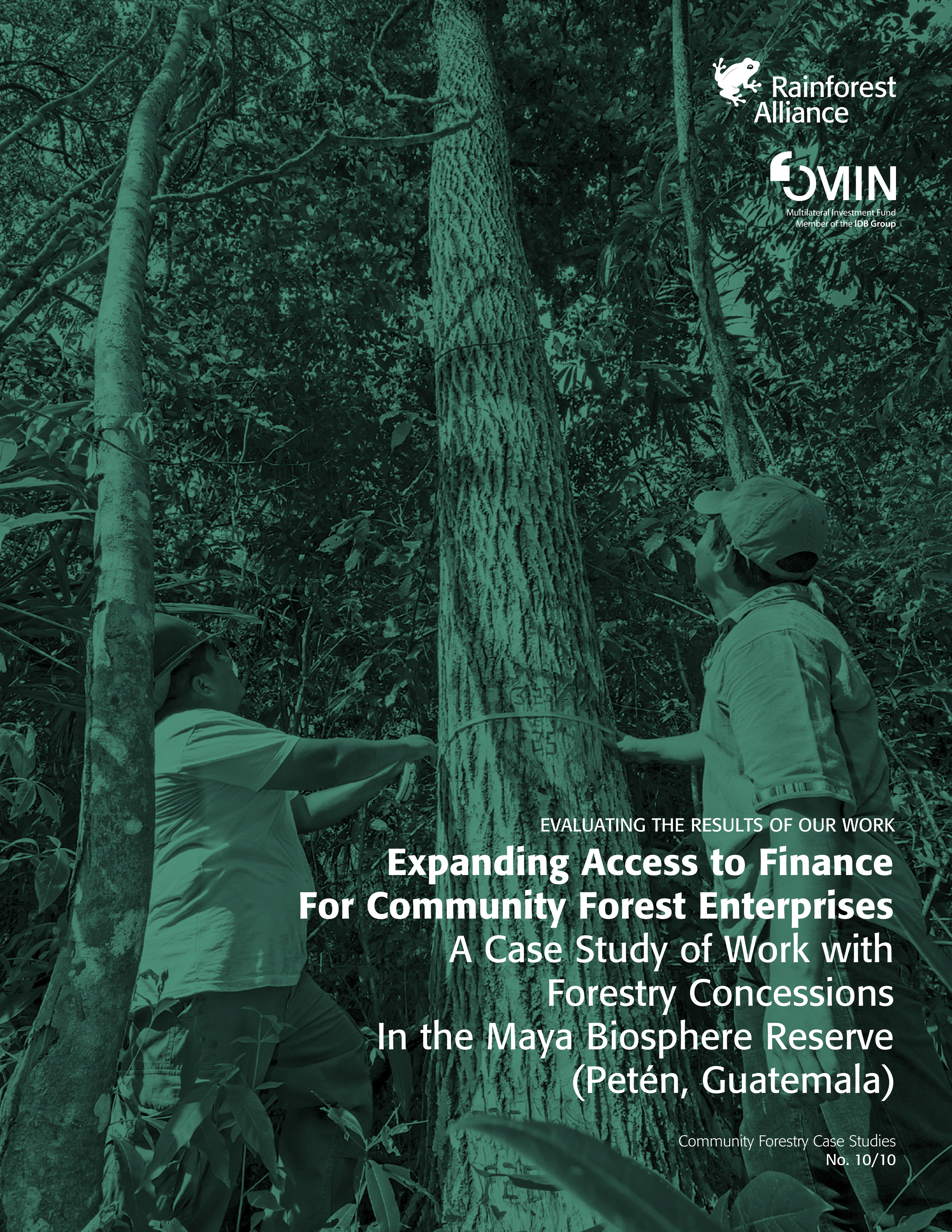

Rainforest Alliance

FOMIN
Multilateral Investment Fund
Member of the IDB Group

EVALUATING THE RESULTS OF OUR WORK

Expanding Access to Finance For Community Forest Enterprises

A Case Study of Work with Forestry Concessions In the Maya Biosphere Reserve (Petén, Guatemala)

Community Forestry Case Studies
No. 10/10

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Benjamin D. Hodgdon and Arno Loewenthal

Contents

The Multilateral Investment Fund (MIF), a member of the Inter-American Development Bank (IDB) Group, is the largest provider of technical assistance for private-sector development in Latin America and the Caribbean. Its core beneficiaries include micro and small businesses, small farms, and poor and vulnerable households. It designs and finances pilot projects to test pioneering approaches to building economic opportunity and decreasing poverty. www.fomin.org

The Rainforest Alliance works to conserve biodiversity and ensure sustainable livelihoods by transforming land-use practices, business practices and consumer behavior. www.rainforest-alliance.org

Acronyms

ACOFOP	Association of Petén Forest Communities
CFE	Community Forest Enterprise
FSC®	Forest Stewardship Council®
INAB	National Forest Institute
MBR	Maya Biosphere Reserve
MIF	Multilateral Investment Fund (member of Inter-American Development Bank Group)
NTFP	Non-timber forest product
PINFOR	Forestry Incentives Program
PINPEP	Forestry Incentives Program for Smallholders
USAID	United States Agency for International Development

PREFACE

Over the last two decades, countries across the tropics have devolved increasing authority over natural forests to local actors. The ability of those actors to manage forests sustainably and make forestry a competitive land-use choice has therefore taken on a growing importance. In response to this changing landscape, a range of efforts around the globe are supporting community-based forest management by working to improve the capacity of local people to manage their natural resources and develop local enterprise. In spite of the abundance of manuals, methodologies and other tools to guide technical assistance, there is a relative paucity of systematic analyses of the results of such efforts: experiences, lessons learned and recommendations for improving assistance to local forestry development.

This case study is one of 10 produced under "Forest Conservation through Certification, Markets and Strengthening of Small and Medium-sized Forest Enterprise," a five-year project supported by the Multilateral Investment Fund (MIF), a member of the Inter-American Development Bank (IDB) Group. Led by the Rainforest Alliance, the project involves approximately 100 community operations and small and medium-sized enterprises (SMEs) in Guatemala, Honduras, Mexico, Nicaragua and Peru. The project's central aim is to improve local livelihoods through sustainable forestry and enterprise development. Although the support needs, contexts and development levels of partner communities vary tremendously, the project's unifying strategy is to improve business capacities, market access and financial support for enterprise development in order to secure sustainable forest management and livelihood development.

