

# Overcoming the barriers to financial services for small-scale forestry: the case of the community forest enterprises of Petén, Guatemala

*R. Junkin*

*A clear legal framework and supportive institutional environment, including technical and businesses services, encourage commercial banks to provide financial services to community forest concessions.*

**G**lobally, the past few decades have seen exponential growth and development in the micro-finance sector. The worldwide movement to promote small-scale financing for micro and small enterprises has reached over 94 million clients (González and Rosenberg, 2006). Despite this significant outreach, large segments of the population in many developing countries continue to be underserved by financial services. One of the key challenges facing the microfinance sector is how to “expand the frontiers” so that financial institutions can sustainably provide services to populations outside urban centres in the most remote rural areas.

Forest communities often have limited access to financial services. The micro-finance and development banking sectors are increasingly focusing on how to reach rural areas, but the focus is gene-

rally on agriculture. Little consideration has been given to reaching small-scale forest enterprises. Governments and international development agencies have mainly focused their attention to forest finance on creating appropriate incentives for forest conservation; they have been less concerned with the provision of adequate financial services for the business cycles of those making a living from the forest.

Financial services principally include credit, savings, insurance, money transfers and leasing. These services allow people and enterprises to distribute their expenditures over time – so that what they can’t pay now with their current income, they can pay with past income (through savings or insurance), future income (through loans) or a combination of both (Rutherford, 2000). Small-scale financing, or microfinance, helps

**Community forestry in the Mayan Biosphere Reserve, Petén, Guatemala**



**Ruth Junkin** is Rural Finance Specialist, Center for the Competitiveness of Ecoenterprises (CeCoEco), Tropical Agriculture Research and Higher Education Center (CATIE), Turrialba, Costa Rica.

individuals and small enterprises put together the sums of money needed to take advantage of opportunities, solve problems and meet their basic consumption and investment needs in a timely manner.

A number of barriers inhibit financial institutions from operating in rural areas. These include:

- geographic dispersion, which increases the costs of reaching clients;
- concentration of economic activity around a few principal products, leading to increased risks for the financial institution;
- the long-term nature of many investments, especially in the forestry sector;
- land tenure issues, institutional weaknesses and producers' inexperience working within the context of strict contractual arrangements;
- inadequate infrastructure, including communications, roads and electricity;
- inexperience of financial service providers in serving rural areas, hampering design of appropriate financial products;
- regulatory frameworks that penalize rural/agricultural portfolios.

Overcoming these barriers to provide improved financial service options for small-scale forest enterprises requires a combination of solutions. This article illustrates the factors involved by profiling the case of the community forest enterprises working with concessions in the Mayan Biosphere Reserve in Petén, Guatemala.<sup>1</sup>

#### COMMUNITY FOREST ENTERPRISES IN THE MAYAN BIOSPHERE RESERVE

The Department of Petén in Guatemala has been extensively colonized by settlers during the past 40 years and is therefore

composed primarily of first-, second- and third-generation migrants from other regions in Guatemala. These immigrants cleared large areas of forest for seasonal agriculture and pasture. They also engaged in the extraction of precious woods and non-wood forest products (NWFPs) (SmartWood, 1999). Initially, industrial logging companies were allowed unlimited access to the high-value timber of the region and were supervised by the State-owned and administered Fomento y Desarrollo de Petén (FYDEP). Companies obtained three- to five-year logging contracts and paid a volume-based tax. As the contracts had no requirement for management plans and no provision for yield control, companies could extract as much mahogany as they were able (Carrera *et al.*, 2006) without ensuring regeneration of the resources. However, following the creation of the National Council for Protected Areas (CONAP) in 1989 and the Mayan Biosphere Reserve in 1990, all logging contracts in the reserve were revoked.

The Mayan Biosphere Reserve extends across 2.1 million hectares, divided into three zones: a core zone, consisting of national parks and protected biotopes; a multiple-use zone, where forest concessions are granted; and a buffer zone, where some of the land is owned by cooperatives and municipal *ejidos* (State-owned land administered by the municipal government), but where land use is generally regulated, even on private property (Carrera *et al.*, 2006). In 2004, the multiple-use area had 13 community forest concessions, two industrial concessions and eight cooperatives. Twelve of the community concessions were assisted by the Biodiversity and Sustainable Forestry (BIOFOR) programme of the United States Agency for International Development (USAID) and Chemonics International.

