THE FORESTS DIALOGUE

The ILCF Process Model

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Field Dialogue on Investing in Locally Controlled Forestry
6-9 February 2012 - Yogyakarta, Indonesia
Overview

• How can LCF happen in Indonesia?
• Benefits of investing in locally controlled forestry
• Changing the paradigm
• Investor types
• What investors look for
• Ingredients for success
• Business models
• Partnerships & Stakeholder roles
• LCF role in REDD+
• Theory of Change
How?

- Some local leaders may see the economic and social value of LCF and lobby central government for change (e.g. through RTRW)
- Engage with private sector that may have some influence with policymakers
- Use existing tenure instruments (e.g. HTR) to encapsulate rights to use forest land, while longer term tenure reform efforts continue
- Devise financial structures that can release the cash Indonesia already has available for reforestation
- Forest communities need to get organized
The ILCF approach

• Work in progress
• Will be produced as a guide – today is part of the learning process
• However we got here, it is time to look ahead and work together on solutions
• Every case is different, but there are some common features
Benefits of Investing in Locally Controlled Forestry

• For Governments
  • Poverty reduction
  • More efficient land use and economic competitiveness
  • Growing SME sector for a balanced economy
  • Tenure reform correlated with stable development

• For Investors
  • Secure raw material supply
  • Reduce risks in supply chain, lower cost of capital

• For Donors, NGOs and civil society
  • Build citizenship and achieve institutional change
  • Mitigate climate change
Changing the Paradigm

- Capital seeks Natural Resources and needs labour.
- Rights holders manage Natural Resources and seek Capital & partnerships.
Investor Types

- Hard Investment
  - Income
  - Product

- Soft Investment
  - Social
  - Environmental

Impact
What investors look for

- Compatible goals
- Sensible and complete business plan
- Enterprise is formal and has legal permits
- Liquidity of assets
- Scale
- Track record
- Capacity
- Tenure
- Risks and returns
- Market constraints
Ingredients for success

• Favorable Conditions
• Business models
• Partnerships
• Organisation
Favorable Conditions

• Viable business and value proposition
• Transparency and accountability
• Clarity of tenure, rights and obligations
• Organizational structure with clear roles and mandate
• Mutual learning and flexibility in order to improve performance
• Agreed goals, expectations, benefit sharing and exit strategy
• Checks and balances on decision making to overcome disagreements
• Good enough governance
• Respect different values and embrace change
## Conditions are inter-related

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<tr>
<th>Flexibility</th>
<th>Building Trust</th>
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<td>Transparency</td>
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Business Models

- **Micro**
  - Informal, MFI customers
  - The Gap

- **Small**
  - Microfinance

- **Medium**
  - Formal, bank customers
  - Bank loans, lease financing, trade finance/factoring
  - Private equity structured finance

- **Firm Size**

- **Capital Required**
Business Models

- Dealing with delayed cashflow
- Risk mitigation
- Targeted marketing: What does the customer value?
  - Standards (e.g. FSC)
  - Special features (e.g. ‘community product’)
  - Quality, price or service
Partnerships

• Need for credible partners to attract investment
• Overcome power imbalances and information asymmetry in the relationship
• Become less isolated
• Building trust
• Service Providers: Technical, marketing, management systems (e.g. finance)
• Mentoring (especially for leaders)
• Joint ventures with downstream buyers to learn skills
Roadmap

• Preparation
  • Concept development & feasibility study
  • Organizational development
  • Medium term planning
  • Define milestones and timescale

• Negotiation
  • Deal development, due diligence

• Agreement of the deal

• Operation

• Dealing with disputes

• Benefit sharing and exit
LCF and REDD+

- There is a danger that REDD+ leads to a re-centralization of control of the forest
- Put people before carbon
- Real jobs and real enterprises, not just welfare (e.g. BLT)
- Allow market to allocate capital efficiently
- Reduce theoretical reliance on carbon markets
- Create sustainable finance for better land use management
Theory of Change

**Conditions**
- Local control process
- Good enough governance
- Fiscal policy changes

**Investment**
- Better land use management over time

**Output**
- Improved production: food, fuel, fibre

**Outcome**
- Increased tax, GDP, jobs, household savings
Terima kasih.
To discuss in groups

1. Options for appropriate business and investment models (pilihan model investasi serta bentuk usaha yang paling sesuai)

2. How can Partnerships help bring about investment in LCF (Bagaimana bentuk kemitraan yang dapat membantu mewujudkan investasi di usaha hutan yang dikelola oleh masyarakat)

3. Persuading policymakers of the benefits of LCF, to bring about policy change and improved enabling environment (Bagaimana meyakinkan pemerintah (termasuk Pemda) untuk membuat kebijakan yang memungkinkan adanya investasi di usaha hutan yang dikelola oleh masyarakat)

4. The role of LCF in mitigating climate change and ensuring REDD+ projects are successful (Peran hutan yang dikelola oleh masyarakat dalam mengurangi emisi karbon dan memastikan proyek REDD+ berjalan dengan sukses)