



3.4 Credit schemes in the Peruvian Amazon

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A catalyst for income generation

When people think of financing for sustainable forest management (SFM), they often assume that large amounts of money are involved. A project funded by ITTO in Peru, however, demonstrates how simple and practical schemes — along with small amounts of seed capital and technical assistance — can make the difference for small and medium forest concessionaires.¹ These initiatives can help concessionaires manage their forest effectively, move up in the production chain, and increase their income.

The Application of Intermediate Technologies for Sustainable Forest Harvesting project implemented a training, dissemination and extension programme for the use of intermediate technologies (portable sawmills) for forest harvesting . It was implemented in concessions under the management of small and medium producers and native communities (SMPNCs), with two main components: technical assistance and financing.



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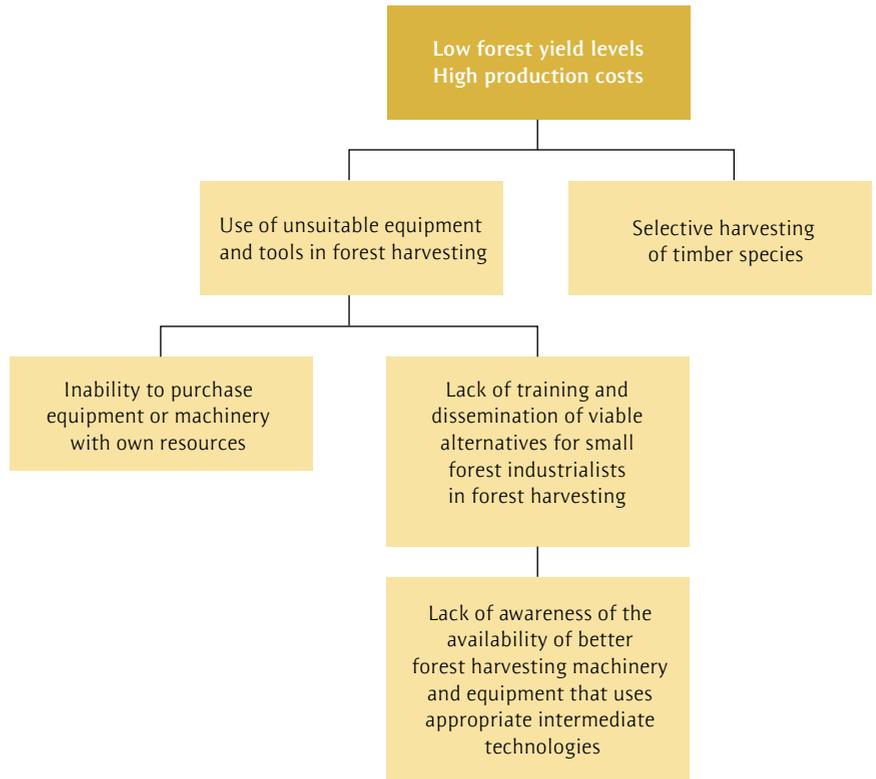
The project was designed to solve the problems of low productivity rates and high production costs. These problems arose due to the use of inadequate equipment, tools and techniques for forest harvesting. Chainsaw milling by small-scale concessionaires generates high levels of timber waste, low sawnwood yields, and leads to the harvesting of only valuable timber species such as cedar and mahogany. In most cases concessionaires did not have the financial resources to adopt more efficient technology.

Approach

In order to identify the most suitable technology for the conditions of the Peruvian tropical forest (Figure 1), an assessment and comparative study of different types of mills was carried out under a previous project, also financed by ITTO. The project operated in the provinces of Ucayali, Madre de Dios and Loreto, all major timber-producing regions, and all part of the Amazon forest, from 2004 to 2010.

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Figure 1.
Conditions in
the Peruvian
tropical forest



To promote the use of better technology, the current project had a technical assistance component. This component included three types of technical assistance: training in the use of the new technology (which allows first-stage processing of the logs at the forest site) and SFM; facilitating access to credit from the banks for SMPNC; and capacity building for business management.

The project had two partners:

- the manufacturers of the portable sawmills conducted a series of demonstration events; and
- a local bank, *Caja Municipal de Crédito y Ahorro de Maynas* (referred to subsequently as Caja Maynas), a multi-branch micro-credit lender, facilitated a credit line (for the provision of loans to beneficiaries), and a guarantee fund (money deposited in the bank in case of default).

The Fund for Forest Promotion and Development (FONDEBOSQUE), a Peruvian NGO, provided technical assistance. The project promoted the adoption of the new technology and assisted SMPNCs who were interested in acquiring portable sawmills.

The guarantee fund was established with seed capital of US\$ 50,000 deposited by ITTO in Caja Maynas. In return, the bank extended credit lines to SMPNCs, subject to their receiving a satisfactory financial evaluation. SMPNCs could receive up to US\$ 16,000 to

buy portable sawmills and related accessories. The fund guaranteed 50% of the loan; the other 50% was guaranteed by the portable sawmill. As loans were repaid, further loans were provided.

The project used this approach because access to credit was the best alternative for capitalization and investment by SMPNCs, who often lack financial resources. It also gives them experience with the formal financing system, which they lacked. In addition, the financial institution also expanded its operations to a sector that it previously categorized as informal and high risk.

The SMPNCs who expressed their willingness to acquire the portable sawmills through the credit line were first screened by FONDEBOSQUE. The screening covered the legal tenure of their concession, the existence of a forest management plan, their capacity and practical experience in managing their forest, and their experience and capacity in the sale of timber. Once an SMPNC was approved, two processes started simultaneously: the provision of technical assistance in the use of the portable sawmill and SFM, and assistance to submit a credit application and fulfill its requirements.