Forest concessions are granted by CONAP for 25 years and are renewable. Enterprises granted concessions are permitted to extract and market tim-

ber and NWFPs on a restricted basis from the concession area according to annual plans presented to and approved by CONAP. As part of the concession agreement, all areas must become certified according to Forest Stewardship Council (FSC) norms within three years after the concession is granted (Carrera *et al.*, 2006).

Unlike more established rural populations, the population of Petén does not have strong social bonds based on common history in a given locale. Instead, groups of neighbours, or others sharing a common interest in developing economic alternatives to small-scale agriculture, have formed community forest enterprises for obtaining forest concessions. These enterprises are recent creations; the most experienced was formed 13 years ago (Table 1). Given their youth, their usually low initial capitalization and their background in small-scale farming, it is natural that the enterprises are still developing their entrepreneurial capacities.

In line with the requirements for obtaining a concession, all of the enterprises are legally established and submit yearly management plans to government authorities. Many have achieved FSC certification, which has attracted a number of additional buyers in the United States, Europe, Mexico and Guatemala (e.g. Stoian and Rodas, 2006), especially for mahogany. These positive characteristics are not typical of nascent small community enterprises in Latin America.

#### Production system

Given that the community forest concessions are long-term arrangements and subject to long-term management plans (from 25 to 70 years), the community forest enterprises harvest a small portion of their area each year (approximately 1 percent) (Ortiz, 2002). This helps to guarantee the regenerative capacity of the forest. Initially, the concessions principally harvested mahogany and tropical cedar – high value woods, with

<sup>1</sup> Parts of this article are adapted from a case study published in FAO, 2005.

**TABLE 1. Community forest concessions in the multi-use area of the Mayan Biosphere Reserve**

Organization	Year concession granted	Women	Men	Total
San Andrés	1999	11	167	178
Carmelita	1997	46	63	109
Cruce a la Colorada	2000	20	47	67
San Miguel	1994	4	35	39
La Colorada	2000	2	46	48
La Pasadita	1997	26	96	122
Uaxactún	1999	82	142	224
Arbol Verde	2000	33	309	342
Impulsores Suchitecos	1998	0	27	27
Laborantes del Bosque	1999	21	68	89
Custodios de la Selva	2000	16	82	98
El Esfuerzo	2001	9	29	38
<b>Total</b>		<b>270</b>	<b>1 111</b>	<b>1 381</b>

established demand. However, they have begun to explore marketing options for other woods; in 2004, 18 different species were included in the annual operating plans presented by the community enterprises (BIOFOR/Chemonics International, 2003).

The production process for the community forest concessions consists of three distinct phases:

- **planning** – including a general management plan for the period of the concession, an annual operating plan and an annual census, as well as renewal of certification every five years;
- **extraction** – including opening the principal road, opening secondary roads and clearing log landings, chaining and marking trees, clearing felling areas, dragging, cutting and transporting;
- **processing** – including verification of volume, removing bark, sawing, predrying, classification, inventory, sharpening and repairs.

If wood is sold as logs, the traditional form of sale, the process ends with transport to the buyer. This form of marketing, however, generates minimum benefits in community labour, as well as low final prices for the product. Some community forest enterprises still sell wood cut with chainsaws, which entails lower

operational costs but also leads to high waste and limited marketing options. Production of sawnwood sometimes requires enterprises to form alliances with industry partners. However, some enterprises are beginning to purchase their own sawmills, increasing their capacity to produce higher-value products and allowing them to offer sawmill services to other community enterprises, which can be an additional source of income.

#### FINANCIAL REQUIREMENTS

Finance needs vary among the community forest enterprises depending on the amount of timber to be harvested, the distance of the concession from the community, internal decisions regarding salary levels and the quality of equipment owned by the enterprise. The productive capacity of each concession varies according to the density of commercially viable timber found. In the 2004 harvest, the concessions assisted by BIOFOR cut volumes ranging from 315 to 1 791 m<sup>3</sup> and from 116 to 1 008 trees. The costs of the extraction process ranged from US\$37.27 to \$101.53 per cubic metre (BIOFOR/Chemonics International, 2003).

