

THE FORESTS DIALOGUE

The ILCF Process Model

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Field Dialogue on Investing in Locally Controlled Forestry
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Overview

- How can LCF happen in Indonesia?
- Benefits of investing in locally controlled forestry
- Changing the paradigm
- Investor types
- What investors look for
- Ingredients for success
- Business models
- Partnerships & Stakeholder roles
- LCF role in REDD+
- Theory of Change

How?

- Some local leaders may see the economic and social value of LCF and lobby central government for change (e.g. through RTRW)
- Engage with private sector that may have some influence with policymakers
- Use existing tenure instruments (e.g. HTR) to encapsulate rights to use forest land, while longer term tenure reform efforts continue
- Devise financial structures that can release the cash Indonesia already has available for reforestation
- Forest communities need to get organized

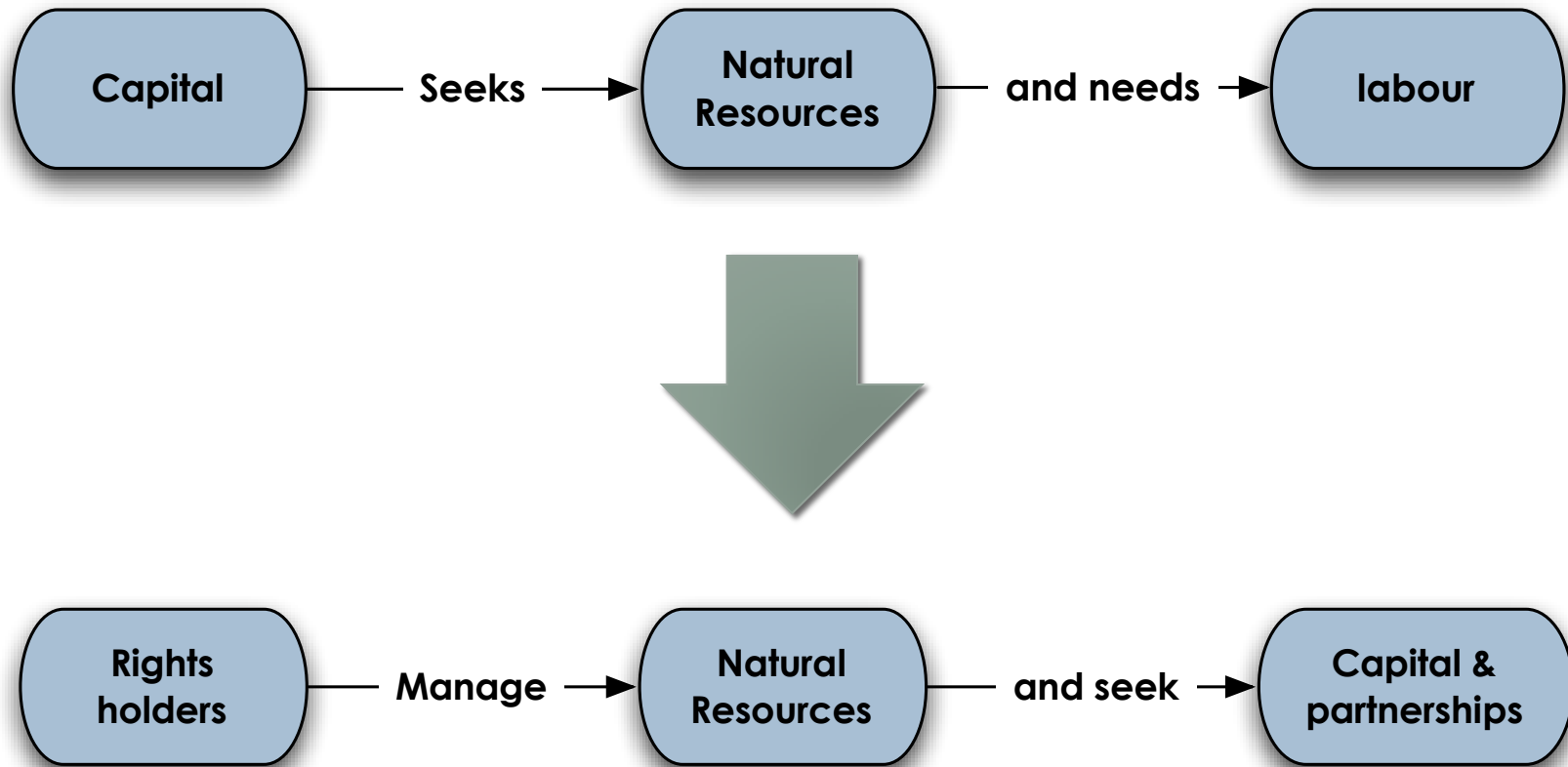
The ILCF approach

- Work in progress
- Will be produced as a guide – today is part of the learning process
- However we got here, it is time to look ahead and work together on solutions
- Every case is different, but there are some common features

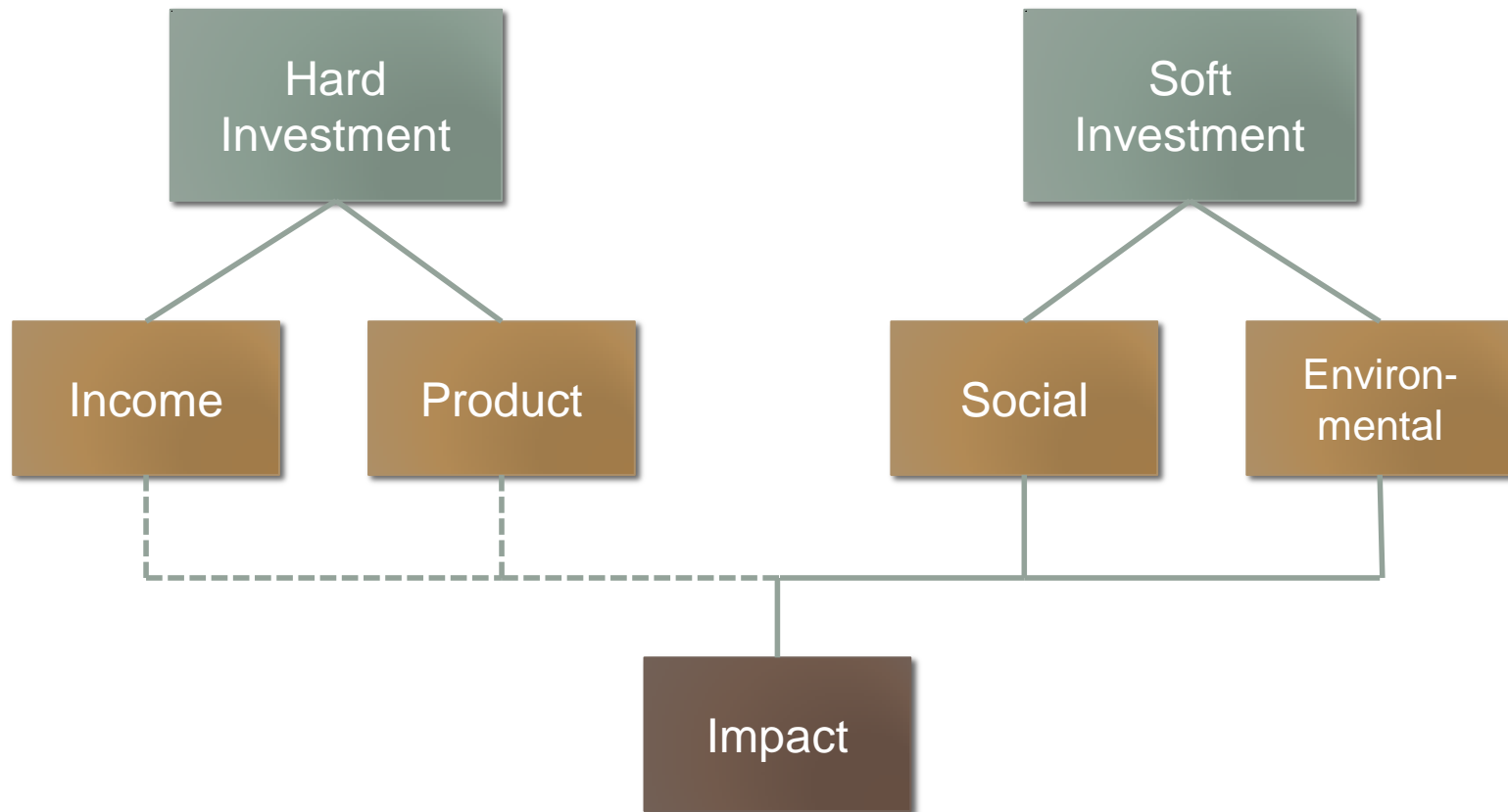
Benefits of Investing in Locally Controlled Forestry

