

# Study on Financial Institution's Policies Supporting Forestry Development



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# I. Study on CDB Forestry Credit Policy

- 1. CDB provides active support for forestry development instead of passive waiting, and induces social fund to invest in forestry projects**
- 2. CDB's Forestry Credit Policy**
- 3. The effect and expectation of forestry credit policy**



## **1. CDB provides active support for forestry development instead of passive waiting, and induces social fund to invest in forestry projects**

By the end of 1999, Development Bank had provided 134 forest projects with loan and the balance of loan had reached 3.89 billion yuan.

The quality of the loans:

- the number of nonperforming loan projects is 98;
- total balance of loan is 2.5 billion yuan;
- non-performing loan rate is 64.3%;
- accepting interest rate is only 25%;
- overdue interest is 500 million yuan.
- More than 80% borrowers did not pay principal and interest.
- High fault rate, lower quality of loan than other projects, and high risk.



## Reasons for overdue principal and interest

- Lack of the effective mechanism for making independent decision on loans. CDB only can arrange loan according to some related departments' plans
- Forestry enterprises' operation system is not suitable. The cash flow produced by the CDB project, as the profit, turns over to higher-level authority, instead of to repay the principal and interest
- Most borrowers of forestry projects do not have clear understanding of the nature of CDB loan, are lack of repayment consciousness and haven't established effective credit mechanism



## 2.CDB's Forestry Credit Policy

- Seizing development projects
  - Focusing on Fast-Growing and High-Yield plantation projects in key regions and national forest & papermaking integration projects
  - Secondary focus is ecological construction projects and fellow-up industry development projects
  - Emphasizing on high-quality customers and projects



## Fast-Growing and High-Yield Plantation Project

- **Scope of the project:** focusing on Guangdong, Guangxi, Fujian, Hainan etc; the secondary focus includes some provinces along the middle and lower reaches of Yangtze River and the Yellow River; in addition, giving consideration to provinces in northeast, northwest, southwest and Inner Mongolia.
- **Scale of project implementation:** single FGHY project should be over 200 thousand mu; as for large-diameter timber forest or rare tree species, the scale standard can be loosed relatively. Industrial raw material plantation of forest &papermaking integration should outnumber 150 thousand mu.





## FGHY Project (continued)

### ■ Project Screening

- State-owned forest farm development project with strong economic strength, high-level management skill, and competitive products
- Projects of leading enterprises
- Projects arranged in national debt
- Raw material forest bases of forest & papermaking integration projects
- Projects included in financial cooperative agreement signed between CDB and forestry sectors at all levels



# Forest & Papermaking Integration Project

## ■ Scope of Project Development

- Focus area: southeast coastal area such as Guangdong, Guangxi, Hainan, Fujian
- Developing in regions along the lower and middle reaches of Yangtze River combining with Conversion of Cropland to Forest Program (CCFP) and Conversion of Cropland to Lakes, developing the top-grade paper and board projects with better market prospect especially
- Supporting the development of chemical mechanical pulps for Yellow Sea&Huai River regions combining with structural adjustment of paper industry
- Supporting several large bamboo-pulp&papermaking integration projects, according to national bamboo-wood resources utilization planning in Southwest.
- Selecting board projects having large market demand (MDF,chipboard), combining with FGHY program.





## Forest & Paper (Forest & Board) Integration Project (continued)

### ■ Scale of project

- Initial scale of new projects: the capacity of single production line for chemical wood pulps should outnumber 500,000 t/a, and chemical bamboo pulps should be more than 100,000 t/a. the capacity of single production line for papermaking should be more than 100,000 t/a. The capacity of MDF mills and chipboard mills should be more than 100,000 m<sup>3</sup>. The comprehensive scale of expansion projects should be more than 100,000 t/a.



## Forest & Papermaking Integration Project (continued)

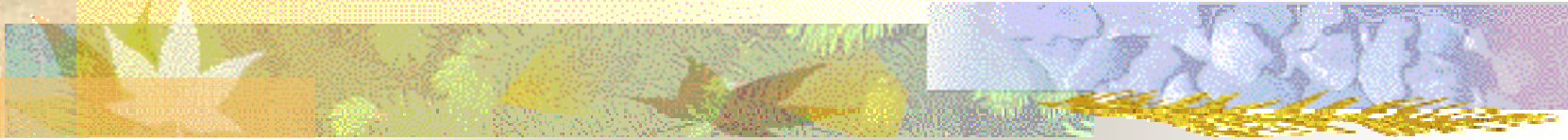
### ■ Project Screening

- Development project of leading enterprises and key enterprises
- Projects listed in the forest&papermaking integration plan of State Development and Reform Committee and State Forestry Administration

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## Ecological Construction and Follow-up Industry Development Project

- Ecological construction projects focus on ecological benefits and social benefits, and are included in public expenditure of governments. It should be supported by developmental finance under the establishment of relatively perfect credit system



## II. Study on forestry financing system adopting modern financial idea

- Corporation forestry
- Community forestry
- Rural bank pattern in Bengal, AND reemployment of laid-off female workers in Tianjin City and their credit for business establishment



### **III. Study on the support of financial institutions for the “going overseas” strategy of forestry**

- Problems
- Thought of “going overseas” strategy
- Regional strategies
- Establishing financial support system
- CDB’s exploration on providing financial support for the strategy



## Problems about “going overseas” strategy

- The strategy is lack of uniform planning and guidance, and does not embody national will and benefit.
- Regulations about overseas investment and foreign exchange management are not perfect.
- Forestry enterprises is lack of strength and effective incentive mechanism.