Technical assistance agencies have worked closely with the community forest concessions in Petén to determine their operational costs and cor-

responding financing needs. The annual operating plans submitted to CONAP provide a breakdown of the financial resources necessary for the annual production cycle.

Table 2 shows three examples of the general cost structure of the concessions. As shown, the extraction and sawing processes represent the bulk of the overall operational costs (60 to 70 percent of the total). The most important costs in the extraction process are loading and transporting timber and hauling the trunks to log landings, which together represent more than 60 percent of the extraction costs. Maintenance of principal roads accounts for another 6 percent of extraction costs. These main costs are primarily due to the rental of heavy equipment services from external suppliers (BIOFOR/Chemonics International, 2002). Sawing accounts for 73 percent of total processing costs; sawing costs include personnel, fuel, materials and the use of equipment and machinery.

The overall costs for the community forest enterprises for the 2004 harvest ranged from US\$60 691 to \$240 834. Among the 12 community forest enterprises assisted by BIOFOR, total operational costs for the 2004 harvest reached US\$1.68 million.

In addition to ongoing operational costs, the community forest enterprises have also used financing to purchase fixed assets.

#### COMMERCIAL BANKS REACH OUT TO MEET THE NEEDS

Given the relative youth of the community forest enterprises and the socio-economic background of their owners, most have insufficient capital to finance their operational costs. Most of the enterprises take advantage of a combination of resources to cover operating needs, including partnerships with the timber industry, advance payments from buyers, use of local money lenders and small loans obtained through the Association of Forest Communities of Petén

**TABLE 2. Examples of annual operating cost structure of community forest concessions**

Enterprise	Cost (quetzales)						Total	Total cost (US\$)
	General management plan	Annual operating plan	Extraction	Processing	Taxes and certification	Administration		
Enterprise 1	30 200	21 441	151 999	165 560	40 468	81 933	491 600	60 691
<b>% of total</b>	<b>6</b>	<b>4</b>	<b>31</b>	<b>34</b>	<b>8</b>	<b>17</b>		
Enterprise 2	35 350	109 355	564 168	425 438	66 104	240 083	1 440 496	177 839
<b>% of total</b>	<b>2</b>	<b>8</b>	<b>39</b>	<b>30</b>	<b>5</b>	<b>16</b>		
Enterprise 3	39 700	128 363	814 039	533 317	110 211	325 126	1 950 755	240 834
<b>% of total</b>	<b>2</b>	<b>7</b>	<b>41</b>	<b>27</b>	<b>6</b>	<b>17</b>		

Source: Based on data from BIOFOR/Chemonics International, 2003.

(ACOFOP), which groups community associations related to the Mayan Biosphere Reserve (BIOFOR/Chemonics International, 2002). However, the most significant financial service providers for the community forest enterprises are commercial banks – which generally have not been key players in the provision of such services to small enterprises in rural areas in Latin America.

#### **BANRURAL and Bancafé**

BANRURAL began to work with the community forest concessions in 1999, providing loans of up to 100 000 quetzales (Q) (approximately US\$13 000) to three concessions. These loans were backed by collateral guarantees on equipment, as well as evidence of sales contracts. In 2002, the bank experimented with larger loans (up to Q400 000 or US\$52 000) to four concessions, backed by a letter of credit from an importer in the United States. The experience overall was not successful, however. The importer was unable to purchase the wood that it had ordered and asked the concessions to find alternative buyers. The concessions asked for an extension from the bank in order to identify alternative buyers, and the bank agreed. All the concessions eventually paid back the loan, but payment was delayed, and in one case the concession had to sell assets in order to honour its commitment to the bank.

Based on this experience, BANRURAL was reluctant to provide large loans in

2003. While it continued to provide smaller loans of up to Q100 000, no more letters of credit were accepted. In 2004 it began to grant larger loans again, of up to Q500 000, perhaps because of developing competition with another commercial bank – Bancafé.