The case studies in this series were carefully selected to cover all five countries where the project is active, and to reflect the full range of participants—from highly incipient community operations, to second-tier business alliances among multiple well-developed, certified enterprises. Special attention was also paid to ensuring representativeness with respect to forest ecosystems (temperate and tropical), tenure arrangement (permanent and concession) and production focus (timber and non-timber). In all of the studies, the impact of Rainforest Alliance technical assistance on enterprise development was analyzed, including a critical assessment of priorities for future assistance. Beyond enterprise-specific examples, two studies take a more thematic approach, analyzing experiences with markets for lesser-known species and financial mechanisms.

Taken together, the 10 studies support the growing body of research demonstrating that community-based production forestry can be an effective approach to conserving forest resources while also generating significant social and economic benefits for marginalized communities. At the same time, however, these studies tell a more nuanced story. The diversity of contexts and enterprises represented sheds light on the development of community forestry in its many forms—towards multiple and sometimes contested goals—while chronicling both successes and failures. As such, each case stands on its own to inform similar cases around the world, while also forming a part of the broader story this series tells about the variable trajectories of community forestry development.

Although a guiding goal of many projects—including the present one—is to achieve financial sustainability for community forest enterprise, the importance of external technical assistance in building local capacities is also clearly fundamental. However, the effectiveness of such assistance is not always optimal, which is why each case includes an assessment of the results of the Rainforest Alliance technical assistance that was received. In several cases, insufficient data and/or a lack of indicator consistency—not to mention confounding external factors (storms, market fluctuations, political upheaval and social conflict) and the absence of truly scientific controls—make it impossible with full confidence to attribute change solely to Rainforest Alliance support, especially given the active presence of other actors at all project sites. This caveat notwithstanding, it is clear that, in each case, project interventions produced concrete results. The studies aim to extract lessons from these results and recommend ways forward.

Finally, while the bulk of these studies have been prepared and published by staff of the Rainforest Alliance, they would not have been possible without the collaboration and dedicated efforts of many others including a host of government agencies, civil society partners, academic institutions and private sector actors. Above all, the communities themselves must be recognized and congratulated for the time that they invested in assisting with the compilation and review of these studies. All contributors are specifically acknowledged in each separate case study. Although the contributions of all of these actors are fundamental, the content of these studies is the sole responsibility of the Rainforest Alliance, except where other institutions have taken a co-publishing role.

The table on the following page presents a breakdown of the 10 case studies that were produced as part of this project.

Community forestry case studies

No.	Case Study	Location	Key Themes
1	Awas Tingni community	North Atlantic Autonomous Region, Nicaragua	• Indigenous community forestry • Incipient forest enterprise development • Social and institutional foundations for community forestry
2	Moskibatana non-timber forest product (NTFP) enterprise	Muskitia, Honduras	• Indigenous community forestry • NTFP management and Forest Stewardship Council® (FSC®) market development • Development of a new forest enterprise
3	Ejido El Largo	Chihuahua, Mexico	• Integrated forestry development planning • Community forest enterprise competitiveness
4	CAIFUL agroforestry cooperative	Río Plátano Biosphere Reserve, Honduras	• Local forest enterprise development • Benefits of forest enterprise at the community scale
5	Analysis of forest management in community concessions	Maya Biosphere Reserve, Guatemala	• Impacts of certified community forestry silvicultural and management systems • Investments by community enterprises in conservation and monitoring
6	Brazil nut production and enterprise	Madre de Dios, Peru	• NTFP enterprise development • Financial and administrative capacity building
7	TIP Muebles	Oaxaca, Mexico	• Commercial cooperation among community forest enterprises • Furniture value chain development
8	Tres Islas native community	Madre de Dios, Peru	• Indigenous community forestry • Landscape approach • Incipient forest enterprise development
9	Building markets for lesser-known species	Maya Biosphere Reserve, Guatemala	• Development of new markets for lesser-utilized commercial timber species • Diversification of a second-tier community forestry business model
10	Financial mechanisms for community forest enterprises	Regional	• Design, operation and impacts of mechanisms to increase forestry producer access to credit

Expanding Access to Finance For Community Forest Enterprises

Lack of access to credit has been a historic obstacle for the development of community forest enterprises

Photo by Sergio Izquierdo

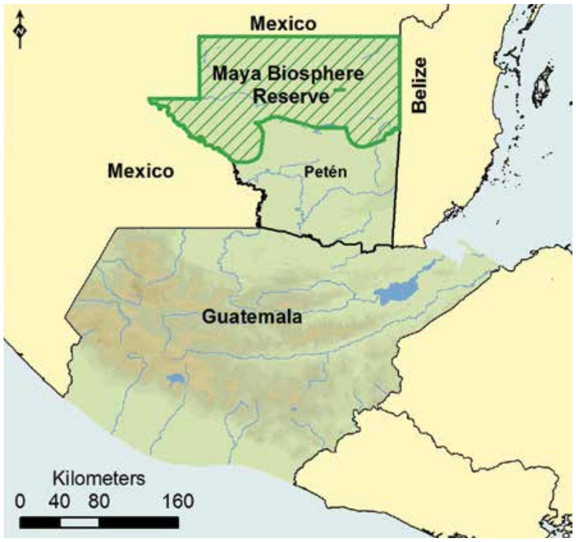
Lack of access to finance is widely cited as a critical bottleneck to improving the competitiveness of community forest enterprises (CFEs). Having capital on hand beyond the rather small savings that most CFEs have is essential to cover annual planning and harvesting expenses, as well as in order to invest in new infrastructure and grow. Typically, financing for CFE operations comes from two or three places: buyer advances, and development aid and/or government subsidy. Buyer advances are notorious for landing CFEs in disadvantageous commercial relationships, hamstringing their ability to turn a profit and invest in enterprise development. While government support and development aid are recognized as fundamental to CFE establishment and early growth, an overreliance on them limits entrepreneurial vision and the prospects for self-sustaining enterprise.