## Basic thought about “going overseas” strategy

- The main constraint for China’s economic development has changed from capital into resource. China should increase capital output for more resource input.
- Balancing interest among the nation, enterprises and finance institutions and forming the most effective way of capital use.



## Basic thought about “going overseas” strategy

- Combining diplomatic, foreign trade strategies with international forestry development strategy, and establishing uniform national forestry foreign policy.
- “Introduction” strategy is as important as “going overseas” strategy. The relationship between two strategies should be coordinated.



## Regional strategies for “going overseas”

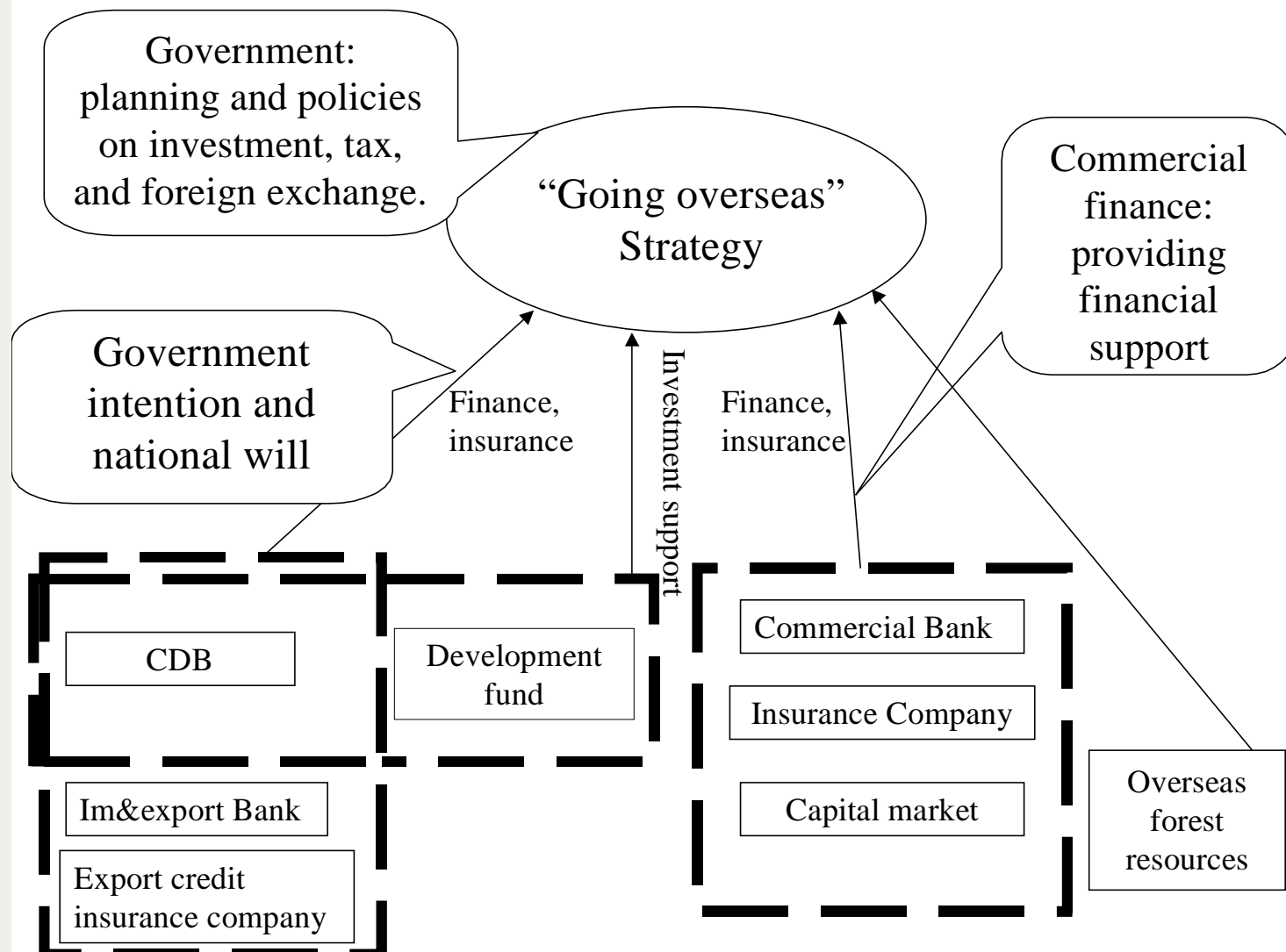
- According to research and practice of forestry management departments and the distribution of overseas forestry resources, the strategy should focus on three regions:
  - Russian and Far East strategic region
  - African strategic region
  - Australian strategic region



## Financial support system for the strategy

- Analyzing demand of the strategy for financial service
  - Indirect finance is the main form of forestry finance.
  - Seeking new financial forms and other forms.
- Framework of financial support system (see the figure below)
- Participants in financial support system

# Framework of financial support system





## CDB's exploration on providing financial support for the strategy

- Advocating the setup of funds for overseas development
  - Providing investment support for the setup of funds
  - Providing traditional finance support and non-loan financial service.
- Project financing
  - Trade financing
  - Providing long-term preferential loans for countries abundant in resources and signing long-term between-government purchase agreement on forest products.
- Extending service and strengthening financial support system





## **IV. Study on forestry fund raising of finance institutions**

- **Attracting low cost insurance fund**
- **Integrating national forestry special funds**
- **Struggling for loans or grants of foreign governments and organizations**