THE FORESTS DIALOGUE

The ILCF Process Model

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Field Dialogue on Investing in Locally Controlled Forestry
16-19 April 2012 – Växjö, Sweden

Overview

- Benefits of investing in locally controlled forestry
- Changing the paradigm
- Understanding investment
- Ingredients for success
- Business models
- Partnerships & Stakeholder roles
- LCF role in REDD+
- Theory of Change

The ILCF approach

- Work in progress
- Output: The 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 with 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
  - Return on capital plus impact
  - Reduce risks in supply chain, lower cost of capital
- For Donors, NGOs and civil society
  - Build citizenship and achieve institutional change
  - Mitigate climate change

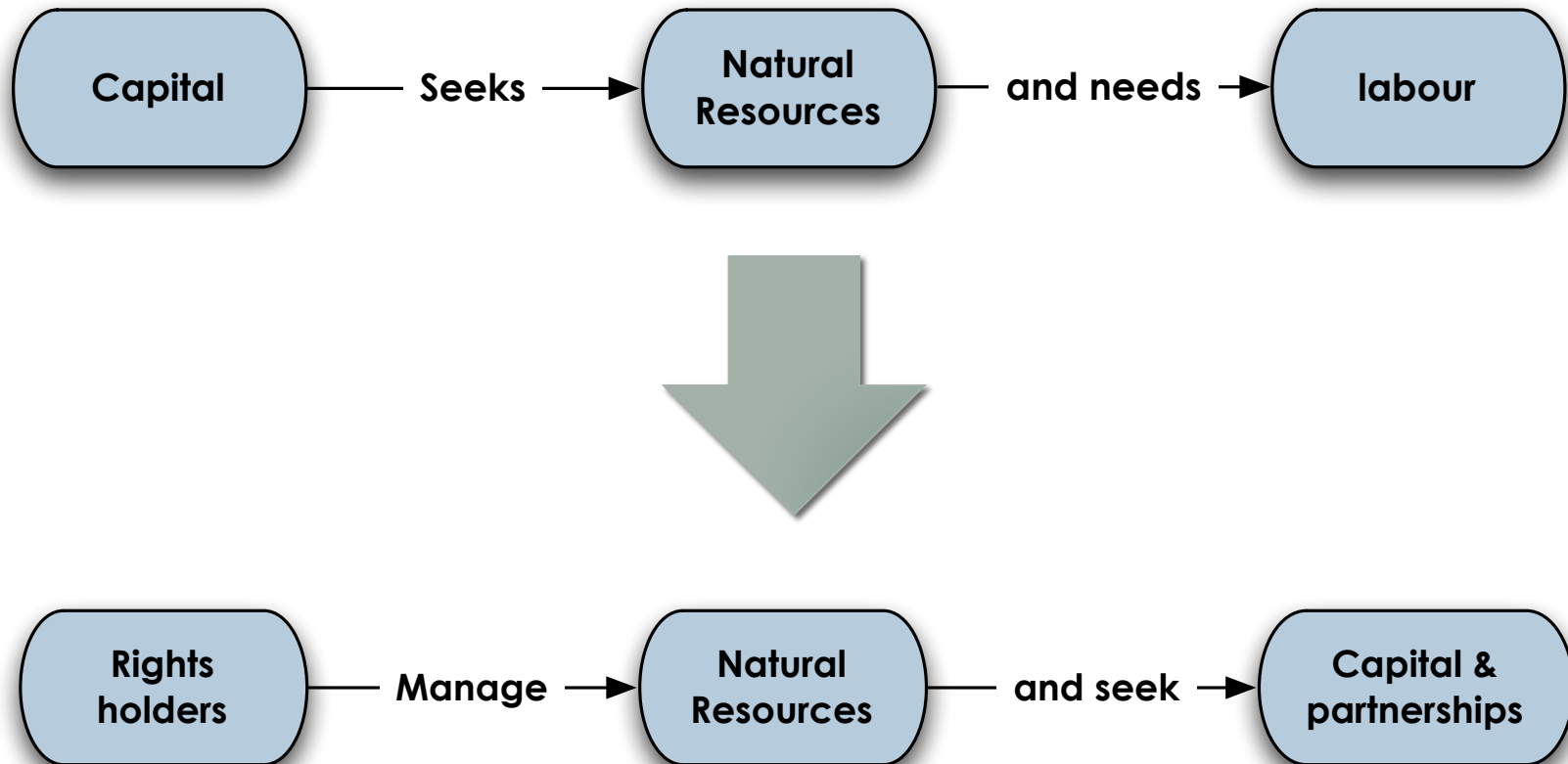# Benefits of Investing in Locally Controlled Forestry - for Rights-holders

Can we go to Sweden?