CFE access to credits from financial institutions has historically been limited. Several reasons are usually cited for this. Private banks in particular are reticent to make loans to the forestry sector in general, especially in the tropics, where risks are seen as unacceptably high. Community-run forest enterprises are seen as even more risky, given their complicated systems of governance, lack of collateral, weak administrative capacity and limited experience with credit. On the community side, moreover, there is often considerable aversion to taking on the risk inherent in accessing credit, a dearth of opportunities for loans that are tailored to CFE needs, and competing interests for the use of finance. Taken together, these factors have hindered the creation and uptake of credit mechanisms for CFE development.

In response to these barriers, the Rainforest Alliance has been working in multiple countries with a diversity of partners to structure financial mechanisms specifically for CFEs, and then to support communities to apply for and effectively execute credits. This case study documents the experience doing so in Guatemala, working with CFEs in the Maya Biosphere Reserve (MBR). With support from a previous MIF project, a new line of credit was created with a Guatemalan bank called FIDOSA, specifically targeting forestry producers. Support from the current MIF project allowed Rainforest Alliance to work with CFE partners to access and manage those credits. This work was undertaken in close partnership with the *Asociación de Comunidades Forestales de Petén* (ACOFOP), and had additional support from USAID.

The central finding of this case study is that CFEs can successfully apply for, execute and repay credits, provided they are supported to make foundational improvements in the areas of legal compliance, transparency, accounting systems and overall financial administration. Since demonstrating compliance in such areas is a requirement of financial institutions, applying for loans can catalyze fundamental change in CFE administration, motivating leadership

Map 1
Location of the Maya Biosphere Reserve, in Guatemala's Petén department



Capital is critical for sustainable forestry and enterprise operations
Photo by Sergio Izquierdo

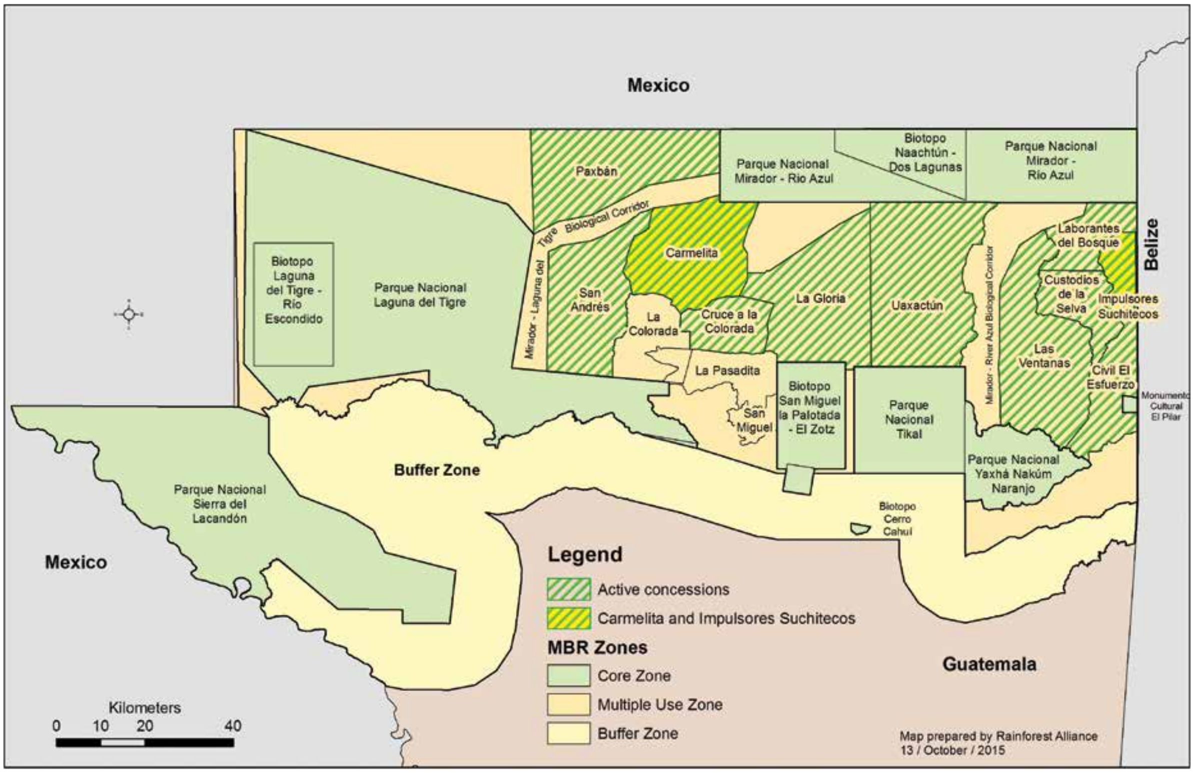
to invest in key areas like financial planning, bookkeeping and administrative control. Moreover, successful execution and repayment of loans opens the door to even greater opportunities for credit and further investment in CFE growth.

Taking the case of two CFEs that Rainforest Alliance partnered with in the MBR – Carmelita and Impulsores Suchitecos – this case study finds specifically that:

- Together with the MIF and a Guatemalan private bank, a US $3.5 million financial mechanism was created, specifically geared towards rural forestry producers.
- This line of credit specifically responds to critical barriers to CFE access to finance, including the inclusion of a wider range of assets to be eligible as a guarantee, longer time horizons for loans, and a relatively low fixed interest rate.
- To date, US $1,575,000 in finance has been loaned to 5 CFEs in the MBR
- Carmelita accessed a loan for US $250,000 for working capital needs in 2012, which was successfully executed and repaid in 2014; in 2015, a new loan for the same amount was granted.
- Impulsores Suchitecos accessed US $250,000 in 2011 and US $225,000 in 2012; based on solid performance the CFE has a new loan in the amount of US $350,000 now approved.
- During the report period, monitoring of progress per enterprise performance indicators revealed significant improvements in both CFEs, particularly in the areas of legal compliance, internal controls and accounting, all the result of technical assistance from Rainforest Alliance and partners.