- For Governments
 - Poverty reduction
 - More efficient land use and economic competitiveness
 - Growing SME sector for a balanced economy
 - Tenure reform correlated with stable development
- For Investors
 - Secure raw material supply
 - Reduce risks in supply chain, lower cost of capital
- For Donors, NGOs and civil society
 - Build citizenship and achieve institutional change
 - Mitigate climate change

Changing the Paradigm



Investor Types



What investors look for

- Compatible goals
- Sensible and complete business plan
- Enterprise is formal and has legal permits
- Liquidity of assets
- Scale
- Track record
- Capacity
- Tenure
- Risks and returns
- Market constraints

Ingredients for success

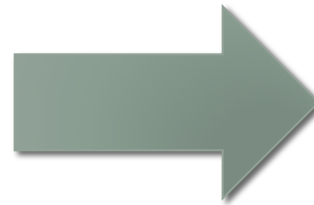
- Favorable Conditions
- Business models
- Partnerships
- Organisation

Favorable Conditions

- Viable business and value proposition
- Transparency and accountability
- Clarity of tenure, rights and obligations
- Organizational structure with clear roles and mandate
- Mutual learning and flexibility in order to improve performance
- Agreed goals, expectations, benefit sharing and exit strategy
- Checks and balances on decision making to overcome disagreements
- Good enough governance
- Respect different values and embrace change