- History of change (development...)
- Role of consent
- Correct market failure
- Role of off-farm employment
- Evolution from livelihood to lifestyle

LCF is not inevitable!

Changing the Paradigm

Capital	→ Seeks →	Natural Resources	→ and needs →	labour

| Rights holders	→ Manage →	Natural Resources	→ and seek →	Capital & partnerships

# What is investment?

Investment {inˈves(t)mənt}

1. The action or process of investing money for profit or material result

2. A thing that is worth buying because it may be profitable or useful in the future

3. An act of devoting time, effort, or energy to a particular undertaking with the expectation of a worthwhile result

[Oxford American Dictionary]

Investment Types
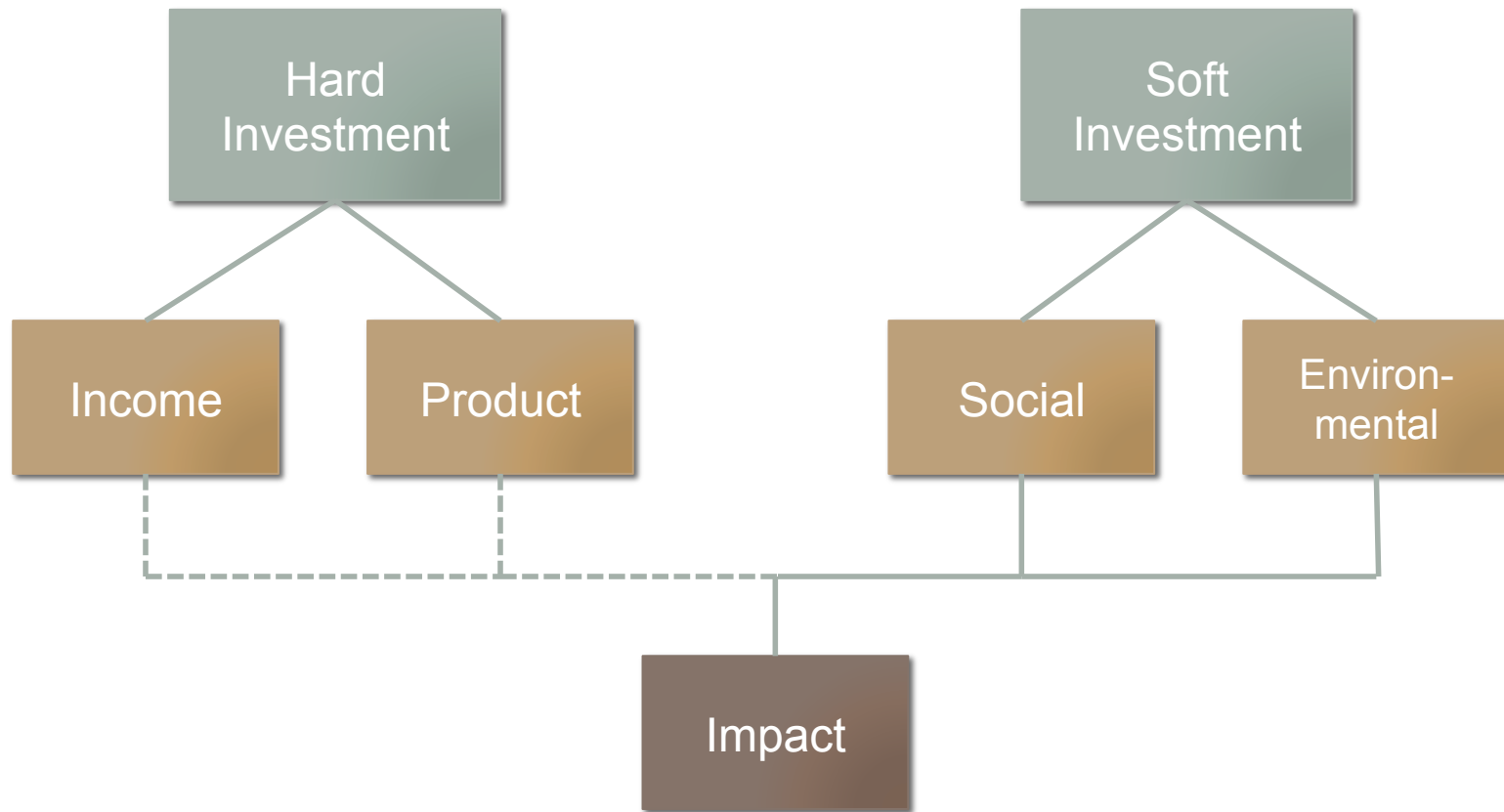
Sequence of investment types
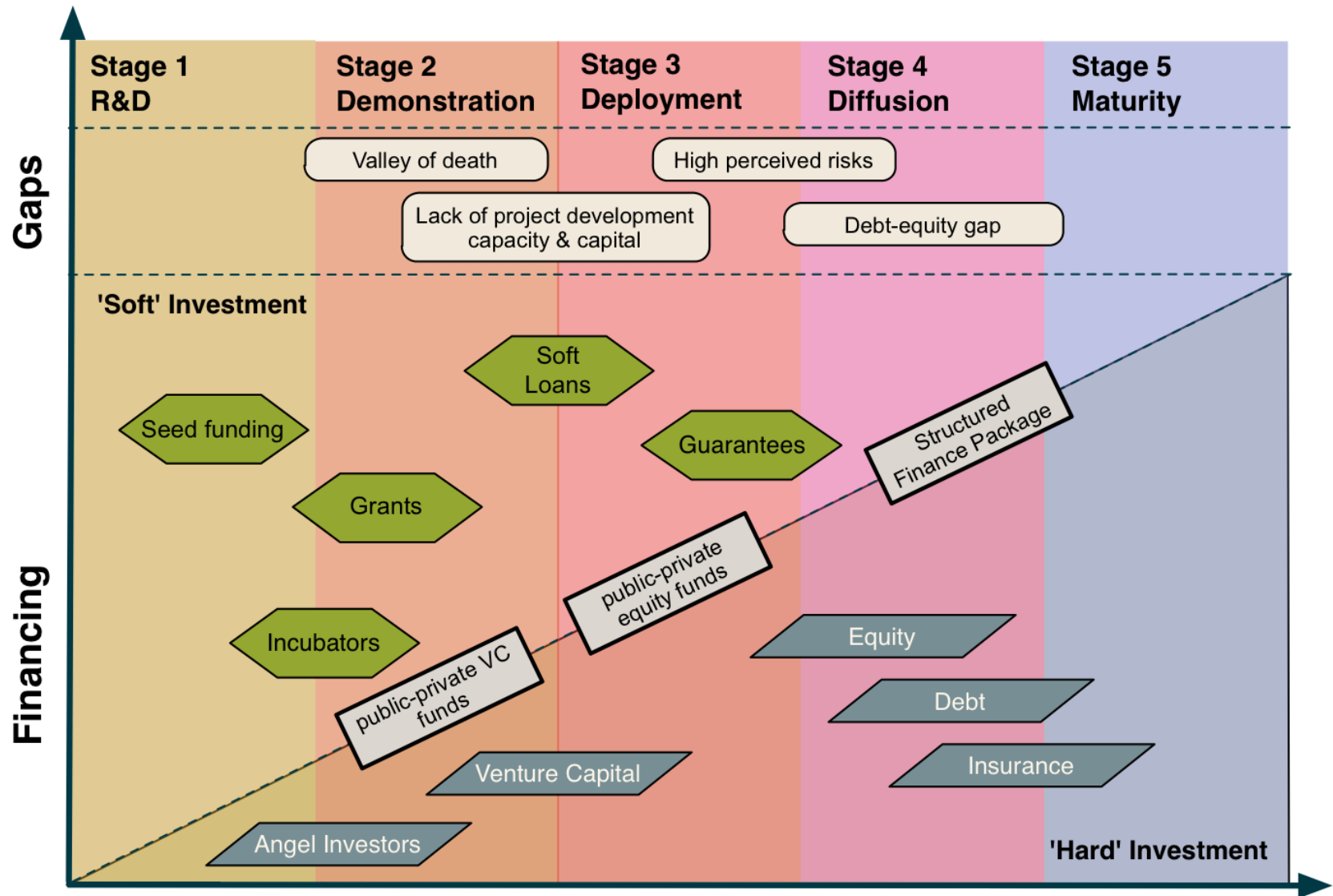
What investors look for

