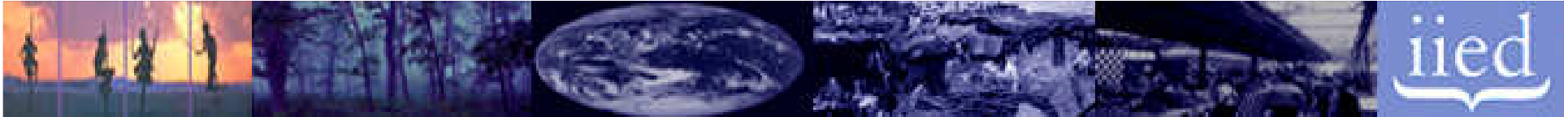


Investing in locally controlled forestry



Duncan Macqueen

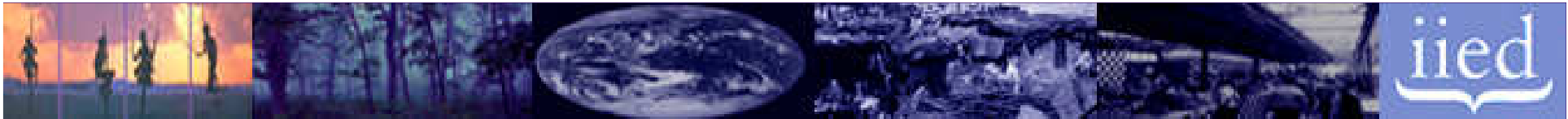
International Institute for Environment and Development (IIED)



Structure of this presentation

- Justification and problem statement
- Investment lessons
- Gap analysis
- Some conclusions about useful dialogues





Why invest in locally controlled forestry?



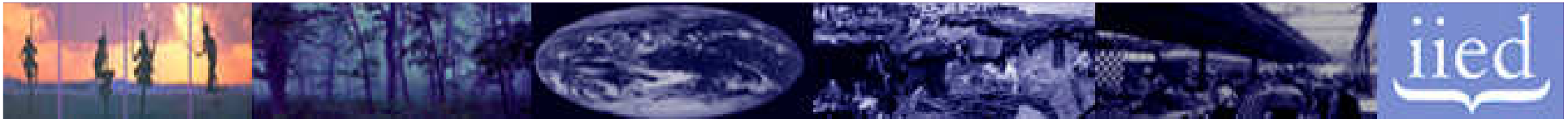
- Resource access - 22% of forests owned or managed by developing country communities – doubling in last 15 years – conflicts due to external resource appropriation decrease
- Social impact - > 20 million people (50%) – formal employment by SMFEs (140 million informal) in areas of poverty – local entrepreneurship / service networks spread
- Economic impact - > US\$130 billion/year - gross value added by SMFEs worldwide despite unjust timberland allocation – wealth accrues locally
- Environmental impact – US\$ 2.5 billion invested in conservation by tropical forest communities (more than all aid combined) – key to AD and REDD - local environmental and cultural accountability is strengthened



Locally controlled » SMFEs?

	Brazil	China	Guyana	India	S. Af.	Uganda
NUMBER as % of total	>98%.	87%	93%	87-98%	33-95%	-
EMPLOYEES as % of total	49-70%	50%	75%	97%	25%	60%
REVENUE as % of total	75%	43%	50%	82%	3%	60%

- Detailed diagnostics now carried out by Forest Connect in Brazil, Burkina Faso, China, Ethiopia, Gambia, Ghana, Guatemala, Guyana, India, Lao PDR, Malawi, Mozambique, Nepal, South Africa, Uganda.
- We are beyond dialogues on generic issues!

