THE FORESTS DIALOGUE

The ILCF Process Model

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Field Dialogue on Investing in Locally Controlled Forestry
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Overview

• Benefits of investing in locally controlled forestry
• Changing the paradigm
• Understanding investment
• Ingredients for success
• Business models
• Partnerships & Stakeholder roles
• LCF role in REDD+
• Theory of Change
The ILCF approach

• Work in progress
• Output: The 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 with 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
  • Return on capital plus impact
  • Reduce risks in supply chain, lower cost of capital

• For Donors, NGOs and civil society
  • Build citizenship and achieve institutional change
  • Mitigate climate change
Benefits of Investing in Locally Controlled Forestry - for Rights-holders
Can we go to Sweden?

- History of change (development...)
- Role of consent
- Correct market failure
- Role of off-farm employment
- Evolution from livelihood to lifestyle

LCF is not inevitable!
Changing the Paradigm

Capital seeks Natural Resources and needs labour.

Rights holders manage Natural Resources and seek Capital & partnerships.
What is investment?

Investment  {inˈves(t)mənt}

1. The action or process of investing money for profit or material result
2. A thing that is worth buying because it may be profitable or useful in the future
3. An act of devoting time, effort, or energy to a particular undertaking with the expectation of a worthwhile result

[Oxford American Dictionary]
Investment Types

Hard Investment

Income

Product

Soft Investment

Social

Environmental

Impact
Sequence of investment types

Stage 1 R&D
- Valley of death
- Lack of project development capacity & capital
- Seed funding
- Incubators
- Angel Investors

Stage 2 Demonstration
- High perceived risks
- Soft Loans
- Grants

Stage 3 Deployment
- Debt-equity gap
- Guarantees
- Public-private equity funds
- Venture Capital

Stage 4 Diffusion
- Structured Finance Package
- Equity

Stage 5 Maturity
- Debt
- Insurance

Financing

Gaps

'Soft' Investment

'Hard' Investment
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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<th>Conditions</th>
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<tr>
<td>Transparency</td>
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Building Trust
Business Models

- **Micro**
  - informal, MFI customers
  - microfinance

- **Small**
  - The Gap

- **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

• Establishment
• Preparation
• Business Planning
• Negotiation
• Performance Management
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 saving
Sweden is this way...
Terima kasih.
To discuss in groups

What lessons can be learned from the Swedish experience that could be applied to improve locally controlled forestry in other countries? For instance:

a) **Finance**: what models can help make the business case for smallholder forestry more attractive? Who needs to invest? What is the blend of hard & soft investment?

b) **Partnerships**: how have different stakeholders worked together to bring about a combination of profitable smallholder production with good social & environmental outcomes?

c) **Conditions**: what were the drivers of change? To what extent were the conditions unique, and what can be replicated elsewhere? How much time is needed? What level of ‘development ’is a pre-condition for effective locally controlled forest management?
Day 1 Breakout Group
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