- 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
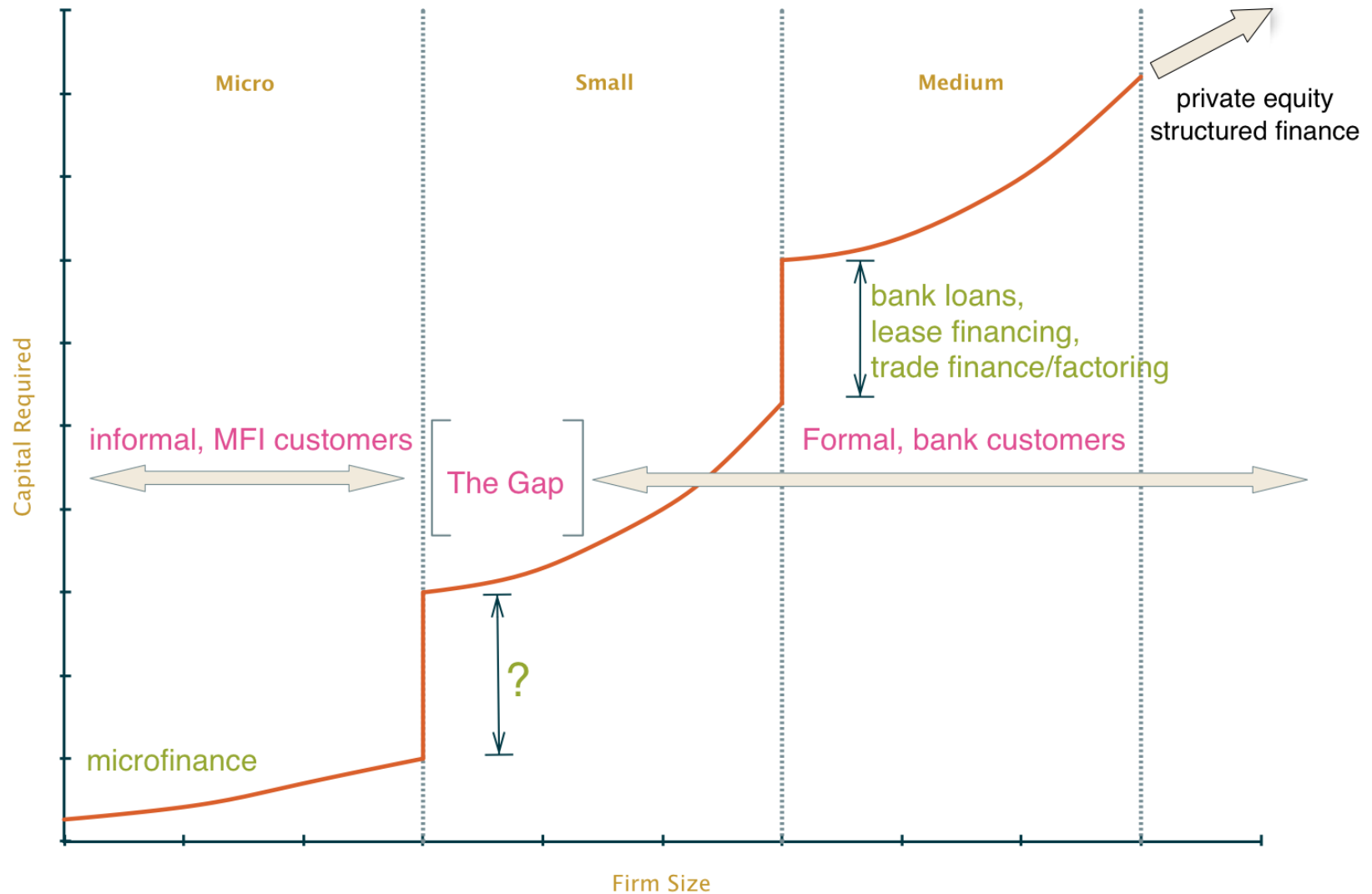- Respect different values and embrace change