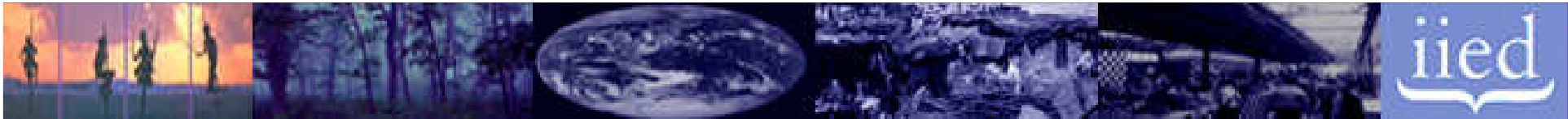


The central problem

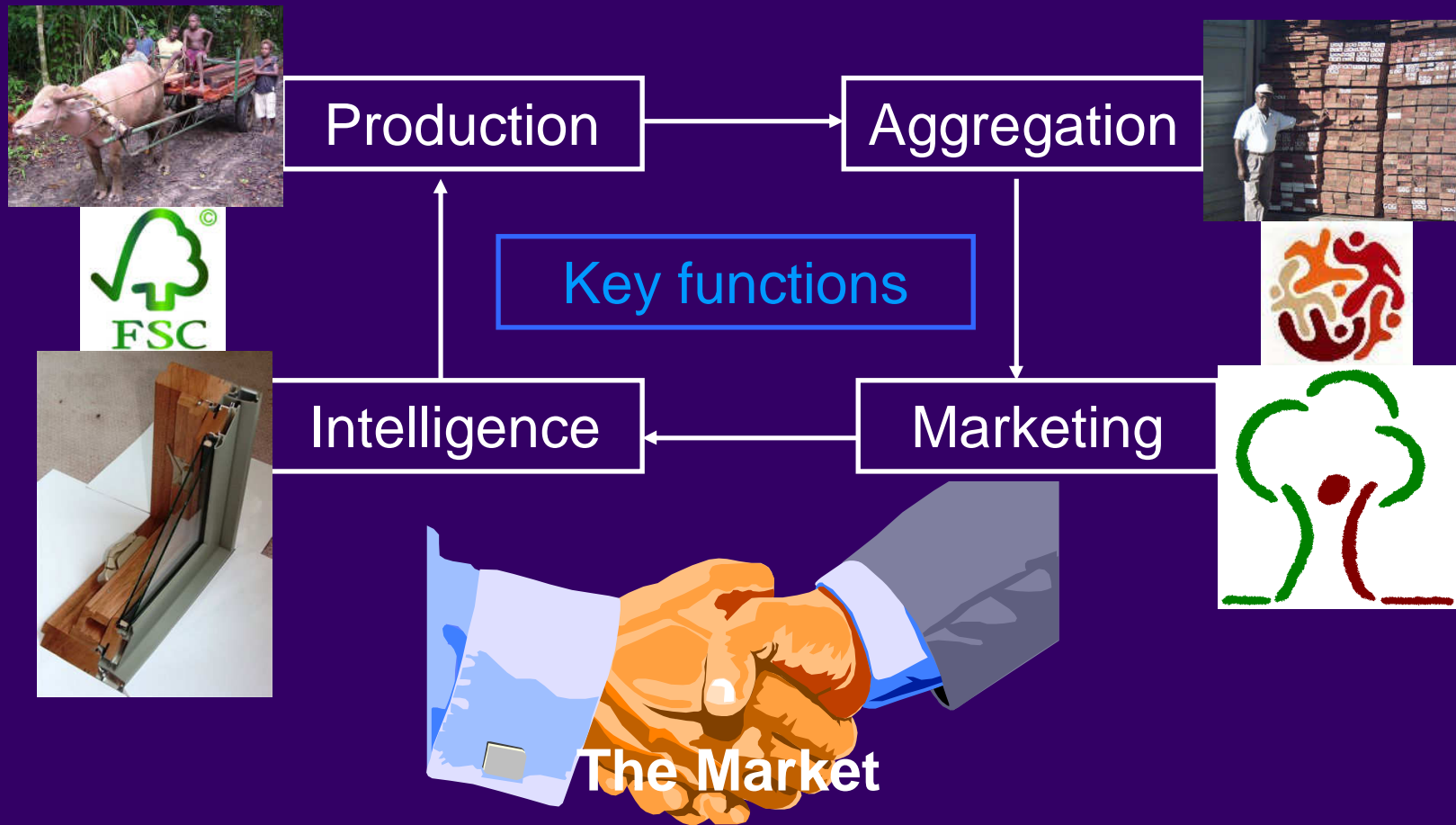


Isolation from:

- each other
- markets and market information
- providers of business development services (BDS) and financial services (FS)
- policy and decision-makers that shape the business environment
- Issues of trust, formality, geography, transport and communication infrastructure, scale, staff capacity, language etc.



