The Forests Dialogue

Dialogue on Investment in Locally Controlled Forestry
24-25 May 2010
London, United Kingdom

Some highlights of Day 1
Said, but not quoted:

• Where’s the meat – what’s the proposition?
• You get the investment you deserve
• Investors interest in local development? – big brochure, small money
• If you want local control you will never attract investors
• I invest in the forest for food, investors want cash, how do we reconcile?
For and against investment in LCF

Opportunities:

• Reliable returns from unconventional assets
• Large potential areas
• A key means to realize a holistic vision of forest management
• Improved local livelihoods

Barriers:

• Insecure land and resource tenure
• High transaction costs
• Long time scale and multiple risks
• Misperceptions by investors and communities
Opportunities

• LCF value proposition CAN be clear, and improved
• Rights CAN be legible – a basis for investment
• Synergy of soft and hard investment – legitimate subsidy to achieve critical mass for investment, which in turn helps improve systems and frameworks
• Business support services and capacity building CAN be in the business plan
• Invest in collective strength - partnerships, alliances, aggregation, portfolios
• REDD+ and the new potential for holistic approaches
• Economic crisis and the new focus on more reliable long-term assets like forests?
Models that inspire

• Much commercial LCF out there – particularly independent growers and SMEs – that have had no soft or hard investment

• Many examples in natural forest, planted forest and ecosystem services, some show promise for value investors, some have them

• Green Resources (East Africa) and Forest Finance (Central America) – useful cases rather than models to copy for LCF

• Others discussed: Guatemala, Mexico, Brazil, Vietnam, Uganda, Austria, Germany, Japan, China...
More models that inspire

- New Zealand: individual landholdings aggregated into large estates managed as a partnership with government for a pre-defined time; gradual elimination of government stake
- Nordic model: forest owners’ cooperative aggregates supply; provides land management services; internal financing mechanisms; investment in secondary industries, e.g. pulp, paying dividends to cooperative members
- Cochabamba Bolivia Project: CDM project using carbon credits to fund professional management
Common ground on key roles

*Partnerships yield deeper benefits than one-sided manipulation*

Each side has contributions to make:

**Investors**
- Capital, including for capacity building/training, as in many other businesses
- Management expertise
- Market access/information
- Political strength
- Willingness to take on SOME risk e.g. through pilots

**Forest Rights Holder Groups**
- Legitimacy among people, building social license
- Local ecological knowledge
- Credible business propositions and ability to fulfill obligations
- Labour—can buy shares in enterprise
- The land resource
Mechanisms to safeguard rights and foster partnerships

• Standardized models – a typology
• Repository of deal documentation (but care with confidentiality agreements)
• Code of conduct - learn from e.g. mining, water, SFF toolkit, FAO-CIFOR-IIED company-community partnerships guidelines
• FPIC processes
• Certification
• Innovative legal and financial mechanisms: REITs, leasing, aggregation
More mechanisms to safeguard rights and foster partnerships

• Risk-reducing measures, e.g. escrow accounts, smallholder insurance against disasters, political risk insurance, systems for dispute resolution
• Access to range of capability strengthening systems
• Means to aggregate land resources and raw materials to provide opportunities of scale
• Phased approach as in REDD (and help get REDD expenditure focused initially on securing rights rather than changing behaviour)

And keep experimenting/ doing things based on what is known! Test: would [this action] be valuable to an investor or a rights-holder group in a particular case?
Next up...discuss concrete steps

• Primary focus on value investors so we contribute where most needed?

• Typology of main investment models for ILCF?
• Code of conduct – principles, inspiration, best practices – for investors and communities?
• Process model – main steps, key questions, possible obstacles - for any investment?
...more concrete steps to discuss

• Enrich the data, map ‘banks of experience’?
• Numbers: type, scale and return profile of finance needed
• Further issue or location-context dialogues?
  – Models of effective investment partnership
  – Good principles, processes, practice
  – Location-specific cases and issues