While these achievements constitute important advances – and indeed have already significantly expanded the visibility of the sector with financial institutions in the country – several areas for expanded effort remain, including:

- Technical assistance for financial competency needs to be continual and should be deepened with all the CFEs operating in the MBR; in particular, the tools that were developed with ACOFOP for training in accounting, financial administration and credit negotiation for forest enterprises should be implemented again in all the CFEs.
- Greater harmonization should be achieved between efforts to improve access and management of credits with the improvement of market-oriented business competencies and administrative skills that the CFEs need to develop.
- CFE administrations need to develop more systematic ways to communicate information to their members, especially regarding financial issues, so that they can make better-informed decisions.
- More needs to be invested in ensuring that CFE accounting systems generate data that can be fed into real-time decision making, and to integrate cash flows into periodic budgeting and forecasting.
- The division of administrative, financial and operational management duties between the CFE's elected boards of directors and professional managers should be better clarified, in order to reduce the risk of duplication of efforts, arbitrary decisions by community leaders and other potential problems.



Map 2
The Maya Biosphere Reserve (MBR) with the concessions managed by the two CFEs featured in this study highlighted in yellow

Introduction

Covering close to 2.1 million hectares, Guatemala's Maya Biosphere Reserve (MBR) is the largest protected area in Central America and home to around 180,000 people, as well as globally important biodiversity and cultural heritage. Established in 1990, the reserve is also the site of an internationally significant example of multiple-use forest management with the twin aims of conservation and social development.

The MBR is divided into three different zones allowing for varying degrees of resource management: (1) the Core Zone (36 percent of the reserve), consisting of national parks and biotopos, allowing only for scientific research and tourism; (2) the Multiple-Use Zone (40 percent), in which low-impact natural resource management activities are permitted; and (3) the Buffer Zone (24 percent), a 15-kilometer band along the southern border of the MBR, where a range of land management activities, including agriculture, are allowed.

In the Multiple-Use Zone, the Guatemalan government granted usufruct rights to 12 community organizations and two private industrial firms to manage concessions for timber and non-timber forest products. The first concession was granted in 1994. Over the following eight years, 11 more community concessions were approved, as well two industrial concessions run by private-sector firms. The bulk of these were awarded in the late 1990s and early 2000s. Map 2 and Table 1 show a breakdown of approved forest management units in the MBR, as well as their status.

Since their establishment, the concessions have received considerable external support. In the early years after concession agreements were signed, the focus was on forest management and operations. Over the last 10 years, increasing investments have been made in improving the competitiveness of community enterprises. This is the area where Rainforest Alliance – along with other organizations – has focused its assistance, with support from USAID and the MIF, among others.

A worker debarks a log in the Carmelita timber yard
Photo by David Dudenhoefer

Table 1
Community organizations and private companies with concessions in the MBR and the amount of forest each manages (see Map 2)

Community and Industrial Concessions in the Multiple-Use Zone

Community Concessions

No.	Management body	Concession name	Area (Ha)
1	A. de P. San Miguel la Palotada*	San Miguel	7,039
2	A. de P. La Pasadita*	La Pasadita	18,817
3	Cooperativa Carmelita, R.L.	Carmelita	53,797
4	S.C. Impulsores Suchitecos	Río Chanchic	12,218
5	S.C. Laborantes del Bosque	Chosquitán	19,390
6	S.C. Organización Manejo y Conservación (OMYC)	Uaxactún	83,558
7	Asociación Forestal Integral San Andrés, Petén (AFISAP)	San Andrés	51,940
8	S.C. Árbol Verde	Las Ventanas	64,973
9	Asociación Forestal Integral La Colorada (AFIC)*	La Colorada	22,067
10	Asociación Forestal Integral Cruce a La Colorada (AFICC)	Cruce a La Colorada	20,469
11	S.C. Custodios de la Selva	La Unión	21,176
12	S.C. El Esfuerzo	Yaloch	25,386
	Subtotal – Community concessions		400,830
	Industrial concessions		
1	Baren Comercial Ltda.	Gibor, S.A.	66,460
2	La Gloria	Paxbán	65,755
	Subtotal – Industrial concessions		132,215
	Total forestry concessions		**533,045**

A. de P. = *Asociación de Producción*; S.C. = *Sociedad Civil*; R.L. = *Responsabilidad Limitada*
*Concession cancelled

One of the issues that has long been recognized as a key obstacle to improved CFE competitiveness is lack of access to finance. This case study examines work undertaken by the Rainforest Alliance (with support from a previous project funded the MIF), the Guatemalan government and a private bank to structure a new financial mechanism specifically for CFEs and small forest enterprises. It then analyzes the technical work supported by the present MIF project to assist two CFEs in the MBR to access and execute credits via this mechanism. These two CFEs are Carmelita, a forest management cooperative operated by a community that resides in the heart of the MBR, and Impulsores Suchitecos, an association of people who reside in several communities in the MBR buffer zone managing a concession located in the eastern part of the reserve.

The Need for Finance and Barriers to CFE Access to Credit

Capital is critical for sustainable forestry and enterprise operations. At every level, CFEs need investment: from forest management (inventory, mapping, road construction, operational plans, forest harvesting, monitoring, etc.), to value-added processing (sawmills, kilns, carpentry equipment, etc.) and enterprise administration and marketing (staff, sales, travel and communications, etc.).
As elsewhere in the tropics, capital for CFE development in the MBR has traditionally come principally from two sources: technical assistance subsidy and buyer advances.

Even though CFEs in the MBR have benefited from significant technical assistance since their founding, and even though most are selling wood into markets with often robust demand, most if not all CFEs struggled for many years to turn a profit. To be profitable, they need to reinvest. But reinvestment by CFEs in their own operations is often constrained by their multi-objective management focus. For example, while CFE management may wish to reinvest profits in enterprise development, there is typically heavy pressure to maximize dividend payouts to individuals. Where reinvestment priorities, moreover, might dictate efficiency measures, leadership often wants to maximize employment opportunities for the community.

This has led to a tendency to over-staff operations (driving up the costs of production) and to under-invest in new machinery (which cuts into dividends) or mechanization (which is perceived to eliminate jobs). Evidence from CFEs elsewhere, however, shows that while new investments do eliminate low-pay, low-skill and low-production positions, moving up the value chain allows a CFE to place the same workers into higher paying, value-added activities. Additionally, more women tend to find employment in value-added jobs.