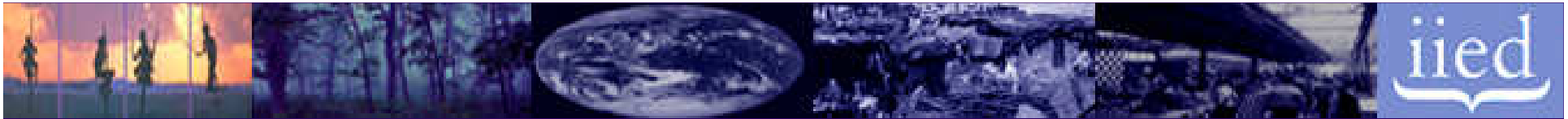
The dimensions of that problem



Structure of this presentation

- Justification and problem statement
- **Investment lessons**
- Gap analysis
- Some conclusions about useful dialogues

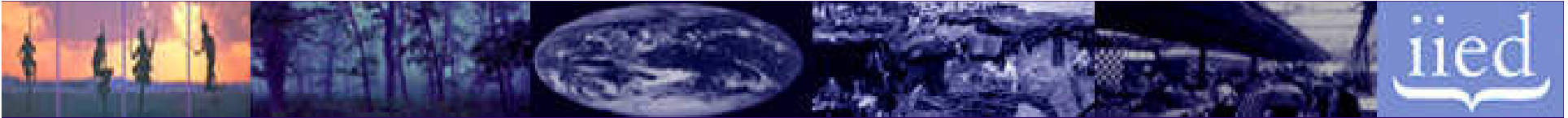




Key investment lessons



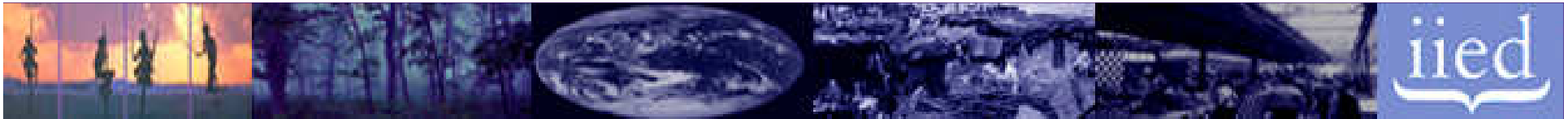
- **Enabling environment** – secure forest land tenure, commercial timber rights, fair taxes and business rights (the informal economy makes up 41% of gross national income in developing countries)
- **Service provision** – links to business development services (business planning, IT, marketing, technical support, couriers etc) and financial services (banks, micro-finance, venture capital, group lending schemes, insurance, leasing programmes)
- **Business models / markets** – Value chain arrangements that strengthen, distinguish and reward local control – e.g. Fairtrade / FSC



Lessons about success 1



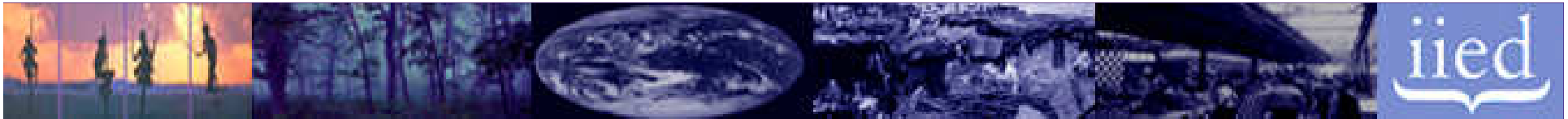
- **Enabling environment** - securing resource rights (e.g. Guatemala 15 community producers in ACOFOP have 560,000 ha certified by FSC in the province of Péten with dedicated company FORESCOM)
- **Service provision** – BERSMP links Ethiopian community enterprises to business development service providers such as Wild-living Resources, Kenya (for expertise in plant extract processing), Kenya Organic Agriculture Network (KOAN – for certification), Federal Small and Micro Enterprise Development Authority (for training in bamboo technology and design), Agri-science (for the development of Walbergia pesticide)



