Investing in locally controlled forestry

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Structure of this presentation

• Justification and problem statement
• Investment lessons
• Gap analysis
• Some conclusions about useful dialogues
Why invest in locally controlled forestry?

- Resource access - 22% of forests owned or managed by developing country communities – doubling in last 15 years – conflicts due to external resource appropriation decrease

- Social impact - > 20 million people (50%) – formal employment by SMFEs (140 million informal) in areas of poverty – local entrepreneurship / service networks spread

- Economic impact - > US$130 billion/year - gross value added by SMFEs worldwide despite unjust timberland allocation – wealth accrues locally

- Environmental impact – US$ 2.5 billion invested in conservation by tropical forest communities (more than all aid combined) – key to AD and REDD - local environmental and cultural accountability is strengthened
Locally controlled » SMFEs?

<table>
<thead>
<tr>
<th></th>
<th>Brazil</th>
<th>China</th>
<th>Guyana</th>
<th>India</th>
<th>S. Af.</th>
<th>Uganda</th>
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</thead>
<tbody>
<tr>
<td>NUMBER as % of total</td>
<td>&gt;98%</td>
<td>87%</td>
<td>93%</td>
<td>87-98%</td>
<td>33-95%</td>
<td>-</td>
</tr>
<tr>
<td>EMPLOYEES as % of total</td>
<td>49-70%</td>
<td>50%</td>
<td>75%</td>
<td>97%</td>
<td>25%</td>
<td>60%</td>
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<tr>
<td>REVENUE as % of total</td>
<td>75%</td>
<td>43%</td>
<td>50%</td>
<td>82%</td>
<td>3%</td>
<td>60%</td>
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- Detailed diagnostics now carried out by Forest Connect in Brazil, Burkina Faso, China, Ethiopia, Gambia, Ghana, Guatemala, Guyana, India, Lao PDR, Malawi, Mozambique, Nepal, South Africa, Uganda.
- We are beyond dialogues on generic issues!
The central problem

Isolation from:
- each other
- markets and market information
- providers of business development services (BDS) and financial services (FS)
- policy and decision-makers that shape the business environment
- Issues of trust, formality, geography, transport and communication infrastructure, scale, staff capacity, language etc.
The dimensions of that problem

Production → Aggregation

Intelligence → Marketing

Key functions

The Market
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Key investment lessons

- **Enabling environment** – secure forest land tenure, commercial timber rights, fair taxes and business rights (the informal economy makes up 41% of gross national income in developing countries)

- **Service provision** – links to business development services (business planning, IT, marketing, technical support, couriers etc) and financial services (banks, micro-finance, venture capital, group lending schemes, insurance, leasing programmes)

- **Business models / markets** – Value chain arrangements that strengthen, distinguish and reward local control – e.g. Fairtrade / FSC
Lessons about success 1

• Enabling environment - securing resource rights (e.g. Guatemala 15 community producers in ACOFOP have 560,000 ha certified by FSC in the province of Péten with dedicated company FORESCOM)

• Service provision – BERSMP links Ethiopian community enterprises to business development service providers such as Wild-living Resources, Kenya (for expertise in plant extract processing), Kenya Organic Agriculture Network (KOAN – for certification), Federal Small and Micro Enterprise Development Authority (for training in bamboo technology and design), Agri-science (for the development of Walbergia pesticide)
Lessons about success – business models

- **Sourcing** – Kenya Good Woods project - Coast Farm Forest Association provides timber to carvers and Kenya Coast Tree Products

- **Aggregation** - Improving bargaining power (e.g. Cooperfloresta – 5 community producers in Acre supply FSC buyers group)

- **Marketing** - building shared brands (e.g. FORCERT in Papua New Guinea developing ‘Community Based Fair Trade’, Pre-certified and FSC certified brands at 10%, 20% and 30% price premiums for Woodage, Australia)

- **Intelligence** – Iwokrama brings in Brazilian and US designers to improve Amerindian handicraft products
Lessons about failure 1

• Disabling environment – Unfair discrimination against community forest producers in Mozambique where land rights are granted by virtue of historic occupation but commercial timber rights given to large concessionaires.

• Isolated producers – e.g. Ghana where community producers are disorganised, un-reached by financial services, and poorly linked to business service providers
Lessons about failure – business models

- **Unsustainable sourcing** – Guyanese Amerindian and Ituni small loggers associations responding to buyers rather than ecological capacity to supply.

