



# **Investment in Locally Controlled Forestry: Implementation of the guide**

**Chris Buss**

**UNFF Ad Hoc Expert Group on  
Forest Financing**

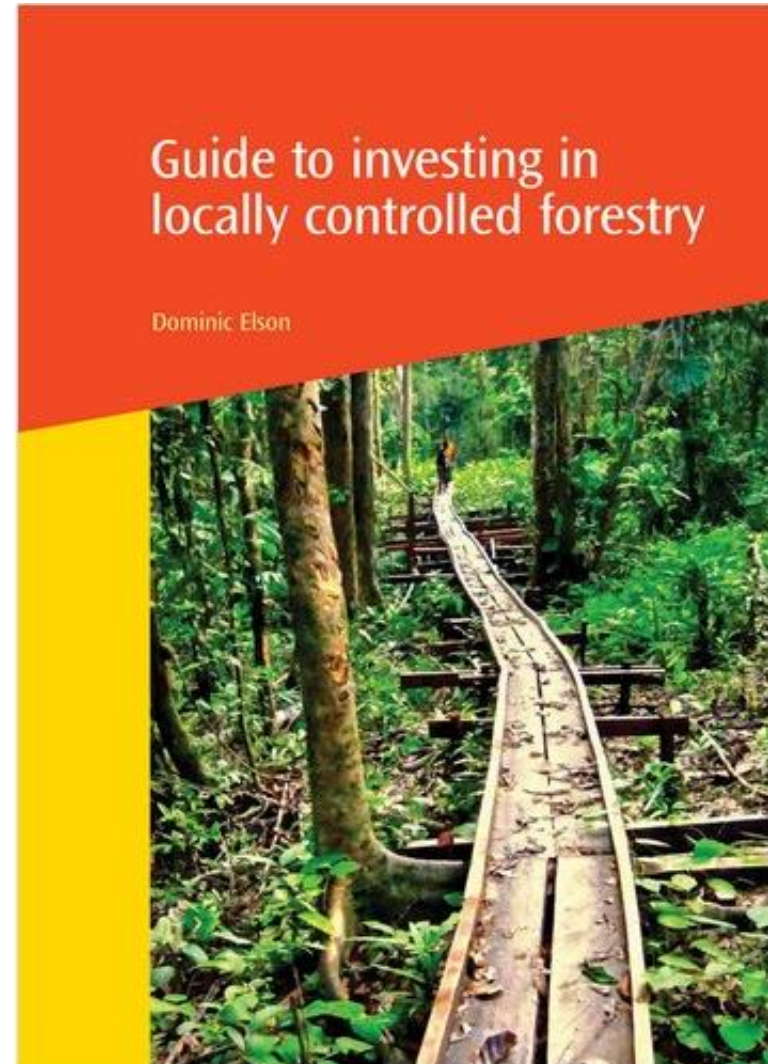
**Vienna, Austria**

**16<sup>th</sup> January 2013**



## Why now?

- The need to mobilise the growing amount of funds available for investment in forests – carbon & impact investment as examples
- Development of a process for improving the quality and quantity of investments in locally controlled forests
- Identification of viable options for investment through international and national economic assessments of carbon stocks
- Interest with investment funds, philanthropic foundations





# Moving forward – implementation of the guide

- Identify priorities and opportunities to enhance the mobilisation of private sector investments in LCF activities,
- Develop partnerships and a framework of engagement that can provide ideas, innovative financing mechanisms and support for investments in LCF activities.



# Investment opportunities

- Rights holders – to build resilient and viable economies, reinforce tenure & rights
- Governments – SME's and forest investment driving growth, multiple social benefits (health, education), improved landscape management
- Donors & NGO's – a model for local development
- Climate change – low carbon development & enhance carbon stocks through improved forest management
- Investors – real returns and a move beyond CSR



# Types of investment

## Enabling Investment

- Made by governments, donors, NGOs, philanthropists, rights-holders
- To create the conditions for productive investments in assets.
- SME forestry business models, associations, market linkages and new technology.

## Asset Investment

- Not expected to lose the nominal value of the underlying capital, even if the anticipated level of financial return may vary according to the needs
- The capital invested is an asset, which either has immediate tangible value or gives the right to receive future cash flow..
- **Profit**-oriented investors are looking for places to invest their money and earn a return on their assets. They include banks, government sovereign wealth funds, private equity funds and pension funds.
- **Product**-oriented investors are involved in some kind of manufacturing or sales business and are either seeking raw materials, or products they can sell. They include processing mills, specialist manufacturers and wholesalers.