Lessons about success – business models



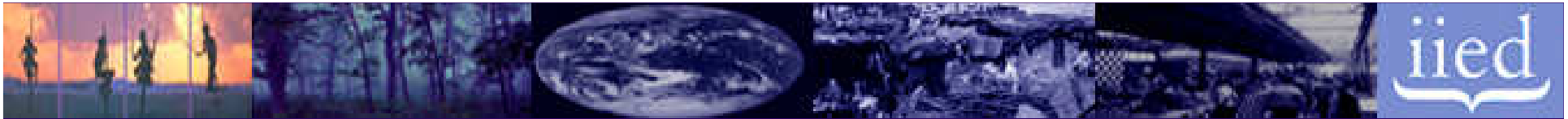
- **Sourcing** – Kenya Good Woods project - Coast Farm Forest Association provides timber to carvers and Kenya Coast Tree Products
- **Aggregation** - Improving bargaining power (e.g. Cooperfloresta – 5 community producers in Acre supply FSC buyers group)
- **Marketing** - building shared brands (e.g. FORCERT in Papua New Guinea developing ‘Community Based Fair Trade’, Pre-certified and FSC certified brands at 10%, 20% and 30% price premiums for Woodage, Australia)
- **Intelligence** – Iwokrama brings in Brazilian and US designers to improve Amerindian handicraft products



Lessons about failure 1



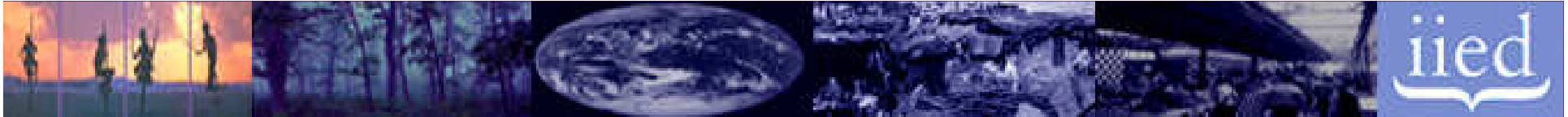
- **Disabling environment** – Unfair discrimination against community forest producers in Mozambique where land rights are granted by virtue of historic occupation but commercial timber rights given to large concessionaires.
- **Isolated producers** – e.g. Ghana where community producers are disorganised, un-reached by financial services, and poorly linked to business service providers



Lessons about failure – business models



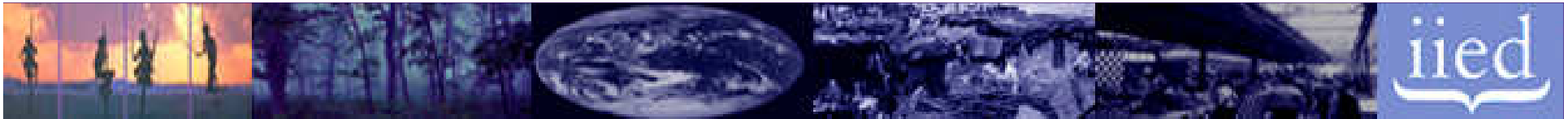
- Unsustainable sourcing – Guyanese Amerindian and Ituni small loggers associations responding to buyers rather than ecological capacity to supply.
- Low qualities and volumes – PNG and Solomons supply to B&Q of container loads of substandard, pest infested, poorly packed timber
- Poor marketing – Community produced, organic Jamaica blue mountain coffee sold in plastic bags by roadside
- Inferior design intelligence – Ethiopian chopping boards of prime hardwood with finishing so poor it give splinters



Structure of this presentation

- Justification and problem statement
- Investment lessons
- **Gap analysis**
- Some conclusions about useful dialogues