Similarly, pressure on CFEs to pay for social services, events, schools, infrastructure and other support to the community can exhaust cash reserves by the end of the year and puts a premium on rapid cash turnover. For years, this dynamic left many CFEs in a situation where they lacked working capital from year to year. Faced with this, CFEs would forward sell a part of their expected volume production to buyers and/or brokers who advanced cash in exchange for fixed wood prices. Under such arrangements, wood is typically sold on the stump ahead of annual operations to agents that then dictate the terms of sale. In several cases in the past, this led to a situation over time where CFEs were left in a significant debt trap, hamstringing their ability to develop their enterprise.

In this context, increasing access to credit – for working capital and for investment in forest operations and value-added equipment – has long been identified as a key need for CFEs to develop their businesses. Like most CFEs the world over, however, the community organizations managing concessions in the MBR traditionally had a dearth of credit options beyond buyer advances, particularly ones that involved private banks. For years, their only options were two subsidy programs funded by the Guatemalan Government and executed and monitored by the National Forest Institute (INAB by its name in Spanish): the Forestry Incentives Program (PINFOR) and a comparable forestry incentives program geared towards for smallholders with land that is appropriate for forestry or agroforestry development (PINPEP).

There are three underlying and interrelated barriers that obstruct CFE access to finance from sources beyond state agencies and buyers: (i) bank and private sector hesitance to partner with the forestry sector in general, and with community managed operations in particular, which they view as high risk; (ii) community lack of experience with applying for and managing loans, and; (iii) poor CFE management of cash flow due to weak administrative capacity, lack of business planning,

Board production at the Carmelita sawmill

Photo by David Dudenhoefer

CFEs need plenty of working capital for the timber harvest
Photo by Sergio Izquierdo

and the short-term priorities of communities.

On the CFE side, various obstacles have been identified by communities that they see as underlying their lack of access to credit. These include:

- Guarantees. Loan agencies require guarantees that CFEs typically can't provide, since community enterprises usually lack the kinds of assets that financial institutions require as collateral. Standing timber and projected harvests via approved management plans have not traditionally been considered as acceptable guarantees. Many CFE leaders believe that timber alone short-sells the host of assets the forest holds for the public at large (e.g. carbon).

- Interest rates. Variable interest rates pose high risks. Loan offers that CFEs have experience with do not have fixed interest rates, and there is a perception of a "bait and switch" approach, where the financial institution offers a low interest rate to start, and then raises the rate later to garner their return.

- Time horizons. CFEs perceive the time horizons of available loans to be too short given the nature of the forestry business, especially for investments in infrastructure and value-added equipment.

- Risk aversion. Although CFE leadership may see advantages to applying for credits, community members in general have little appetite for risk, particularly in an environment where technical assistance and subsidies are available, and where buyers are ready to give advances. Many CFE leaders have reported that it is difficult to sell the idea of applying for a loan to their community assemblies, which are the maximum decision making authority in community concessions.

- Competing needs for cash. Even were the assembly to approve applying for a loan and the credit be granted, CFE representatives often see risks due to social pressures and wider community priorities. That is, given the way CFEs are governance, the use of loans could be subjected to the near-term priorities of the community, and may ultimately be put towards ends unrelated to the financing agreement, creating risk for the CFE.

In recognition and response to these barriers, the Rainforest Alliance worked within a previous MIF project to structure new financial mechanisms specifically geared towards CFEs. With support from the present MIF project, work proceeded to provide technical assistance in an array of areas to help CFEs administer loans efficiently, improve the profitability of their enterprises, and make better use of their forest resources.

The Financial Mechanism

The initiative described in this case study builds upon the accomplishment of a prior MIF-funded Rainforest Alliance effort to help small rural enterprises gain access to credit from private banks. This project – called the Social Enterprise Program (GU-S1015) – was launched at the start of 2009. Under it, the MIF, Rainforest Alliance, the Guatemalan government and the Guatemalan bank Financiera del Occidente, S.A. (FIDOSA) created a fund specifically designed for CFEs. Component I of the project included reimbursable funding with the goal of financing, through FIDOSA, the needs of 72 small rural forest enterprises in the Guatemalan departments of Petén, Alta Verapaz, Baja Verapaz and Izabal to establish and manage tree plantations, and to manage, process and market forest products from natural forests.

Two types of credit lines were established:

- Loans of US $2,500 to US $250,000 for medium and long-term investments (5-7 years);

- Loans of US $2,500 to US $250,000 for working capital, for up to 60 months, depending on the extent of areas under sustainable forest management.

To create the fund, a loan agreement between the IDB and FIDOSA was signed for a total of US $3.5 million, 8 percent of which was contributed by the IDB and 15 percent by FIDOSA. The Rainforest Alliance received support under the project in order to deliver technical assistance to target CFEs.

The mechanism had several credit lines targeting different types of forestry operations throughout the country. Specifically with respect to the CFEs managing concessions in the MBR, credits were designed to finance (i) working capital needs for annual operations, and (ii) acquisition of infrastructure and value-added processing equipment.

Annually renewable lines of credit (fixed in USD) have an interest rate of 10. percent, to which a disbursement fee of 0.5 percent is added when the buyer deposits payment into a FIDOSA account, and an additional 0.5 percent if the buyer makes a payment deposit directly into the account of one of the concessions. Guarantees required for the CFE to access the credit are variable. They are summarized in Table 2.

Structuring of the mechanism was done in response to a series of barriers in access to credit identified above. Firstly, the credit line was made available for one of the key needs of CFEs typically not covered as part of loan deals: working capital. Secondly, the interest rate was fixed at a relatively low level (accessing a loan directly from a commercial bank would incur much higher rates, on the order of 25-35 percent). Thirdly, a purchase order for wood – essentially valuing standing timber and a harvest permit as collateral – was made eligible as a guarantee. Finally, the time horizon is of a length more appropriate for forestry operations, and the interest rates are fixed.

As much as structuring the financial mechanism was a critical step forward to increasing CFE competitiveness, improving the capacity of the CFEs themselves to plan for and execute credits was recognized as equally fundamental. Ultimately, the CFEs would need to be capable of ensuring that the loans performed and benefited enterprise development. To ensure this, capacity building in all areas of enterprise administration would be necessary. This was the area where Rainforest Alliance focused its technical assistance with support from the present MIF project.