Bancafé began its relationship with the community forest concessions in 2003. Representatives from ACOFOP and the local office of BIOFOR approached Bancafé about the possibility of obtaining financing for the annual operating plans of a group of concessions. Loan applications were backed by the promise of support from ACOFOP and BIOFOR. That same year, Bancafé approved loans totalling Q10 million (US\$1.3 million) to eight community forest concessions. As in the case of BANRURAL, these loans were financed through Bancafé's normal asset base and were therefore not dependent on special government or donor programmes. During the last quarter of 2006, Bancafé entered into bankruptcy, principally owing to the failure of investments in foreign real estate markets. Its portfolio in Petén was then transferred to BANRURAL.

During the period of its operation, the loans provided to the forest concessions by Bancafé were backed by a solidarity guarantee among ACOFOP members. In order to qualify for financing, forest concessions needed formal legal status and had to be members of ACOFOP. Loans were based on the cash flow needs and sales projections developed in the annual

operating plans. The guarantees for the loans included an ACOFOP agreement to cover any non-payment and a lien on harvested wood. The high visibility of the concessions and their desire to protect their reputations also motivated them to pay on time. In the case of arrears, ACOFOP actively worked with the concessions concerned to guarantee repayment. In one case, ACOFOP provided a bridge loan to a concession in order to guarantee repayment to Bancafé.

Loans to forest concessions represented an important part of Bancafé's portfolio for the Petén region – 45 percent in 2003 and 50 percent in 2004 (Superintendencia de Bancos de Guatemala, 2004). The loans were granted for approximately 10 months, at 18 percent interest, with interest and capital due in one final payment.

By the end of 2004, BANRURAL also began to negotiate package loan agreements with the concessions through ACOFOP. In 2004, the overall package reached Q11 million (US\$1.4 million) and in 2005, Q9 million (US\$1.16 million). For 2007, seven concessions have loans under the package agreement with BANRURAL (A. Córdova, ACOFOP, personal communication).

#### **Factors contributing to the involvement of commercial banks**

The case of the community forest enterprises of Petén illustrates clearly that an appropriate institutional environment and support structure facilitate

the entrance of commercial banks. The following factors helped make the enterprises bankable.

***Scale of enterprises reduces effects of geographic dispersion.*** The size of the operations of the community forest enterprises in Petén, as well as the scale of the financial services required, make providing these services cost effective for the banks. Many analysts would not consider the loans illustrated in this case as microfinance. Indeed, the overall loan levels are high. However, this is due to the nature of the enterprises serviced, as opposed to the means of the individual households who participate in the concessions. The case illustrates the possibility for poor households to organize businesses that are capable of accessing opportunities that would not be available to them if they worked individually.

Beyond the enterprise level, in order to open the door to financing, the BIOFOR project and ACOFOP actively promoted a group of community forest enterprises to banks as a package. Bancafé and later BANRURAL were able to lower their transaction costs by treating the group of loans as a package, and by dealing with one overall client, ACOFOP. Achieving this scale also makes it worthwhile for banks to offer related services such as money transfer services at discounted rates and individual loans to community enterprise members, in order to compete for them as clients.

Finally, supervision costs are reduced for the banks through established relationships with ACOFOP and organizations that have ongoing projects with the community forest enterprises.

***Diversified portfolios and complementary services minimize risk.*** Commercial banks are able to diversify their portfolios all across the country. In this way they spread their risks across a wide array of clients and loan types. The risks are thus lower than those of portfolios concentrated in a small rural area.

The technical and business development services provided by civil society organizations and international development agencies provide an additional incentive to the commercial banks to offer larger loans to community enterprises. Solidarity among the groups, as manifested in ACOFOP, also clearly facilitates access to the commercial banks. For example, the guarantee offered by ACOFOP and the monitoring assistance offered by both ACOFOP and BIOFOR/Chemonics were key considerations in Bancafé's decision to enter into a lending relationship with the enterprises.

