

Micro financial products for forestry project in FONAFIFO Costa Rica: Stakeholders approach for the natural savings strategy.

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Executive summary

The objective of this research is propose and analyze within the Costa Rican forest sector, the potential application of the Natural Savings (NS) Strategy, an advanced financial instrument based on future value circulation and natural organic growing as storage of value. Due to the complexity and variety of elements and considering that any financial instruments have to be approved and used by a large number of actors in the financial forestry chain, we have decided to use a stakeholders approach to better understand the real potentiality of this NS scheme. According to the participative methodology used, the stakeholders in the circle of the NS strategy relationships have been involved and conducted into a correlation process. This process has been functional to the outputs of the research and has created a primary network for the development of a natural savings strategy. The creation of a primary stakeholder's network marks the FONAFIFO (National Fund for Forestry Financing) as core element, for the developing of NS new schemes. This has positioned the Natural Savings in the national financial forestry strategy settling a basic element for the development of this scheme at national and local level.

This approach has led to a series of hypothesis and has produced the proposed variation of the NS scheme. This financial strategy is based on micro saving mechanism managed by a share company in which the share holders invest work (time), land, savings or other assets in a transparent way constituting a sharing company, the value of the share is backup by the growing value of the forest stands planted and the other goods and services produced, the share are usable as alternative currency and became an element of speeding up of the local economy.

This instrument presents specific features that define the strategy itself such as: local dimension, decentralization, transparency, interchange of value, de-link factor between national currency and savings, store of value as complementary currency. These elements guarantee a social

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performance of the financial instruments as well as a financial sustainable capacity has been identified in the association of the instruments to a local Microfinance Institution with environmental and rural embeddedness.

At the same time the financial products that forestry sector require are complex with some specific characteristics such as: synchronism with the forest production cycle, use the forest stands (value of the forest) as guarantee for credits, considering as key element the dynamic of the cash flow of the costs and revenues, including insurance on the forest stand value, recognizing environmental services as part of the repayment, focusing not only on the wood production and combine other financial products.

Is in this extent this mechanism has revealed specific constraints identified by the participant stakeholders, appointing to the NS holding potential elevate cost and bad management risk, challenging the sustainability for a specialized enterprise dedicated only to this business. Also the need of initial capital, the difficulty to assure future value on micro scale, the lack of guarantees, the risk of total lost and the legal land tenure vulnerability have been underlined as specific limits to this scheme. In addition some sectors (regulated financial institutions including cooperatives) showed a partial trust in share companies adducing a constant need of currency in local economy. The points of strength of the NS schemes relay on: the certification of a future value as present value, the injection in the local economy of a complementary currency, the consequent stimulation of the economy, the potential of a national NS scheme, the local rural – forestry dimensions, low regulation, elevate transparency in the scheme, self-control, local participation, elastic structure, production of new environmental services, synergy with the rural finance, good performance of microfinance sector in the country and potential access for the forestry sector to new source of funds related to microfinance. These features appointed to the mentioned ones limits and suggest the natural savings scheme needs be associated to some actors already operating in a community (local trust and tradition), such as Micro Financial Institutions or cooperatives. In this sense 3 different real situations have been identified that inspired 3 different evolutions of the original NS maintaining the pillars of this strategy but focusing on the complementary currency element as a powerful tool to activate local economies.

The currency component has attracted the interest of the FONAFIFO that is also visualizing a national financial scheme for carbon compensation, based on the emission and circulation of a complementary currency.