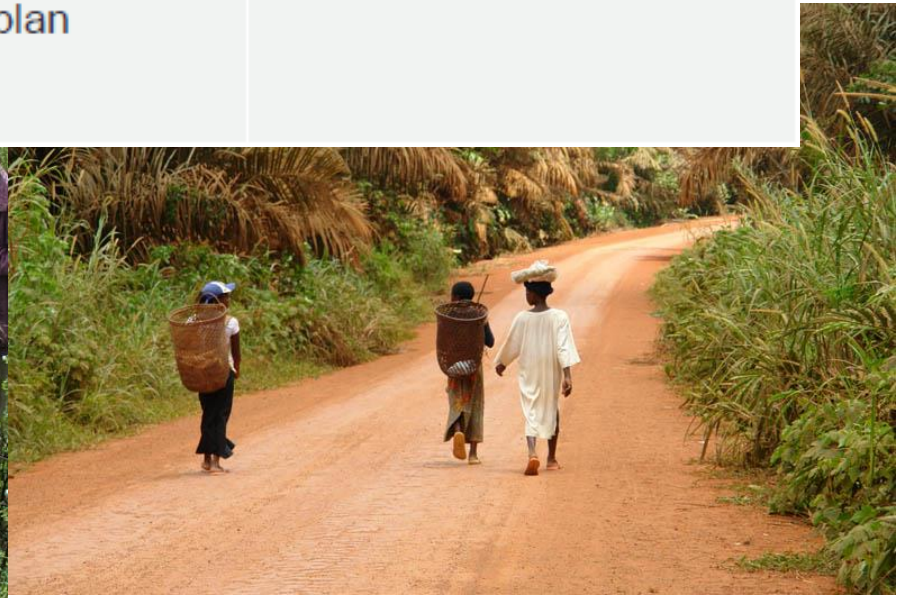
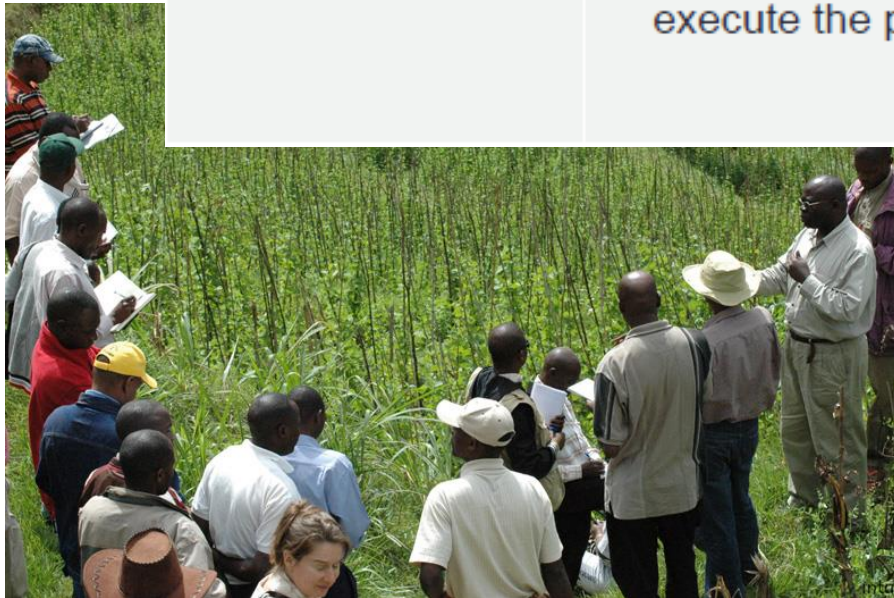
# Investment Framework

Type	Enabling Investment			Asset Investment			
<i>Investor</i>	Government	Donors Philanthropists	Rights-holders Product investors Philanthropists	Private sector companies	Philanthropists SWFs* Rights-holders	Banks	Private investors and equity funds
<i>Vehicle</i>	Projects	NGOs Research institutions	SMEs Intermediaries	Product purchase	Capital investment	Financial services	Capital investment
<i>Goal</i>	Private sector development		Fill the 'Pioneer Gap',	Sustainable supply chain, quality product	Return on capital plus social / environ-mental impact	Payment of interest and return of principal	Risk-adjusted return on capital
<i>Means</i>	Public expenditure, e.g.: Infra-structure Fiscal reform Regulatory reform Subsidies	Grants, e.g. Organizational development, Institutional reform	<b>Enterprise Philanthropy:</b> Grants and seed funding, e.g. demonstrating validity of business model	<b>Product investment</b> via Purchase order, pre-payments	<b>Impact investment</b> via equity, loans	Loans secured against company or personal assets (e.g. land)	<b>Value investment</b> via: equity, loans
<i>Output</i>	Public goods			Private assets			



