MSMEs in the Forest Sector: Approaches to Promoting access to finance

Questions and Answers

1. Why is FND’s forestry portfolio reducing? [you mentioned that it is only going down in percentage terms but slide 10 shows that between 2015 and 2018 the portfolio has reduced from around $26 million to $19 million]

The total amount has been reduced due to the increase in total projects requiring lower amounts of financing. In 2017 the total number of projects financed by FND were 517. In 2018, 493 forestry projects were added to FND’s forestry credit portfolio. The average amount granted for these projects was USD$37.9K (vs. the previous average, for the period 2015-2017, of USD$128.8K).

In conclusion, the forestry financing granted by FND has been refocused in servicing more projects, instead of servicing less requiring larger sums of capital.

2. How is FONAFOR funded and what does it do (offer finance, guarantees, interest subsidies)? [in case you have this information available it may be useful to explain how the other funds (FONAFOR, CDI, FOGABID) you refer to in your presentation are funded]

FONAFOR is funded with resources from CONAFOR (Mexico’s National Forestry Commission) with the objective of inducing financing for Commercial Forestry Plantations projects, as well as primary production, exploitation, transformation and commercialization of forest products linked to commercial forestry.

FONAFOR provides credit guarantees to forest producers (both individuals and corporations) and provides a grace period for the payment of interest and principal during the first years of the project, when the cash flow does not allow the producer to cover these payments. These guarantees also allow the producers to access lower interest rates.

3. Do MSMEs in the forest sector inherently require public support such as guarantees / that is referred to in the presentation? [in other words, is the need due to the MSMEs lacking collateral, the higher cost of reaching them, or lower productivity resulting in less ability to service fully commercial debt?]

The main problem is the lack of interest of commercial banks to fund these projects. Commercial lending to the Mexican agricultural sector is very low. In 2018, it represented just 1.9% of the commercial portfolio within the Mexican commercial
banking. While the figure granted to forestry projects in Mexico is not available, it is quite likely that it would be even much lower. Therefore, forestry producers depend on the programs of Mexican Development Banks and Governmental Institutions (such as CONAFOR) to be able to carry out their projects.

4. The case-study: Is 40% customer contribution their cash contribution into the project? Is this high level of customer contribution typical? Also, do we understand correctly that if the client makes a full repayment, they get a grant of up to 18% of the loan, and if they don’t, this grant can be used by FND to reduce its losses? Is this the liquid guarantee and who finance this guarantee?

In this case, the Interamerican Development Bank (IDB) for the Liquid Guarantees Found of the Financing Carbon Reduction Strategies in Forest Areas Program grants the 18% of the amount of the credit. If the clients meets their payment obligations established in the contract (do not prepay the loan or fall into default), the client receives 18% of the contracted credit amount. If the client does not comply with the payment obligations, the liquid guarantee is executed and the surplus (if it is the case) resources return to FND to support new projects.

The minimum level of customer contribution is 20% of the loan. However, their contribution may be higher depending on the type of project and the needs of the client.

5. Is there any information on distribution of these credits by purpose/sub-segments available (along the lines of the geographic distribution provided in slide 11)?
6. You mentioned that TA is critical for the success of the financing to MSMEs in the forest sector? We assume this is currently being provided since FND’s NPLs in this segment are much lower than that for FND overall. Who is currently funding this TA and who is delivering them?

   Currently, the Interamerican Development Bank finances the Technical Assistance granted to producers.

7. When investments have environmental and social benefits but do not accrue sufficient commercial returns, are there grants to blend with commercial credit to make these investments to happen?

   Yes, the FONAFOR and IDB programs (FOGABID) (already discussed in the previous questions) are designed to address exactly these kind of situations.