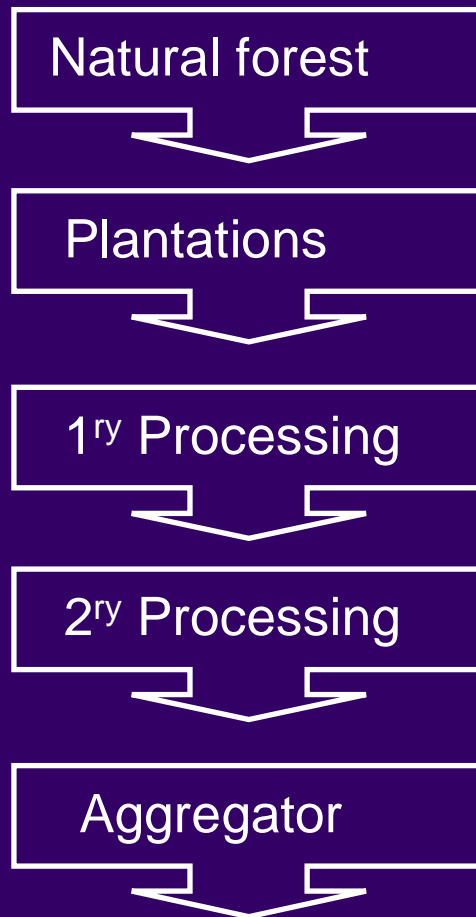


The governance gap



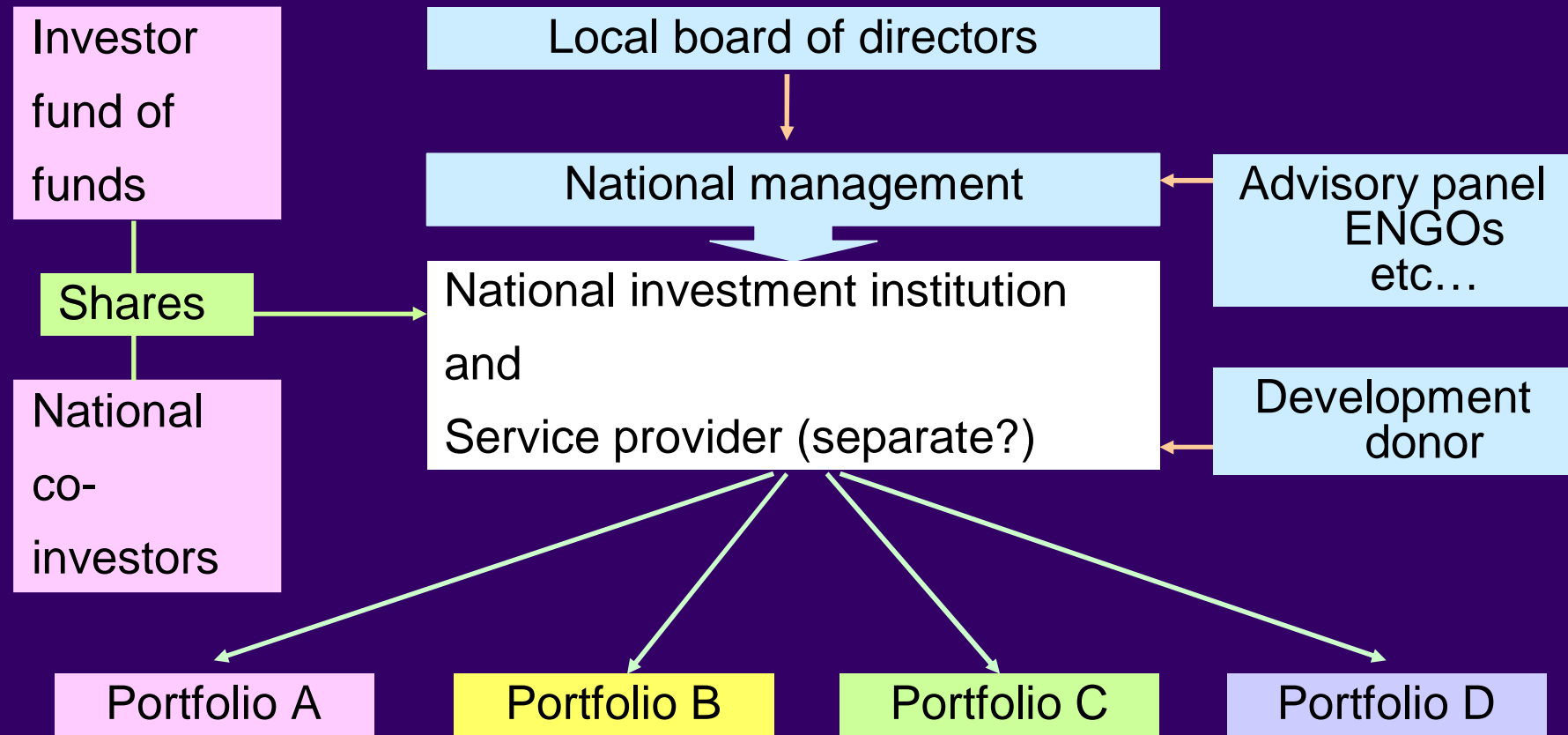
- Confused tenure (e.g. Government managing on behalf of stools in Ghana)
- Land / management rights do not tally with opaque allocation of commercial forest rights (e.g. Mozambique)
- Inaccessible formal registration of land, forest and business rights (e.g. Malawi)
- Tax regimes that favour big players (e.g. Guyana)
- No business extension mandate and highly variable enforcement practices (e.g. Ethiopia)
- Direct budgetary support and REDD liable to reinforce the above?