# What does enabling investment achieve?

Task	Constraints	Action
Influence the <b>external</b> conditions	<ul style="list-style-type: none"> <li>• Governance</li> <li>• Tenure</li> <li>• Isolation</li> </ul>	<b>Organise</b> through cooperatives, associations & federations
Improve the <b>internal</b> conditions	<ul style="list-style-type: none"> <li>• Organisational structure</li> <li>• Sufficient capability to execute the plan</li> </ul>	Seek & manage <b>partnerships</b>

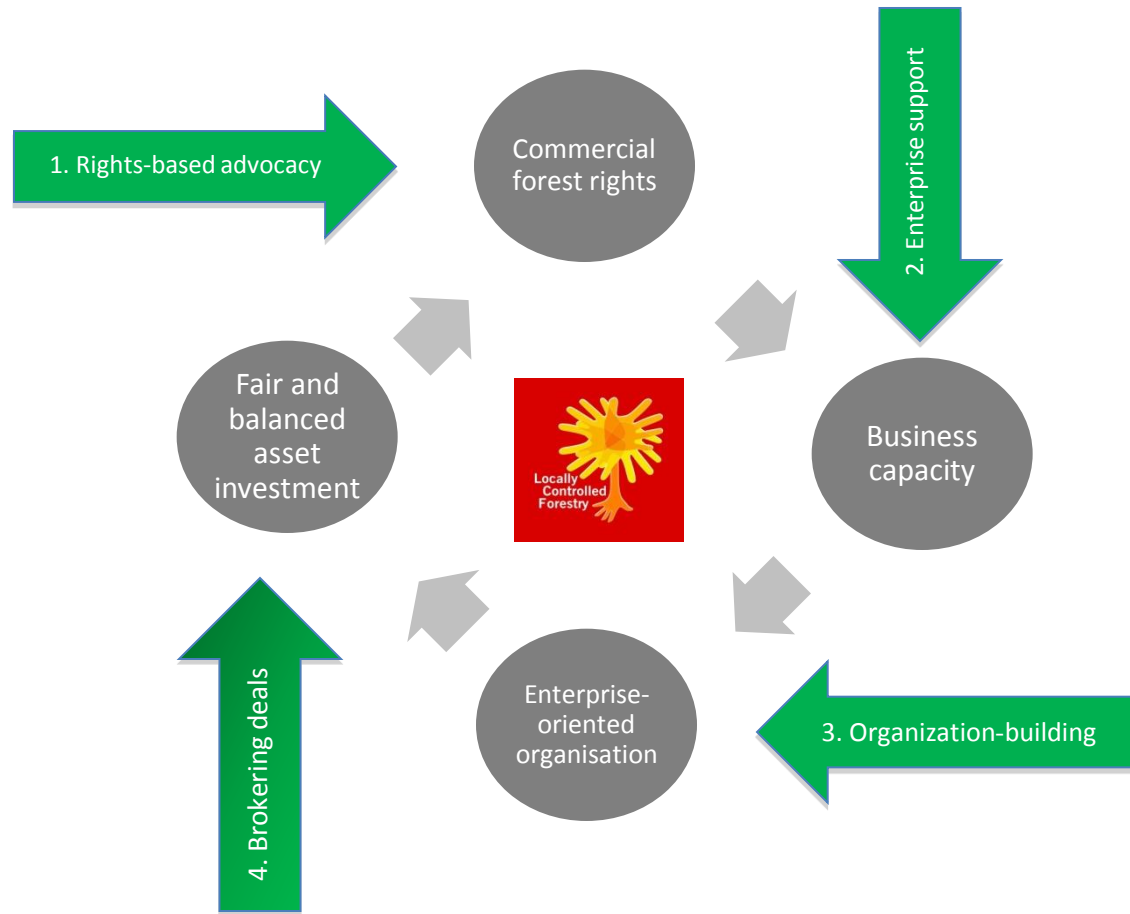




# Ingredients for success

- Clarity of tenure and rights
- Good enough governance
- Organisation to define roles and generate economies of scale
- Forming partnerships
- Business Development Services
- Intermediaries and brokers
- Transparency and accountability
- Agreed goals and expectations
- Checks and balances
- Respect different values and embrace change

