Dialogue on Investing in Locally Controlled Forestry

Background Paper Overview
Types of Investment

- Soft’ investment
- ‘Hard’ investment
  - Value
  - Social
  - Conservation
Value investors: Pre-conditions

- ‘Attractive’ risk-adjusted returns on capital
- Stability
- Liquidity
- Viable business proposition and entity
- De-risking measures
- Social license
  - triple bottom line?
  - legitimacy
Value investors: Challenges

- Tenure and Rights
  - What about the investor’s rights?
  - Transaction vs. Ownership

- Relations with rights-holders
  - Delegate to CSR department
  - Local business development as afterthought

- Capacity
Value investors: Challenges (2)

- Scale and viability of the enterprise
  - Transaction costs for due diligence
- Distributing costs and benefits
  - Stocks and Flows
  - Opportunity cost of SFM
- Sector Risks
  - Political & economic, physical, institutional, market
Value investors: Opportunities

- Improve the business proposition
  - Portfolio approach / vertical linkages
  - Capacity building as initial cost
  - Strategic CSR

- Innovative financing models
  - e.g. REITs, leasing, aggregation

- De-risking measures
  - ‘Hard’ investment for political / economic / physical risks
  - ‘Soft’ investment for institutional risks

- How else can long term asset value be protected?
  - ILCF is pragmatic and strategic, not just CSR
Social investors: Pre-conditions

- Advance development
  - Institutional change
- Address perceived market failure
  - Middlemen, market risks
- Planning-led project design
  - Donor funding cycles and goals
Social investors: Challenges

- Competing, multiple goals
  - Institutional contradictions
- Lack of business focus
  - Quality control, timeliness, value proposition
  - Poor financial management (e.g. dividends)
- Misunderstanding the value chain
  - Tengkulak / coyote
- Displacing private & public investment
- Dependency
- Funding led by trends
  - ‘climate change colonization’
Social investors: Opportunities

- Networks and Reach
- Concentrate on ‘Soft’ investment?
  - Organisational strengthening
  - Institutional reform
- Managing change
  - Vulnerable communities in transition
- Access to cheap money
  - Credit enhancement, co-investment etc.
- Hybrid models
Conservation investors: Pre-conditions

- Means to an end
- Low-disturbance activities
  - Humans are ‘invasive species’
- Long term legal instruments (e.g. concessions)
- Carbon revenue model
Conservation investors: Challenges

- Competing goals
  - Contradictory commitment to economic development
  - Local costs, global benefits
- Lack of commitment to local rights
  - Re-zoning of forest to favour conservation
- Weak business models
  - Reliant on philanthropic subsidy
  - ‘Rent’ model: Cash for not cutting down trees
- Instinctively conservative
  - Nothing changes, nothing moves.
Conservation investors: Opportunities

?
Shared Opportunities: Legal & Institutional

- Encapsulate rights in legible framework
- LCF groups become effective counterpart
- Design holistic REDD models
- Trusted arbitration
- Investors lead on tenure reform
Shared Opportunities: Autonomy

- Rights holders determine development path
- FPIC as strategic activity
- Confidence to say “yes”
- Business is separate body, and has rights too
Shared Opportunities: Capacity

- Role of soft investment
- Training costed into business plan
- Exposure to price signals and competition
- Nurturing leaders (without disrupting social norms)
Shared Opportunities: Access to Finance

- Assess commercial opportunities, rather than development needs
- Portfolio approach, with transaction costs covered by social investors
- Supply chain innovations
  - Warehouse receipt scheme
  - Raw material terminal
  - Equipment leasing
Shared Opportunities: Partnerships

- Profit sharing rather than paternalism
- Role of intermediaries (culture / power / logistics)
  - NGOs deliver services, funds and networks broker deals
- LCF groups could assemble portfolios
- Devise Standards
  - Code of practice
  - Transparency
  - FPIC
Conclusion

- ‘local control is a process’
- Carbon markets are both threat and opportunity
- ILCF is preferable to just collecting rent
- Trade-offs will be required
- Investors and rights holders can cooperate to reduce risk and transactions costs