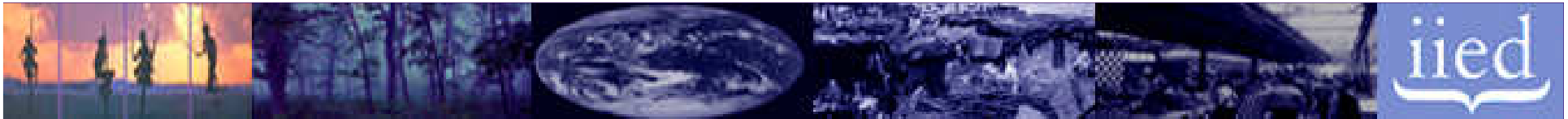
The investment gap



- Securitization of ES assets – e.g. capturing future carbon credit
- Timberland investments to secure land and timber cash flows
- **Venture capital / equity to allow drying, stock aggregation, timber treatment, primary processing**
- **Venture capital / equity to allow secondary processing**
- Co-investment / credit to purchase large-scale inventory of (part-) processed goods (usually able to access mainstream credit)

The investment gap (cont.)





The service provision gap

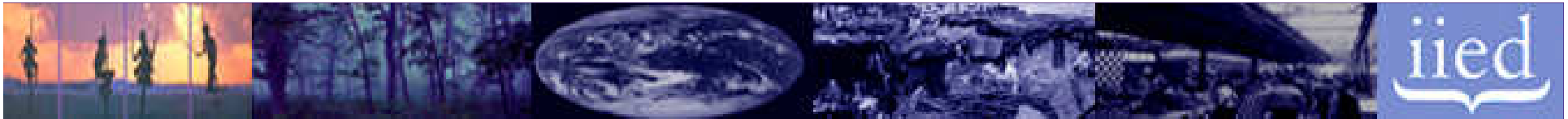


- Reaching SMFEs is tough
- Patchy NGO emphasis on business start ups, rarely business support
- Few forest extension services - still fewer doing business development
- Existing SME support programmes poorly known to foresters as they target other sectors (e.g. agriculture)
- Financial service providers treat forestry as high risk
- Market system development new concept in forest sector

The service provision gap (cont.)



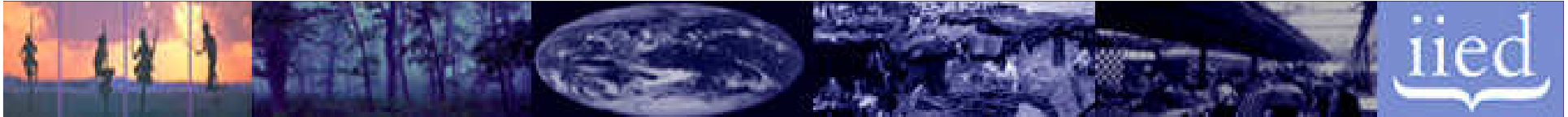
- **AUDIENCE 1. EXTERNAL AGENCIES**
- **COMPONENT 1. FACILITATION CAPACITY BUILDING**
- Module 1. Managing an international peer-peer learning group
- Module 2. Identifying national facilitation hub institutions
- Module 3. Setting up an evaluation process
- **AUDIENCE 2. NATIONAL FACILITATORS**
- **COMPONENT 2. FACILITATION PLANNING**
- Module 4. Introducing the 'market system development' approach
- Module 5. Planning, sequencing and exiting activities
- Module 6. Conducting small forest enterprise diagnostics
- Module 7. Mapping and benchmarking support services
- Module 8. Participatory value chain analysis
- Module 9. Designing communication strategies
- **COMPONENT 3. FACILITATION IN ACTION**
- Module 10. Developing market understanding
- Module 11. Product development
- Module 12. Business planning and business development services
- Module 13. Financial planning and the facilitation of financial services
- Module 14. Strengthening community enterprise governance
- Module 15. Building in ecological sustainability from the start
- Module 16. Policy research for change