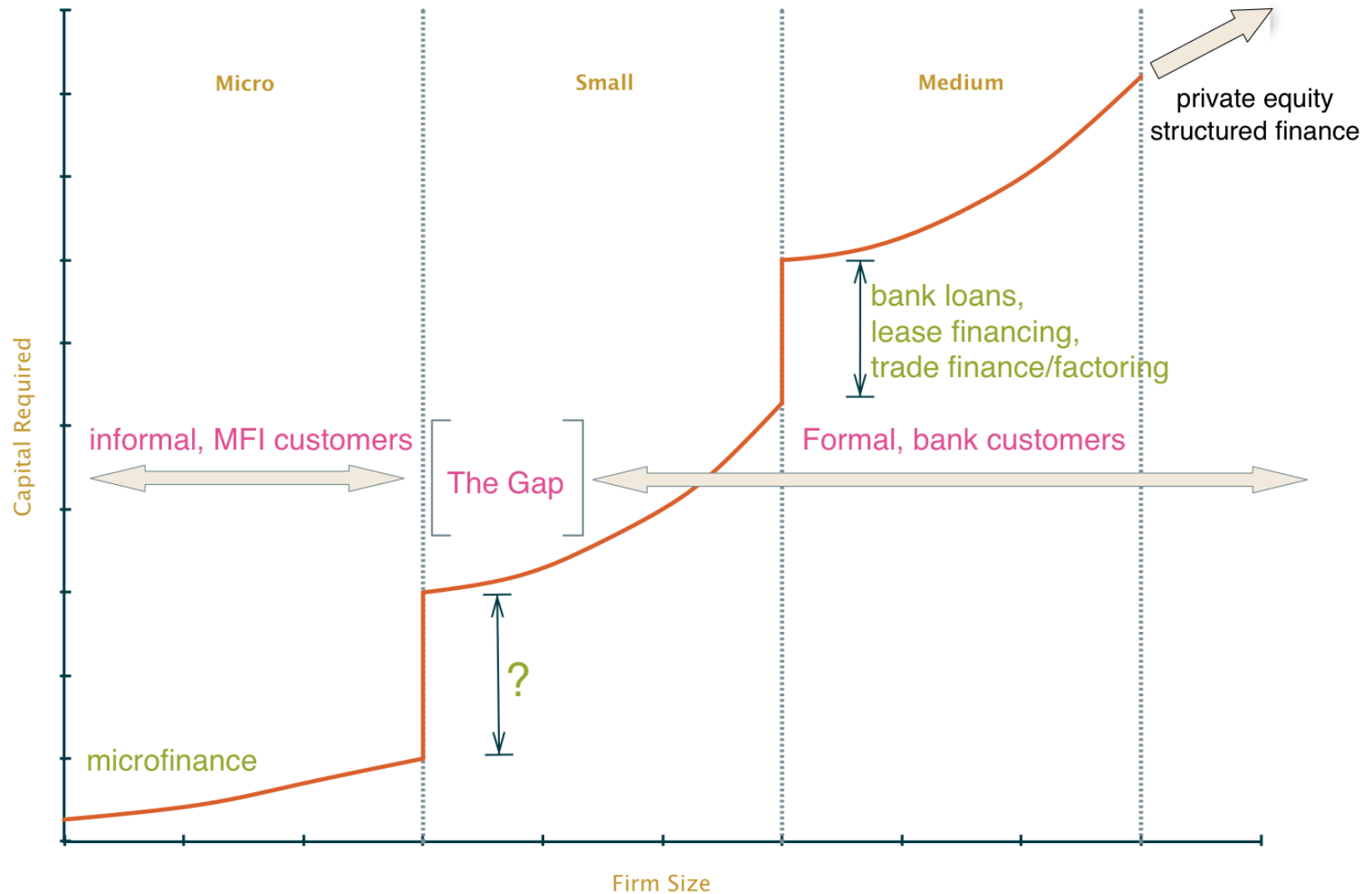
Conditions are inter-related

Flexibility
Transparency
Accountability
Values
Checks & balances
Mutual learning



Building
Trust

Business Models



Business Models

- Dealing with delayed cashflow
- Risk mitigation
- Targeted marketing: What does the customer value?
 - Standards (e.g. FSC)
 - Special features (e.g. 'community product')
 - Quality, price or service