The annual operating plan, based as it is on a census of trees in the concession area, provides a reliable indication of the production levels expected, and there are few risks that this production will not be achieved. While the community enterprises are new and continue to have significant management weaknesses, the existing demand for many of the products they offer practically ensures their financial viability – helping to minimize risks for the banks.

***Forest concession system provides legal framework for clear use rights.*** While the community forest enterprises do not hold titles to the forest that they harvest, they have clear legal rights to the concessions. The extent to which they can harvest timber and NWFPs in the concession is established in their general management plan and annual operating plans. While the land itself cannot be used as a guarantee for the loans, the timber and NWFPs included in the annual operating plan can serve as a guarantee. Government approval of the plans provides additional security for the banks regarding the legitimacy of the economic activities proposed.

***Commitment to serving rural areas.*** Both Bancafé and BANRURAL are committed to serving rural areas and have therefore worked to develop appropriate

financial services to meet the needs of this sector.

## CONCLUSION

The development of the community forest enterprises of Petén, Guatemala has benefited significantly from the establishment of a clear political and regulatory framework, as well as the availability and articulation of technical, business and financial services.

Technical services supported the initial establishment of the concession regime, as well as the capacity of community groups to enter into the regime. Business services allowed these community groups to develop enterprises through internal structuring and organization, identification of market opportunities and the design of products appropriate to the market realities. Financial services have allowed the enterprises to fulfil their cash flow needs for operations and invest in infrastructure to improve their product offering. The offer of financial services from commercial banks, as opposed to forest product buyers, has given the enterprises more independence and the capacity to negotiate better prices for their products.

At the same time, the presence of a clear legal framework and technical and business services was key in encouraging commercial banks to enter the picture. ACOFOP has played an important role as an advocate for its members in relation to the commercial banks. Representatives from the BIOFOR project, as business service providers, also actively promoted the involvement of these banks. Each type of service is essential and also depends on the success of the others in supporting the community forest enterprises to achieve their particular goals, as well as the shared goal of economic development for poor communities in the region. ♦



## Bibliography

- BIOFOR/Chemonics International.** 2002. *Informe de asistencia técnica en servicio: planificación de aprovechamiento forestal y aserrío de 12 empresas forestales comunitarias, gestión 2003.*
- BIOFOR/Chemonics International.** 2003. *Informe de asistencia técnica en servicio: planificación de aprovechamiento forestal y aserrío de 12 empresas forestales comunitarias, gestión 2004.*
- Carrera, F., Stoian, D., Campos, J.J., Morales, J. & Pinelo, G.** 2006. Forest certification in Guatemala. In B. Cashore, F. Gale, E. Meidinger & D. Newsom, eds. *Confronting sustainability: forest certification in developing and transitioning countries*, pp. 363–406. New Haven, Connecticut, USA, Yale School of Forestry and Environmental Studies.
- FAO.** 2005. *Microfinance and forest-based small-scale enterprises.* FAO Forestry Paper No. 146. Rome.
- González, A. & Rosenberg, R.** 2006. *The state of microfinance – outreach, profitability, and poverty: findings from a database of 2600 microfinance institutions.* Washington, DC, USA, Consultative Group to Assist the Poor (CGAP).
- Ortiz, S.** 2002. *Comercialización de productos maderables en concesiones forestales comunitarias en Petén, Guatemala.* Serie Técnica, Informe No. 326. Turrialba, Costa Rica, Tropical Agricultural Research and Higher Education Center (CATIE).
- Rutherford, S.** 2000. *The poor and their money.* New Delhi, India, Oxford University Press.
- SmartWood.** 1999. *Resumen público de certificación de: Sociedad Civil Impulsores Suchitecos.* Melchor de Mencos, Guatemala.
- Stoian, D. & Rodas, A.** 2006. *Community forest enterprise development in Guatemala: a case study of Cooperativa Carmelita R.L.* Report in the ITTO–Forest Trends comparative study “Community-Based Forest Enterprises in Tropical Countries: Status and Potential”. Washington, DC, USA, Forest Trends.
- Superintendencia de Bancos de Guatemala.** 2004. Sistema Bancario Integración de la Cartera Vigente al 31 de Octubre de 2004. Guatemala City, Guatemala. ♦