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

- Establishment
- Preparation
- Business Planning
- Negotiation
- Performance Management

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
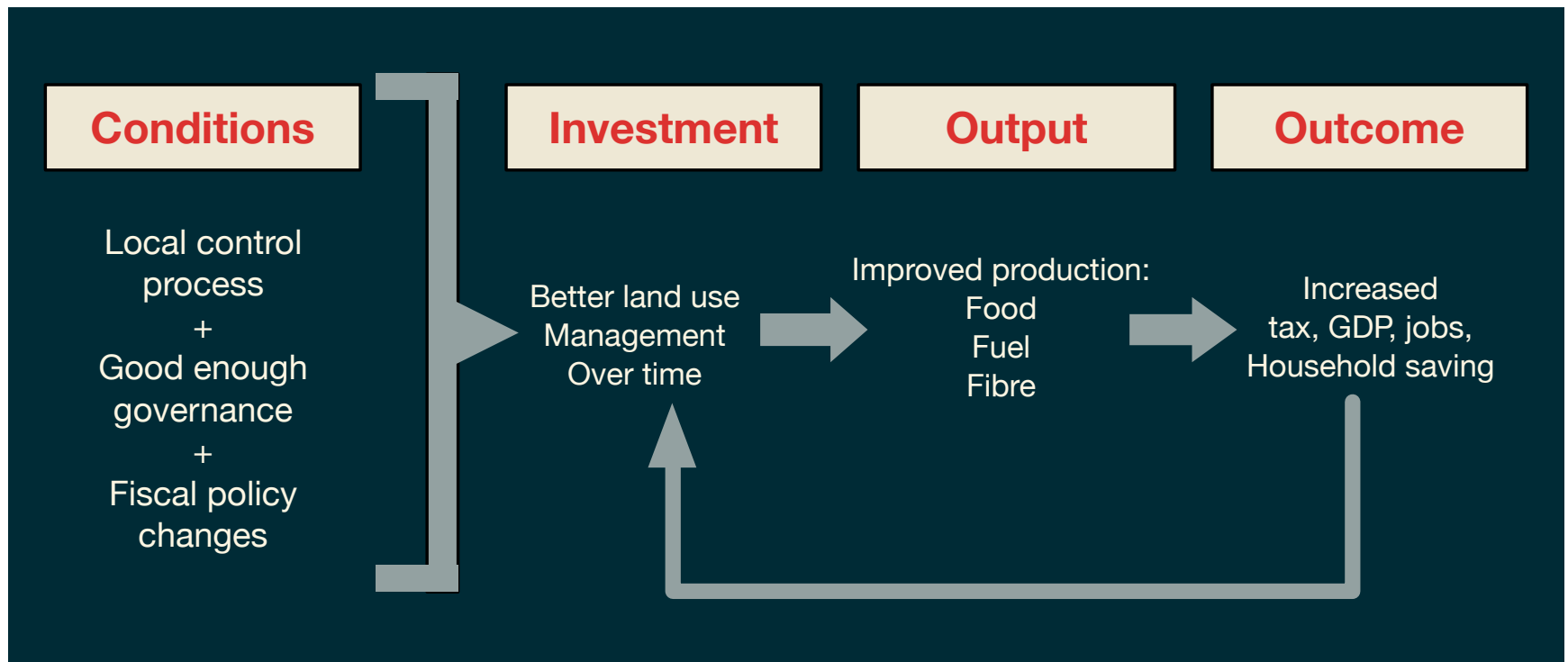
Sweden is this way…

Terima kasih.

To discuss in groups

What lessons can be learned from the Swedish experience that could be applied to improve locally controlled forestry in other countries? For instance:

a) **<u>Finance</u>:** what models can help make the the business case for smallholder forestry more attractive? Who needs to invest? What is the blend of hard & soft investment?

b) **<u>Partnerships</u>:** how have different stakeholders worked together to bring about a combination of profitable smallholder production with good social & environmental outcomes?

c) **<u>Conditions</u>**: what were the drivers of change? to what extent were the conditions unique, and what can be replicated elsewhere? How much time is needed? What level of 'development 'is a pre-condition for effective locally controlled forest management?

Day 1 Breakout Group

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