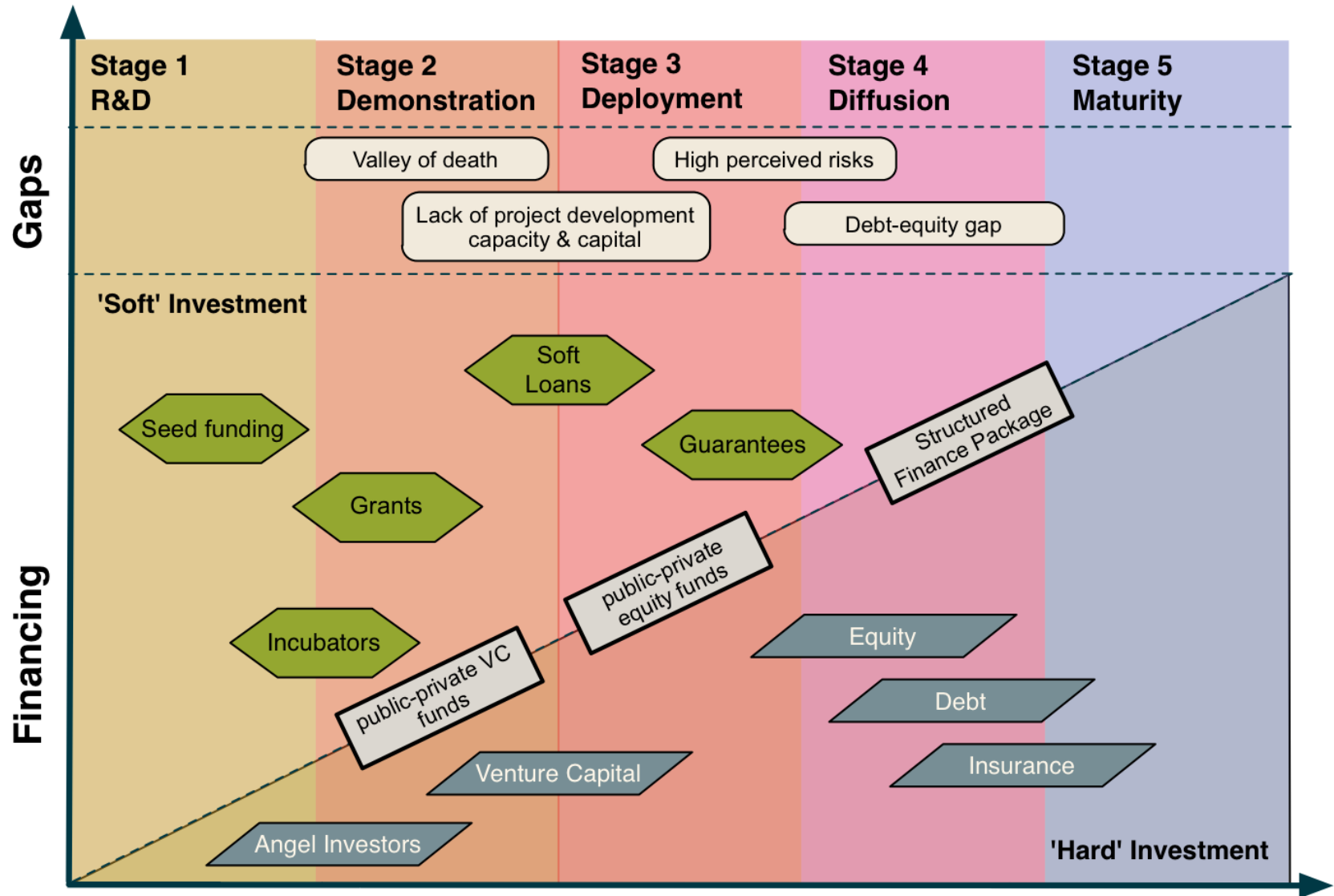
Partnerships

- Need for credible partners to attract investment
- Overcome power imbalances and information asymmetry in the relationship
- Become less isolated
- Building trust
- Service Providers: Technical, marketing, management systems (e.g. finance)
- Mentoring (especially for leaders)
- Joint ventures with downstream buyers to learn skills

Roadmap

- Preparation
 - Concept development & feasibility study
 - Organizational development
 - Medium term planning
 - Define milestones and timescale
- Negotiation
 - Deal development, due diligence
- Agreement of the deal
- Operation
- Dealing with disputes
- Benefit sharing and exit

