Breakout Session I

1. What models exist of effective investment in locally controlled forestry? How can these be supported and improved by all types of investors and other stakeholders?

2. What should rights groups provide to enable investors to finance LCF? How can the rights holders demonstrate that they can meet investors’ requirements and expectations and how should this be communicated?

3. What should investors provide to meet the needs and expectations of the rights groups in LCF? How can investors demonstrate that their goals are compatible with social and environmental goals (triple bottom line) and how should this be communicated?

4. What mechanisms can be put in place so that any new investments in LCF safeguard the rights of both forest rights-holders and investors and meet the market requirements for sustainability and legality (for example legal logging, certified sustainable forest management, fair trade and other tools in LCF)?

5. What kind of regulatory, policy and institutional conditions would be required for investment in LCF?
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Question 1: Models

Soft Investor/government plays an important role in facilitating all of these investments. Profit oriented locally controlled forestry exists without soft-investment (SMEs).

Capacity/Institutional/”soft” investments

- Forest Connect
- Mutual learning between forest sector and finance sector – to facilitate the contacts – and this resulted interested in the finance sector - Fondo Ganadero. (Paraguay)
- Investments in setting enabling regulatory, policy and institutional conditions where these conditions are missing
- Producer organizations – In Nordic countries legislation prompted them to make management plans. This need resulted in creation of fee-based association. Government initiated and forced people to manage the land (still subsidized by government)
- Full business service providing organizations (government made the investment – social investment)
Question 1: Models

Natural Forests

• Community concessions in Guatemala – timber for domestic (and some export), local banks lending (Central American Investment Bank – this goes through domestic bank), PINFOR

• Cooperative Floresta (Acre) – 5 communities – training farmers in all aspects of forest management (traditional rubber tappers). Selling standing trees to company. Cooperative (invested in ITTO and now NGOs also investing in) responsible for coordinating sales, funding, etc.

• Biodiversity conservation – protected areas (World Heritage sites)...accommodation, training, links across the.

Environmental/tourism services

• Brokering financing and technical assistance for FONAFIFO (CostaRica)/PROCYMAF (Mexico)/Bolsa Floresta (Brazil)

• Payment for ecosystem services – Satoyama Initiative in Japan – government subsidy scheme initially but already have commercial banks coming in to lend to landowners for facilitating this approach.

• Forest Walk (FAO) – Uganda – trained communities around gazzetted forests – village next to entrance of the park – 2004/2005 ended investment. Now continuing as tourist attraction, each attraction is an independent enterprise.
Question 1: Models

Planted forests

- Shareholder model of processing facility (private landowners in Germany)
- Governance investment in Vietnam (JICA) – local and some regional investors coming in working with local landowners.
- Austria – private associations make deals with sawmills
- Tree planting - Bark from black wattle (E.Africa), farm forestry (south asia)*.
- Outgrower scheme.
- SGPS – subsidized program for facilitating SMEs.
- SE European office of FAO, WB and CEPF...SE European countries...establishment of three associations in different countries.
- World Bank Albania – reforestation – erosion control and now focusing on firewood
- Rural development subsidy schemes applied in all of Europe where subsidy is provided to agroforestry/forestry

- Investments in renewable energy from banks / companies – capital money.
What should RGs provide

• clearly defining their business proposition
  – monitoring/costs/defining markets (entrepreneurial thinking)
  – Clear expectations
  – Information on what is out there
  – Community saving / business plan / own investments – distinguishing between social and business elements.

• Aggregation or organization - for specific purposes (representation-collective clout – business or social elements)
  – Trust between individual and entity representing them. Delegation but members standing behind the decisions that are made.

• Use soft investments for real needs
• Trust building/mutual understanding
• Clear articulation of rights as basis for investment
What should investors provide

• Timescale – investors have to recognize that the capacity, etc. requirements can take time. Phased approach to the investment. Not continuous subsidization but different types of collaboration
• Ensure information flow
• Local representation
• Flexibility/what is the “wiggle room”
• Trust/stability
• Upfront commitment to community consultation
• Respecting the spiritual and cultural values
• Joint engagement in business plan development
• Social services – credit, training, etc.
• Fair deal – transparency
• Service provision – credit/capacity
What should investors provide

• Soft investors need to be available to support communities get organized and make their business plans, etc and outreach to markets. Soft investors assist with proactive preparation

• Soft investors willing to make the riskier “investment” (pilots/community capacity)

• Investing in preparing the communities– prepare them to defend their cultural investments/get the information/consultations (individuals versus collective)
Mechanisms to safeguard rights

• Guarantees to the investors – they need to have forest guarantee fund (small holder) – insurance plan
• FPIC
• Savings mechanism
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Question 1: What models exist?

New Zealand: individual landholdings aggregated into estates; managed as trust; long-term time scale; a partnership with government

Nordic countries: forest owners’ cooperative buys products from individual owners; cooperatives invest in enterprises like pulp mills, paying dividends to members
  • started small, with gov’t guarantees on bank loans
Question 2: What must rights holders provide?

Demonstrate that proposal has legitimacy:
- A strong organization building on existing (traditional) institutions
- Clear mandate from community
- Strong financial management
- Good communication among members
- Credible leadership
- Carefully prepared business plan with reliable market opportunities
- Tangible, practical, common sense project

Demonstrate ability to meet obligations
- Secure timber supply
- All aspects of control made clear: obtaining and maintaining rights; protection of forest; long-term commitment to sustainable management
- Documented track record of involvement with investments, or show that model used has been successful elsewhere
Question 3: What should investors provide?

• Tangible support for strengthening rights rather than taking advantage of weak rights
• Recognition that communities are in process of tradition; stepwise approach is needed
• Recognition of local priorities (employment, lower risk, preference for local markets)
Question 4 and 5: What mechanisms and regulatory policies can be put in place?

• Code of best practice / code of conduct for investors and communities setting out rights and obligations of each
  – Basic set of universal principles; can be made specific to geographical area
  – Perhaps can be drafted through Dialogues
  – Input from local communities and investors for improvement
Questions 4 and 5 (cont.)

• Access by communities to a range of training and other services from which they can choose according to their priorities

• Demonstrate and encourage capacity of three RHGs to aggregate land, resources, and raw materials to provide opportunities of scale
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Question 1 - Models

- Great variety of models, not yet properly analysed
  - Payment mechanisms
  - Contractual relationships
  - Ownership
  - Timescale
Question 2 – Rights groups provide

- Entity with whom we can do business
  - represents stakeholders, credible, stable
  - May need to invest in creating these structures

- What is LCF? Do we agree with concept note?
  - Rights / ownership / control
  - given percentage in land or enterprise?

- Alignment of interest – risk and reward sharing

- Legal protection and arbitration

- The right to fail
Question 3 – investors provide

- Management expertise
- Ethical behaviour, standards, transparency
- Market access
- Political strength
- Financial support (different types)
- How can due diligence be funded externally?
  - Reputation risks
  - Technology is helping on inventory side
- Can soft investors cover high transaction costs
Question 4 - Mechanisms

- Standardized models
- Safeguard mechanisms and covenants
  - Certification - Legality verification – CofC
  - Transparency of bank position - 'trusted entity'
  - Escrow accounts
- Political risk insurance
- Exit strategies
- If rights holders are aggregated, must exist by consensus and local legitimacy
- Need for good data (trade, exports, value-added etc.)
Question 5 - conditions

- Phased approach for REDD readiness - could this be suitable for ILCF
- Develop institutions over time, introduce safeguards
- Where does interim finance for REDD fit in to this?
- co-investments (e.g. soft investment)
- How can LCF get 'investment ready'