
Community Banking in the Regional Forestry Programme for Central America (PROCAFOR)

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Summary

This paper presents the experience of the FINNIDA-supported Regional Forestry Programme for Central America (PROCAFOR) with community banking, especially in Honduras. PROCAFOR saw that participatory non-traditional finance could overcome a capital bottleneck for local communities to develop forestry management activities and stimulate grassroots institutional capacity. In the Honduran case study presented here, the needs of women were particularly taken into account. Marginalised from credit sources and excluded from production activities (including forestry), the community banking system has given them the means to develop their confidence (as a result of managing money and making decisions) and business acumen. At the same time, the group's interest in pursuing future forestry-related activities has been increased as a result of receiving information about the activities of other PROCAFOR community banks.

Background

During the last two decades, the activities of the people of Central America have taken place in a socio-political environment which promotes the consolidation of peace and democratisation processes in the region, together with appropriate management of its natural resources. This is promoted through a series of regional initiatives and structures such as the Alliance for Sustainable Development, the Central American Commission for the Environment and Development, and the Central American Council for Forests and Protected Areas.

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This socio-political framework has also featured a series of structural changes in the economy, including measures such as free trade and the privatisation of services. At the same time it has focussed on the need to develop a competitive element amongst the various production sectors in each of the countries in the region. In this context, a considerable number of Central American communities now have the potential to advance their development through appropriate use of their forest resources. However, they also need considerable technical and financial support to enable them to become competitive in the new economic scenarios.

The PROCAFOR Strategy

In 1992, with the technical and financial support of the Finnish government (through the Finnish Agency for International Cooperation – FINNIDA), the governments of Central America set up the Regional Forestry Programme for Central America (PROCAFOR). The basic objective of this programme was to promote the integration of forestry activities into the rural economy in an ecologically and economically sustainable manner. PROCAFOR is sponsored by the Government of Finland, and implemented by Helsinki University Knowledge Service (HUKS) in four Central American countries, with their Forestry Departments acting as counterparts.

The general PROCAFOR strategy has been to support rural communities, through training and participatory action research, in the creation and implementation of production micro-projects which seek to confront their development problems. These experiences are taking place in four PROCAFOR National Projects (Costa Rica, Nicaragua, Honduras and Guatemala) in collaboration with the Forestry Departments and target groups (communities and grassroots organizations).

The need for non-traditional forms of financing

The target groups mainly consist of small local producers with access to forest resources, who have joined together in various organisational forms, but have scant business training and limited access to credit. Given these conditions, the PROCAFOR National Projects have concentrated on the development of participatory methodologies which provide support in aspects of the commercial structure (strengthening the organization), technical and production components

(forest management, diversification of production, timber processing) and financial aspects (credit management and access).

For the latter, PROCAFOR saw the need to develop a financial model or system that would allow for the characteristics of the target group, overcome the limitations of the traditional banking system and ensure sustainability of the production activities financed, through maximum participation of the rural community. This led to the creation of 'revolving' or 'rotating funds' as a financial system designed to use soft loans and provide ongoing support for rural activities based on the sustainable management of forest resources. In some cases, revolving funds have been complemented by community banks, a model developed by some of the rural groups in order to manage credit from the revolving funds or other sources. The community banks will eventually become micro-enterprises and acquire legal status.

PROCAFOR has promoted experiences with revolving funds and community banks in its four national projects. This paper focuses on one of these projects: the Sustainable Use and Management of Coniferous Forests in Honduras (MAFOR), specifically in the village of El Carrizal in the Municipality of Lepaterique of Francisco Morazán Department.

Objectives and Operation of Revolving Funds and Community Banks

Revolving funds

At the core of the revolving fund is an externally-financed start-up fund, which is made available to organized groups in the form of a loan. This is recovered and maintained as a fund available for future loans, in order to guarantee the sustainability of the development process.

Whilst the various projects have their own revolving fund management regulations, they all follow the same general format. The funds are physically managed by a trustee or guarantor entity, and administered by a credit (or administration) committee, comprising representatives of the target communities. This has powers to study and approve applications for credit from groups or individual producers.

Another entity in the general format is the non-governmental organization or project which provides training, advice and technical assistance to the beneficiaries and may sometimes be a member of the credit committee.

The beneficiaries of the credit are those individuals or groups of producers who take part in project activities, in accordance with the requirements laid down in the various regulations. The groups may take different forms, including: micro-enterprises, agroforestry cooperatives, rural savings banks, and community banks. The most common from among the PROCAFOR target groups has been timber-sawing micro-enterprises. However, where there is greater scarcity of natural resources, and livestock rearing or domestic economic production activities predominate, community banks have offered a better alternative, because by using small loans it is possible to cover a diversity of activities (agricultural, livestock rearing or home-economy, as in the case of women).

Community banks

One of the objectives of community banks or rural credit and savings banks is to provide men and women with opportunities to set up production activities, obtain access to credit, encourage savings, promote investments which generate income and employment, and develop social projects such as education, technical training, human development and community activities. The community banks operate on the basis of articles of association and internal regulations regarding credit and savings.