Rainforest Alliance Technical Assistance

Although community forestry in the MBR has had significant levels of support since the establishment of the concession model over 15 years ago, there are still considerable weaknesses among most CFEs. Many suffer from a general paucity of systematic bookkeeping and administrative control, rendering their leadership unable to identify investment needs, opportunities and problems. In order to effectively plan for and execute credits, such capacities need to be developed.

Improving technical capacities in these and other areas of enterprise administration guided the Rainforest Alliance's approach to assistance under the MIF project. Over a five-year period, 2010-2015, the Rainforest Alliance worked with all nine of the active community concessions in the MBR, focused on a range of issues identified by the CFEs

Table 2
Conditions and guarantees for MBR CFEs to access credits

Credit Line	Annual Interest Rate	Term	Guarantees Required
Revolving Line of Credit for Working Capital Needs of MBR Concessions for Forest Harvesting	10.5% plus fee (0.5% or 1%)	3 years maximum; 60 months for working capital loans	• Fiduciary guarantee of the concessionaire organization. • Purchase order and contract with the buyer of the wood. • Payment retention agreement between concessionaires, the buyer and FIDOSA. Relaxed in 2015 with an increase of 0.5% commission if deposits are not made into FIDOSA accounts. • Pledge bond, enabling bonded warehouses to hold wood until FIDOSA issues a document of consent for its shipment. Hasn't been used in practice. • Mortgage guarantee or combination of the options above.

themselves as fundamental for enterprise growth and competitiveness. The specific themes of technical assistance were:

- Auto-diagnostic baseline setting
- Enterprise improvement plans
- Environmental impact mitigation
- Wood processing yield efficiencies
- Business planning
- Marketing strategy
- Access to finance
- Business administration training
- Enterprise governance and bylaw compliance
- Transparency and internal decision making processes

During the period of analysis (2010-2014), 111 events (trainings and workshops) were held with the nine CFEs active in the MBR, including 535 participants. A range of such technical assistance focused specifically on growing capacities among CFEs to access and execute finance. To achieve the improvements in CFE business skills, the Rainforest Alliance provided technical assistance in an array of areas.

A key approach used in monitoring progress towards improved CFE capacities was the application of the Rainforest Alliance's auto-diagnostic tool, called ADORE. ADORE allows an organization's leadership to conduct internal assessments of their enterprise's level of business development and its performance in different areas, in order to identify weaknesses, plan actions to correct them, and measure improvement over time. Applied in a majority of the Latin American community operations that the Rainforest Alliance supported under the MIF project, the tool helps to track enterprise development in the following key areas:

- Legal compliance
- Participation
- Administrative capacities
- Tax issues
- Financial management and accounting
- Value-added production and marketing
- Credit
- Finance
- Solvency

Timber harvest in Carmelita

Photo by Sergio Izquierdo

By evaluating development according to a range of indicators and scoring performance against defined benchmarks, enterprises obtain a detailed qualitative and quantitative picture of their current operations. ADORE indicates areas where improvement is necessary, which helps with prioritizing internal efforts and external support. Once trained in the application of the tool, enterprises can use it to track their own progress over time.

The remainder of the case study focuses on the experience of two of the nine CFEs in the MBR that received Rainforest Alliance assistance under this MIF project to execute credits. They were selected due to their representativeness of the diversity of CFEs in the MBR. The first is Carmelita, a community that resides within its concession, located in the heart of the MBR, and has a relatively long forest-based history (100+ years). Nevertheless, over the years, Carmelita has struggled to attain enterprise efficiency and profitably.

The other CFE, Impulsores Suchitecos, is an enterprise run by people who are relatively recent migrants to the Petén living in a number of communities located in the MBR buffer zone. The Impulsores Suchitecos CFE manages a concession in the eastern portion of the MBR, and the enterprise has been one of the more profitable among all MBR enterprises over the last decade.

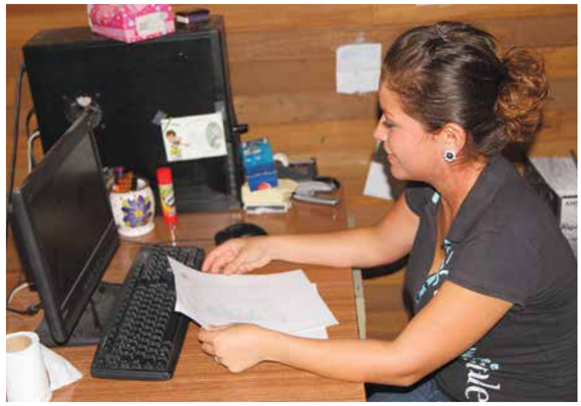
Results of Technical Assistance

Baseline setting in both Carmelita and Impulsores Suchitecos was undertaken with enterprise leadership in 2011. In 2013, the ADORE was applied again in by the leaders of Impulsores Suchitecos. In Carmelita, a second round was completed in 2014. Results from these exercises are summarized in Tables 3 and 4.

Change with respect to ADORE indicators in both CFEs is summarized below:

Legal compliance: Both CFEs made significant improvements in their legal compliance, especially Suchitecos, which is now completely up to date and compliant with all legal requirements. Carmelita achieved a lower score in this area above all because the community itself is the sole possessor of the concession contract, rights over which have never been transferred to the cooperative managing the CFE. This hinders the ability of Carmelita to access credits, since financial institutions typically only make loans to legally registered enterprises.