# Cycle of investments



# Roadmap to Success

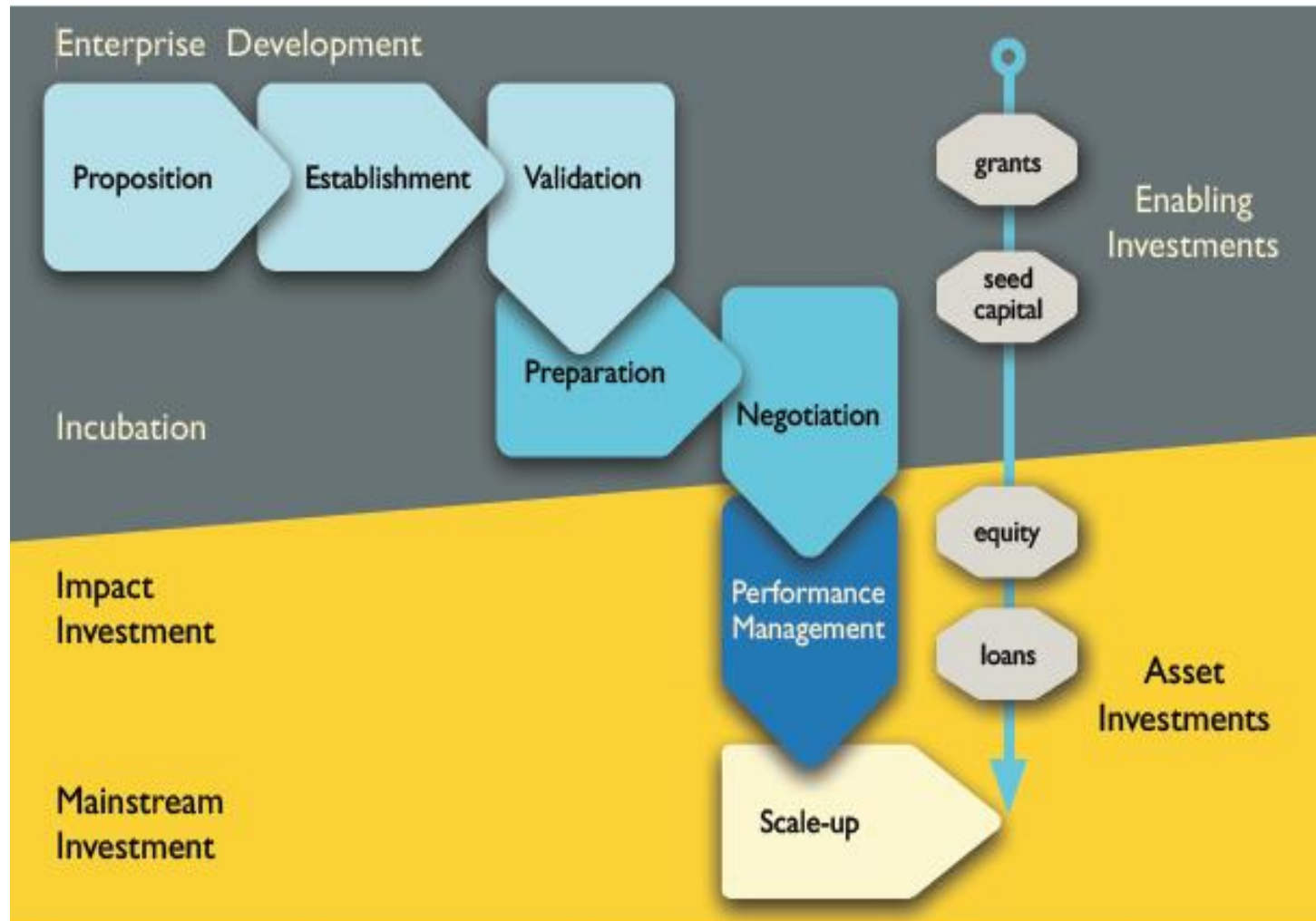
## ILCF Guide & Process

- Proposition
  - Aim to build a sustainable business
- Establishment
  - Institutional development & partnerships
- Validation
  - Situational analysis & feasibility
- Preparation
  - Business plan, funding model & offer to investors
- Negotiation
  - Due diligence, terms and shared vision
- Performance
  - Impact monitoring and conflict resolution





# Roadmap to success



# Enabling Investment – the next step

- Forest and Farm Facility aims to develop institutions at local level.
- Further understanding of opportunities for asset investment – understanding the value chain and policy frameworks at national level.
- Develop partnerships (international, regional, national & local) with private sector and enabling investors to mobilise enabling investment in order to develop investment propositions.



# Thank you!



Elson, D.(2012), *Guide to investing in locally controlled forestry*, Growing Forest Partnerships in association with FAO, IIED, IUCN, The Forest Dialogue and the World Bank. IIED, London, UK.