Case Study: Community Bank ‘Fe y Alianza’

Institutional framework

The ‘Fe y Alianza’ Community Bank is in one of the target communities of the Sustainable Use and Management of Coniferous Forests in Honduras (MAFOR) Project, one of the PROCAFOR national projects. MAFOR is a social forestry project, established with the principal objective of promoting self-management skills amongst the rural population by means of promotion, organization and training in the implementation of production projects designed by the people themselves.

The MAFOR project is jointly implemented with the Forestry Department of Honduras (AFE-COHDEFOR). Through a process of training community leaders, various micro-projects based on forest resources were identified, including: pit-sawing, charcoal production, and firewood production. This kind of forestry activity naturally required financial support. Thus, in 1994, revolving funds were introduced to provide loans to those organized groups which received approval for micro-projects.

For this purpose, internal fund regulations were set up by a credit committee comprising the Regional Director of the Forestry Department, the Project Director, a representative of the principal target group and a representative of the financial institution which administers the fund. The latter offers direct credits to each group and is responsible for their recovery.

Between 1995 and the beginning of 1997, a total of 37 loans were granted, approximately 1.18 million Lempiras (Lps.) or US\$ 90,000. This amount will increase as the activities of the production groups established become increasingly diversified. The loans range from US\$ 1,000 to US\$ 20,000, mostly for micro-enterprises in manual sawing and charcoal production.

The 'Fe y Alianza' Community Bank experience

Despite the strong connection between women and the natural resources of this area, especially in the use of products such as firewood, the economically productive activities selected as having the greatest potential for encouraging development of the communities in the area (based on management and exploitation of the forest) have been considered to be 'man's work'. The women are thus left without access to credit, and the generally accepted means for them to generate income consist of domestic economy or 'reproductive' activities such as sewing, breadmaking, etc.

The 'Fe y Alianza' Community Bank emerged as an alternative to meet the needs of the women. MAFOR provides support through training and extension activities and the funds are provided by the Lepaterique Agroforestry Cooperative and the Municipality of Lepaterique. The bank began operating early in 1996, with 22 female members. MAFOR saw the bank as an opportunity to meet the practical needs of the women, as well as to empower them and build up their self-esteem

through learning to manage money and setting up projects capable of generating profits.

The organizational structure of the bank includes a board of directors who are responsible for the receipt, analysis and approval of loans. Rules have also been established for the operation of the bank and the management of meetings. These regular meetings are held to enable the women to undergo training, make decisions regarding production activities, prepare statements of economic transactions, etc.

Activities financed so far have included: improvement of vegetable plots, food processing, rearing small livestock, breadmaking, sewing and home improvements. Although it does not carry out forestry activities, and these were not initially included in the objectives of the group, there has been some work in small forest nurseries. Similarly, through the various complementary activities (awareness-building, training, exchange of experiences), the group has broadened its vision and become interested in finding out about the experiences of other community banks managing forest resources, and especially about craft products which they could make with timber waste.

The bank began with capital of Lps. 8,400 (US\$ 700), provided by the Lepaterique Agroforestry Cooperative Limited at an annual rate of interest of 20 %. The bank provides loans of Lps. 400 (US\$ 30) to its members, which the latter repay over a period of four months.

Benefits generated

Within the group, the experiment is seen to have had various significant benefits (Junta Directiva Banco Comunal Fe y Alianza, 1997). These include:

- developing members' skills and knowledge through training;
- learning to manage money;
- improving their standard of living (especially quality of housing);
- encouraging savings;
- experiencing the potential for personal growth in a group of women with fair and equal opportunities;
- raising personal and community self-esteem.

Future plans of the group include continuing savings, training children, building an office for the bank, and forming a forestry enterprise. They also want to receive more training aimed at strengthening the group's management, organizational and commercial skills, in order to reduce their dependency on the income generated by their husbands (Junta Directiva Banco Comunal Fe y Alianza, 1997).

Conclusions

Revolving funds and community banks can represent an alternative to traditional financing systems for rural people who, through the modernization of forestry legislation, are able to access the forest resource, but do not have the necessary capital for the initial investment required for the sustainable use and management of their forests. In the case of male groups, these forms of credit have allowed them to enter the market by, for example, enabling them to solve logistical problems in the sourcing of raw materials and accessing the market.

In the case of female groups, where forestry and livestock activities are deemed to be 'men's work', the community banks have represented a means to encourage self-confidence amongst the women in management of small projects which could in future become the basis of a more integrated management of resources. Where gender roles are not significantly demarcated in agricultural activities (as in the case of Nicaragua), the impacts on men and women have been more uniform.

If community banks are to be effective, it is important that training be systematic and on-going, mainly focussing on organization, management and administration of the revolving fund, conflict resolution, creation of participatory projects, and the participation of women (Oseguera, 1995). Also, when the activities initiated through the revolving fund are handed over, one requirement is that community banks and financial entities be fully functioning and managed by the community. The fact that the project will come to an end must be understood and the transfer of activities and responsibilities begun as early as possible (Suoheimo, 1997).

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