Participation: A high level of well-informed participation by the people who collectively hold a concession is essential for institutional strength and legitimacy of the CFE. Both Suchitecos and Carmelita have improved performance in this area, specifically as a result of applying for and executing credits. In the case of Carmelita, since the community assembly must ultimately sign off on the loan, the process of planning for credit application and then managing a loan has catalyzed more proactive, regular and detailed information sharing by the CFE with the community at large. Nevertheless, given the number of members and heterogeneity in their educational levels, both CFEs need to develop better ways to communicate information to their members and the wider community, especially regarding financial issues,



The CFE's significantly improved their administrative capacities

Photo by David Dudenhoefer

Table 3
Results of ADORE assessments completed by Impulsores Suchitecos in 2011 and 2013

Impulsores Suchitecos ADORE Results

No.	Category	2011	2013
1	Legal compliance	67%	100%
2	Participation	62%	100%
3	Administrative capacities	37%	70%
4	Tax issues	43%	78%
5	Accounting	50%	88%
6	Production and marketing	37%	50%
7	Credit	23%	77%
8	Finance	53%	53%
9	Solvency	67%	100%
	General Average	**49%**	**80%**

Table 4
Results of ADORE assessments completed by Carmelita Cooperative in 2011 and 2014

Carmelita Cooperative ADORE Results

No.	Category	2011	2014
1	Legal compliance	15%	68%
2	Participation	30%	67%
3	Administrative capacities	15%	57%
4	Tax issues	3%	63%
5	Accounting	12%	72%
6	Production and marketing	0%	62%
7	Credit	0%	50%
8	Finance	0%	60%
9	Solvency	13%	57%
	General Average	**10%**	**62%**

The Carmelita Cooperative upgraded its sawmill, which improved processing efficiency by 20 percent

Photo by David Dudenhoefer

so that they can make better-informed decisions.

Administrative capacities: A key weakness of many CFEs is a lack of administrative control, hindering capacity to understand the overall financial health and needs of the enterprise. Without up to date and accurate information on enterprise performance, there can be no informed decision making about credit needs, nor the internal capacity to execute, monitor and pay back loans. Significant improvements were made in this area in both CFEs during the period – thanks to a round of trainings undertaken by the Rainforest Alliance and ACOFOP. In both CFEs, there were important advances, above all in the way that human resource issues are integrated in financial planning and internal reporting, allowing for a more accurate picture of enterprise expenses and performance. A key area for continual improvement, however, is in the division of administrative control duties between enterprise professionals and CFE governing boards. This issue is of particular importance given that financial institutions need a single point of contact – in either the CFE or the community – who must understand the full range of CFE administrative issues.

Tax issues: All the organizations responsible for the management of the forestry concessions in the MBR must be registered with the Superintendencia de Administración Tributaria (SAT), the tax authority in Guatemala. Both Carmelita and Suchitecos are registered, but both have been fined in the past for non-compliance with tax liability. Such a history has a negative effect on CFE ability to access credit, since financial institutions will not lend to CFEs with outstanding unpaid taxes. In both CFEs during the reporting period, but particularly in Carmelita, significant progress was made in ensuring that all back taxes were paid and that systems were put in place to allow for timely payment of future taxes levied.

Financial management and accounting: Both CFEs have had access to training in bookkeeping and computerized accounting systems for several years. The infrastructure and capacity itself has thus not hindered performance in this area, but rather the accuracy and veracity of the information in the system. For example, in the case of Carmelita, an endemic practice of making loans of advanced finance to community members for personal use had become entrenched. In several cases such loans collectively amounted to more than US $250,000, carried very high interest rates, and were generating conflicts in the community. These loans were not documented or approved by the enterprise or the community assembly, and created significant financial risk. Since they were not reflected in the CFE's accounting system, the enterprise's financial status was distorted. Through a series of interventions with ACOFOP, CONAP and other authorities, Rainforest Alliance helped Carmelita to reverse this trend and ensure that accounting gives a truer picture of enterprise finance issues. In both CFEs, however, improvements to the timeliness of entry and regularity of analysis will be necessary for financial information to be used optimally.

Value-added production and marketing: CFEs in the MBR in general face several deficiencies with respect to value-added capacity and marketing of their own forest products. In both Carmelita and Suchitecos, outdated and insufficient infrastructure hinder efficiency and the lack of value-added equipment hamstrings the ability of the CFE to develop new markets. Cooperation with the second-tier business FORESCOM (profiled in Case Study #9 of this series) is increasingly helping CFEs to access better markets, but value-added capacity within the CFEs themselves remains an issue. Finance accessed with FIDOSA has been limited to working capital needs. Over time, with better credit history, increased CFE capacity in multiple areas, and long range investment plans, finance for value-added infrastructure will become a priority at the level of individual CFEs. In Carmelita, a tremendous improvement was seen in this area, above all due to the upgrading of its sawmill, which improved processing efficiency by 20 percent. In both CFEs, moreover, the partnership with FORESCOM significantly expanded access to value-added markets for lesser-known species.

Credit: At the outset of technical assistance, there was very little experience in accessing credit. In Suchitecos, some of the capacity was installed due a previous experience with finance, but in Carmelita, there was no experience, nor was there an understanding from the enterprise side or among the assembly about the process, potential benefits and risks. Technical assistance by Rainforest Alliance delivered trainings on these issues, ensured transparent discussion and approval of the application process, as well as the articulation of a plan for loan execution and payback. Along with training and administrative control and accounting, the capacity of CFEs to access and execute finance has been significantly improved in both Carmelita and Suchitecos. More on results in this is included below.

Finance: This indicator is concerned with the financial needs of the CFE for its growth per business development plans, and the access to finance it currently has to fill those needs. In Suchitecos, the situation did not change, since the core areas for growth identified by Suchitecos during the report period have to do with improving technology and infrastructure for value-added processing, and finance accessed was for working capital needs. In Carmelita, a major improvement was seen, since the lack of working capital was long the key bottleneck to achieving greater enterprise competitiveness.

Solvency: This area amounts to one of the core achievements of technical assistance under the MIF supported project. In the context of the ADORE tool, solvency refers to the overall profitability of the CFE, as well as practices undertaken to hold portions of profits in reserve, and additionally to have systems in place for the control of cash flow. To the extent that all three are virtual requirements for accessing credit, the experience of applying for and building internal capacity to manage loans has significantly improved performance in both CFEs. The loans themselves, moreover, helped to tip the balance towards greater solvency, particularly in the case of Carmelita, where a chronic shortage of working capital had created a series of cascading problems for the enterprise.

Loan placement, execution and performance

In this section, a review of the loans themselves and execution of CFEs is presented. Placement of loans by the financial mechanism described above didn't begin in 2011, due to delays in the formulation and design of the financial product.

