industries

- The ITTO project PD 233/03 Rev.2 (I) “ Application of intermediate technologies for sustainable forest harvesting in Peru” recommend to replicate and scaling-up findings on credit scheme for SMFEs.
- The MOU was signed between the ITTO and Yayasan Pusat Pengembangan Sumber Daya Alam (Natural Resources Development Center/NRDC) in April 2014 aimed to implement ITTO Biennial Work Programme 2013-2014 Activity No. 2 (PP-A/49-287) on “Demonstration and Adoption of Credit Scheme for Small-Medium Forest Enterprises (SMFEs).
- The ITTO credit money available of the total US\$ 50,000 for several small scale industries of which the project decided to allocate credit of about US\$ 15,000 for 1 (one) small industry

# Mechanism of credit scheme:

- The mechanism of the ITTO credit scheme portfolio is as follows :
  - ITTO will act as collateral guarantor for the loan provided by BRI-Agro Bank as a capital credit and investment for small sawmill industries.
  - NRDC will act as a facilitator to small industries potential as creditor; facilitate the process/arrangement of granting the loan between the Bank and the creditors; provide technical assistance to the creditors.
  - Bank as the collateral recipient serves to provide credit to small business/small sawmill industry.
  - The central government (Ministry of Environment and Forestry)/local government Forestry and Plantation Regency office serves to assist and support the implementation of the provision of credit guarantee

# Facts, Findings and Way Forward

- Due to the proliferation of Illegal Logging a few years ago, forestry activities are categorized into activities that are **not bankable**, so that Central Bank (Bank of Indonesia) issued a circular letter that banning any banks to financing the investment in forestry sector (include the forestry sector in a negative listed loan, in 1998 renewed in 2011)
- Findings from the field indicate that indeed there are many small industries that now operate unbelievably need a loan for working capital from the bank, but they cannot meet the requirements required with procedures established bank (financial statement, guarantor, listed asset etc.)

# Facts, Findings and Way Forward

- It was observed that during the process of lending, many small industries currently do not have assets in the form of land/building viable that can be used as collateral.
- Central Bank of Indonesia (BI) and the Ministry of Finance have their authorities to review the current and future financial investment loan scheme for forestry business especially for the small-medium enterprises (SME). These two authorities have to be updated and well informed about the current condition and a way forward.

# Small scales sawmill..



Name of the industry : Sawing small logs from community forest, and waste  
Location : Ciamis, West Java.

# Sawn timber transportations



Name of the industry : Sawn timber for barecore/blockboard transport to wood industry at Central Java  
Location : Ciamis, West Java.

# Small industry for wood pellet production



Name of the industry : Small scales tofu factory using energy from wood pellet.  
Location : Cianjur, West Java.

# Training need supported by ITTO TFL PD 033/13 Rev. 2 (M)

- "in-house or in-factory training", the training is intended to improve the ability to recognize (detecting) and address (solving) the various problems encountered by the industry.
- that emphasize skills enhancement to implement an efficient wood processing to produce good quality timber products

# Conclusion remarks

- The adoption of the ITTO credit scheme for small-medium forest industries in Indonesia is an important lesson learnt to improve financial access for small scale forestry business.
- Many of small scale industry do not meet requirement as required by an official financial sources such banks and others.
- Improving capacity and capability of managers in administrative, financial and technical (productivity; waste utilization) are important for the improvement performance of small scale industries.



Thank you