- **Low qualities and volumes** – PNG and Solomons supply to B&Q of container loads of substandard, pest infested, poorly packed timber.

- **Poor marketing** – Community produced, organic Jamaica blue mountain coffee sold in plastic bags by roadside.

- **Inferior design intelligence** – Ethiopian chopping boards of prime hardwood with finishing so poor it give splinters.
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The governance gap

• Confused tenure (e.g. Government managing on behalf of stools in Ghana)
• Land / management rights do not tally with opaque allocation of commercial forest rights (e.g. Mozambique)
• Inaccessible formal registration of land, forest and business rights (e.g. Malawi)
• Tax regimes that favour big players (e.g. Guyana)
• No business extension mandate and highly variable enforcement practices (e.g. Ethiopia)
• Direct budgetary support and REDD liable to reinforce the above?
The investment gap

- Securitization of ES assets – e.g. capturing future carbon credit
- Timberland investments to secure land and timber cash flows
- Venture capital / equity to allow drying, stock aggregation, timber treatment, primary processing
- Venture capital / equity to allow secondary processing
- Co-investment / credit to purchase large-scale inventory of (part-) processed goods (usually able to access mainstream credit)
The investment gap (cont.)

Investor fund of funds

Shares

National co-investors

Local board of directors

National management

National investment institution and Service provider (separate?)

Advisory panel ENGOs etc…

Development donor

Portfolio A

Portfolio B

Portfolio C

Portfolio D
The service provision gap

• Reaching SMFEs is tough
• Patchy NGO emphasis on business start ups, rarely business support
• Few forest extension services - still fewer doing business development
• Existing SME support programmes poorly known to foresters as they target other sectors (e.g. agriculture)
• Financial service providers treat forestry as high risk
• Market system development new concept in forest sector
The service provision gap (cont.)

- **AUDIENCE 1. EXTERNAL AGENCIES**
- **COMPONENT 1. FACILITATION CAPACITY BUILDING**
  - Module 1. Managing an international peer-peer learning group
  - Module 2. Identifying national facilitation hub institutions
  - Module 3. Setting up an evaluation process
- **AUDIENCE 2. NATIONAL FACILITATORS**
- **COMPONENT 2. FACILITATION PLANNING**
  - Module 4. Introducing the ‘market system development’ approach
  - Module 5. Planning, sequencing and exiting activities
  - Module 6. Conducting small forest enterprise diagnostics
  - Module 7. Mapping and benchmarking support services
  - Module 8. Participatory value chain analysis
  - Module 9. Designing communication strategies
- **COMPONENT 3. FACILITATION IN ACTION**
  - Module 10. Developing market understanding
  - Module 11. Product development
  - Module 12. Business planning and business development services
  - Module 13. Financial planning and the facilitation of financial services
  - Module 14. Strengthening community enterprise governance
  - Module 15. Building in ecological sustainability from the start
  - Module 16. Policy research for change
The voluntary mechanism gap

- Consumers have few ways of discriminatory purchasing (FSC / PEFC)
- FSC / PEFC are doing little for locally controlled forestry in developing countries
- Fairtrade pilot with FSC is now underway – potentially in Peru, Sudan, Guatemala…
- But most locally controlled forestry does not serve export markets in the North – e.g. Brazil
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Dialogue options – some specifics

- Generic lists of problems have been done. Let’s aim to make some progress!

- How can we best achieve investment brokering for SMFEs to achieve scale - portfolios attractive to major investors?

- What types of SMFE communication and support platforms work best and why?

- How can we build on new market mechanisms such as fair trade timber pilots or REDD payments to reward locally controlled forestry in the market?
Dialogue options – some lessons

- International dialogues achieve little (e.g. UNFF). Let's involve people who matter!

- The most useful dialogues happen when South-South practitioners discuss field realities e.g. FGLG / FAS-Mozambique / Payments for watersheds etc

- To encourage sharing it is useful to provide resources for experimentation and documentation on a theme

- Dialogues that build in relevant field visits and use innovative participatory methods help change practice
Dialogue options – base them on real work

- There are many good partnerships fighting for local controlled forestry that could form a basis for dialogue. Let's invest in them!

- E.g. Design showroom to consolidate and market Amerindian craft in Guyana

- E.g. Bridging exercise to link progress on Participatory Forest Management with enterprise development in Ethiopia

- E.g. Training and installation of ‘energy enterprises’ based on charcoal in new co-management block committees in Malawi.
Thanks!