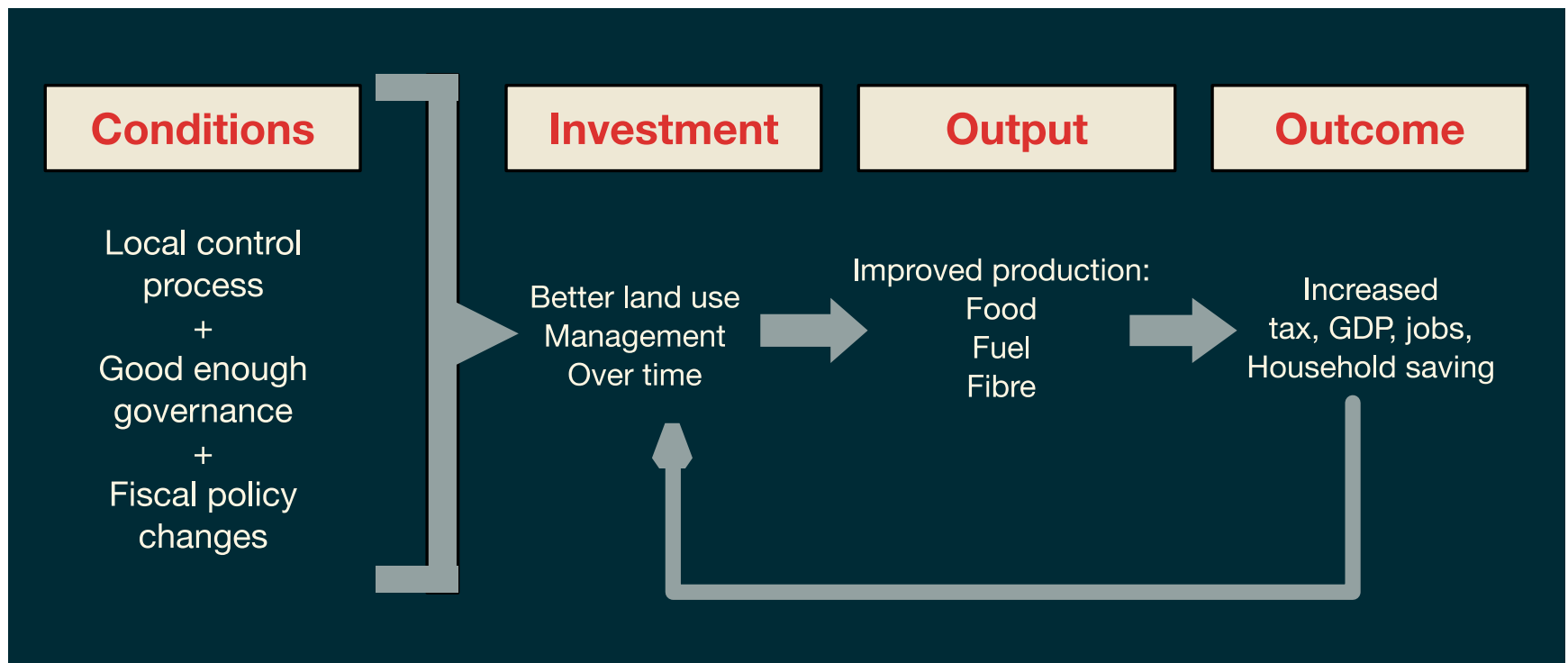
Stakeholder Roles



LCF and REDD+

- There is a danger that REDD+ leads to a re-centralization of control of the forest
- Put people before carbon
- Real jobs and real enterprises, not just welfare (e.g. BLT)
- Allow market to allocate capital efficiently
- Reduce theoretical reliance on carbon markets
- Create sustainable finance for better land use management

Theory of Change



Terima kasih.

To discuss in groups

1. Options for appropriate business and investment models (*pilihan model investasi serta bentuk usaha yang paling sesuai*)
2. How can Partnerships help bring about investment in LCF (*Bagaimana bentuk kemitraan yang dapat membantu mewujudkan investasi di usaha hutan yang dikelola oleh masyarakat*)
3. Persuading policymakers of the benefits of LCF, to bring about policy change and improved enabling environment (*Bagaimana meyakinkan pemerintah (termasuk Pemda) untuk membuat kebijakan yang memungkinkan adanya investasi di usaha hutan yang dikelola oleh masyarakat*)
4. The role of LCF in mitigating climate change and ensuring REDD+ projects are successful (*Peran hutan yang dikelola oleh masyarakat dalam mengurangi emisi karbon dan memastikan proyek REDD+ berjalan dengan sukses*)