By improving their business operations, CFEs can strengthen sustainable forest management
Photo by Sergio Izquierdo

Table 5
Execution of FIDOSA credit line as of June 2015

Execution of FIDOSA Credit Fund as of June 2015				
Component	**Funds**	**Budget (US$)**	**Implemented (US$)**	**Balance avail. (US$)**
Reimbursable Funding	IDB	850,000	306,250	543,750
	FIDOSA	2,550,000	1,268,750	1,631,250
	Total	**3,400,000**	**1,575,000**	**2,175,000**
	Percentage	42.6%	59.4%	

Table 6
Loans made to forestry concessions by FIDOSA as of May 2015

Loans to MBR CFEs as of May 2015			
Organization name	**Total disbursement**	**FIDOSA contribution (75%)**	**IDB contribution (25%)**
Impulsores Suchitecos	475,000	356,250	118,750
CUSTOSEL	350,000	262,500	87,500
Carmelita	500,000	375,500	125,000
El Esfuerzo	150,000	112,500	37,500
AFISAP	100,000	75,000	25,000
Portfolio total placed	**1,575,000**	**1,181,750**	**393,750**

Most Carmelita residents make their living from the forest
Photo by David Dudenhoefer

However, once the mechanism began functioning, the pace of loan placement was quick. As of June 2015, 42.6 percent of the reimbursable funds had been loaned (US $393,750 from IDB and US $1,181,750 from FIDOSA).

Since the credit line was established, FIDOSA has managed to loan nearly half of the budgeted portfolio. Distribution of the loans granted is shown in the Table 6, with the two concession holders covered by this case study highlighted in green.

As noted above, Carmelita has accessed US $500,000 in finance to date, all for working capital needs. These funds were accessed in two tranches. The first was a loan of US $250,000 for the 2012-2013 harvest season, which was paid back in full in accordance with the terms of FIDOSA. Upon repayment, Carmelita requested a second loan in 2015 for another US $250,000, which was approved and disbursed. This loan was active at the time of writing.

Impulsores Suchitecos has also taken out two loans to date, one for US $250,000 for the 2011-2012 timber harvest and another for US $225,000 for the 2012-2013 timber harvest. Both loans were repaid in full under the agreed terms. In 2014, the CFE requested a new loan for US$350,000, which was higher than the initial approved limit. That loan was approved, but disbursement was withheld due to the bank's policy that the wood buyer deposit payment into a FIDOSA account rather than the CFE's account, which the buyer refused to do.

However, following negotiations facilitated by the Rainforest Alliance in March 2015, FIDOSA agreed to alter this requirement for loans, making it possible for buyers to make deposit payments into the accounts of the CFEs rather than FIDOSA

Sustainable forest management contributes to the conservation of the Maya Biosphere Reserve
Photo by Sergio Izquierdo

accounts. Since this implies an additional risk for FIDOSA, however, a 0.5 percent increase in the disbursement fee was approved. This has made it possible for Suchitecos to resubmit its loan request and documentation and to achieve a line of credit of US $350,000 for 2015.

Conclusions and Recommendations

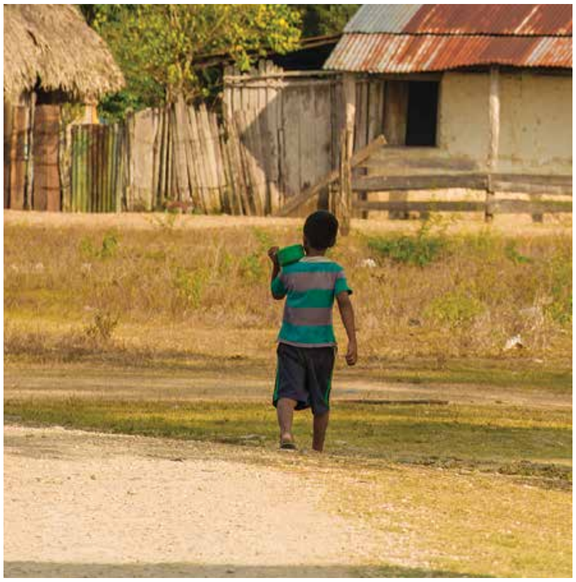
Based on the findings of this case study the following conclusions can be advanced:

- It is possible to structure loan mechanisms specifically geared towards CFEs, which are particularly effective when they combine public monies with development aid and funds from the banking sector, and when they include technical assistance as part of the financing arrangement.
- Financial institution requirements for accurate and up-to-date accounting and financial information has led CFE leadership to invest more effort in these critical areas, catalyzing broad improvements to CFE administration.
- In the same vein, compliance with legal requirements and tax liability has been improved, since they are also essential preconditions for accessing credit from any formal financial institution.
- Likewise the requirement of sign-off from community governing bodies on loan packages has motivated better compliance with internal bylaws regarding participation and transparency.
- With dedicated technical support, both Suchitecos and Carmelita CFEs have attained higher levels of enterprise performance – particularly in the areas of participation, accounting and solvency – and have proven capable of accessing, executing and faithfully repaying loans.
- The performance of these loans has also increased the visibility of the forestry sector among financial institutions in the sector.

While important progress has been made to date, several areas stand out for continual improvement in the area of CFE access to finance:

- Technical assistance for financial competency needs to be continual and should be deepened with all the CFEs operating in the MBR; in particular, the tools that were developed with ACOFOP for training in accounting, financial administration and credit negotiation for forest enterprises should be implemented again in all the CFEs.
- Greater harmonization should be achieved between efforts to improve access and management of credits with the improvement of market-oriented business competencies and administrative skills that the CFEs need to develop.
- CFE administrations need to develop more

Improvements to enterprise performance set the stage for a bright future in the MBR's forest communities.
Photo by Sergio Izquierdo



systematic ways to communicate information to their members, especially regarding financial issues, so that they can make better-informed decisions.

- More needs to be invested in ensuring that CFE accounting systems generate data that can be fed into real-time decision making, and to integrate cash flows into periodic budgeting and forecasting.

- The division of administrative, financial and operational management duties between the CFE's elected boards of directors and professional managers should be better clarified, in order to reduce the risk of duplication of efforts, arbitrary decisions by community leaders and other potential problems.

ANNEX I

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ANNEX II

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