Technical assistance included training in the use of the portable sawmill and on aspects such as forest planning, Reduced Impact Logging (RIL), transport and trade of timber. This was done to prepare the SMPNC to operate the equipment correctly in case the credit application was approved.

Assistance for access to credit involved training for the SMPNC in basic financial aspects:

- accounting (bookkeeping and understanding a balance sheet, financial statement and cash flow);
- financial analysis (capacity to understand and calculate basic financial indicators, such as internal rate of return, profit margins, liquidity, rotation of working capital, borrowing, and ability to pay); and
- budgeting.

Caja Maynas

With this basic training the SMPNCs were able to fill out credit applications (Table 1) and submit them to Caja Maynas, along with the necessary documents for assessment. Like any other micro-credit lender or bank, Caja Maynas has standard procedures for the assessment and revision of credit applications, such as a background check with the credit bureau, verification of the documents attached to the credit application, and analysis and verification of the financial statements. The bank's assessment in the context of the project included some additional elements. It revised and evaluated the forest management plan approved by the National Forest Authority (NFA), along with the yearly plan of operations, a report of any offences and forfeiture of the applicant issued by the NFA, and on-site verification of the forest concession. In this way the project also built capacity within the lender to understand technical aspects and business cycles of the forest sector.



If the credit application was approved all parties were notified. The cost of the sawmill was provided directly to the supplier.

Table 1. Characteristics of the loans

Amount of credit (US\$)	12,000, 14,000 or 16,000
Currency for disbursement	Peruvian new soles
Annual interest rate	18%
Period	up to 24 months
Renegotiation of the loan	allowed once only
Guarantee	50% by the guarantee fund, and 50% on beneficiary's assets (sawmill or property)

Technical assistance

FONDEBOSQUE then provided technical assistance, focusing on the efficient operation of portable sawmills for timber harvesting. It also helped each SMPNC prepare a business plan for the sale of processed timber and repayment of the credit.

Concessionaires processed logs into timber at the site and sold it in the market with added value. This brought greater benefits:

- income increased by adding value to timber in or close to the forest;
- forest management improved because a wider diversity of timber species was harvested, including very high-density timber species which could not be harvested using the old technology;
- transportation costs for very distant forests were reduced significantly;
- logistics were simpler and the cost of lost logs, specially sinkers, was reduced during river transportation; and
- products diversified and market access expanded.

Project impact

By the end of the project 14 portable sawmills were acquired through the credit scheme, and 11 credits were fully repaid by the SMPNCs, who developed business plans with the technical assistance provided.

The funds available in the guarantee fund at the end of the project amounted to US\$ 40,353 as Caja Maynas deducted the default from the guarantee fund if a loan was not repaid. This means that US\$ 9,600 of seed capital mobilized credits of about US\$ 200,000 in assets, or 20 times the original value.²

Lessons learned

A credit line, with effective capacity building, can move smallholders up in the production chain.

Simple financing schemes with smaller or local financial institutions can be effective in facilitating access to credit for SMPNCs. They have the potential to be used elsewhere, for these reasons:

- they build trust among SMPNCs, financial institutions and suppliers of equipment for forest harvesting;
- they provide more experience for the forestry sector (in particular small and medium producers, native communities and small and medium enterprises) with financial institutions;
- they familiarize forest concessionaires and other stakeholders with the policies and procedures of financial institutions;
- they motivate forest concessionaires to formalize their economic activities (register, obtain a VAT number, etc.); and
- they demonstrate that financing the forest economic activities of small producers, native communities and small and medium enterprises is a good business and that loans will be repaid.

Late in 2012, ITTO conducted an independent evaluation of the project to establish how well it served its purposes, to evaluate its impacts and to draft recommendations for future action.

These are some of the positive impacts reported by the evaluation:

- the project provided a technical solution for harvesting a wider spectrum of timber species, including some very hard woods that could not be transported by river;
- a financial mechanism was developed that didn't rely on subsidies;
- it effectively linked aspects of business management with forest management plans;
- it led a process of local development and improvement of technology.



Future prospects

The impacts of the project have led to further developments:

- SMPNCs have acquired 15 more portable sawmills;
- more than 50 modified sawmills have been made in Peru, based on the design of portable sawmills;
- at least two more local banks have expressed interest in providing credits through similar schemes.

To build on the project's successes a number of important factors need to be taken into account in the development of financing mechanism:



- other important stakeholders should be included in this kind of initiative, such as local training institutions, local authorities and local forest producer organizations; and
- this type of project should be accompanied by activities to develop specific market niches for timber products.

The experience in the implementation of this project demonstrated that an integral approach of access to credit, along with the technical and business management assistance, is necessary for success.

The evaluation also pointed out that this type of project could be replicated, not only in Peru, but in many other timber-producing countries. It recommended an extended version of the guarantee fund, with interventions in specific products along the timber production chain. This could be expanded to commercial credits. ITTO is looking forward to the implementation of such initiatives.

For further information

Video of the project is available at www.youtube.com/watch?v=FIWTSZwQ31c (part 1) and www.youtube.com/watch?v=UlidFvYfGXc (part2).

Five manuals on the application of intermediate technologies for sustainable forest harvesting and access to credit are available at www.itto.int/project_reports.

A summary report of the evaluation (Reference No. CEM-CFI (XLVI)/3-A) is available at www.itto.int/council_documents.

Endnotes

1. In Peru, concessionaires (*Concesionario*) do not have tenure over the land, but do have the legal right to its use.
2. This number is derived by multiplying 14 loans issued during the life of the project at an average value of US\$ 14,000 each, and rounding the figure.