The voluntary mechanism gap



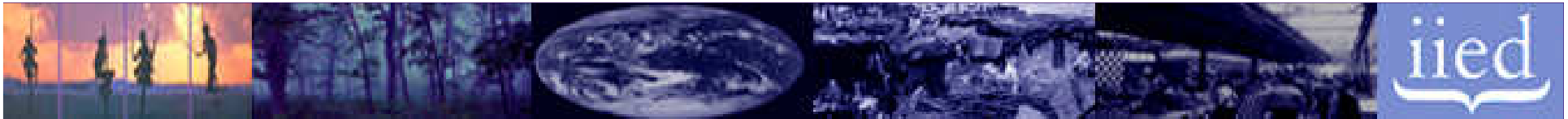
- Consumers have few ways of discriminatory purchasing (FSC / PEFC)
- FSC / PEFC are doing little for locally controlled forestry in developing countries
- Fairtrade pilot with FSC is now underway – potentially in Peru, Sudan, Guatemala...
- But most locally controlled forestry does not serve export markets in the North – e.g. Brazil



Structure of this presentation

- Justification and problem statement
- Investment lessons
- Gap analysis
- Some conclusions about useful dialogues

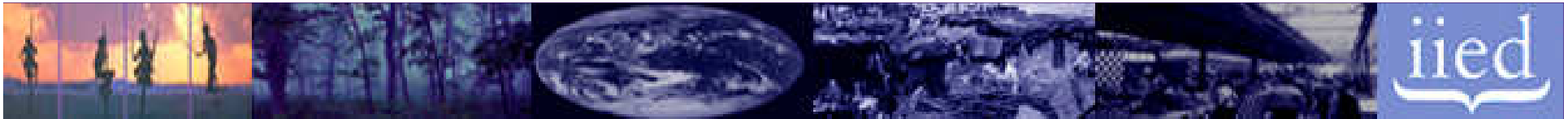




Dialogue options – some specifics



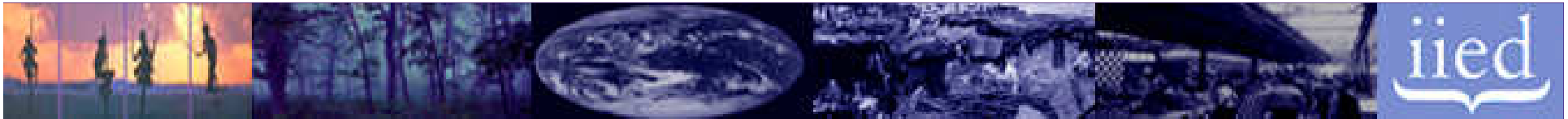
- Generic lists of problems have been done. Lets aim to make some progress!
- How can we best achieve investment brokering for SMFEs to achieve scale - portfolios attractive to major investors?
- What types of SMFE communication and support platforms work best and why?
- How can we build on new market mechanisms such as fair trade timber pilots or REDD payments to reward locally controlled forestry in the market?



Dialogue options – some lessons



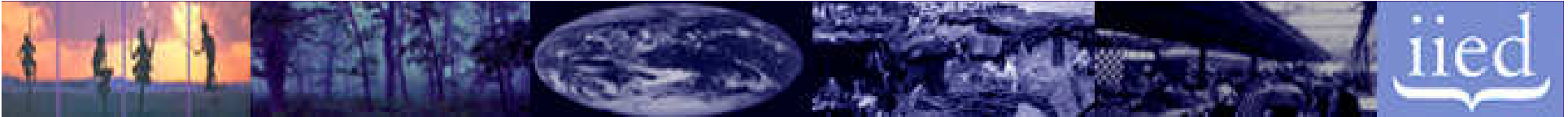
- International dialogues achieve little (e.g. UNFF). Lets involve people who matter!
- The most useful dialogues happen when South-South practitioners discuss field realities e.g. FGLG / FAS-Mozambique / Payments for watersheds etc
- To encourage sharing it is useful to provide resources for experimentation and documentation on a theme
- Dialogues that build in relevant field visits and use innovative participatory methods help change practice



Dialogue options – base them on real work



- There are many good partnerships fighting for local controlled forestry that could form a basis for dialogue. Lets invest in them!
- E.g. Design showroom to consolidate and market Amerindian craft in Guyana
- E.g. Bridging exercise to link progress on Participatory Forest Management with enterprise development in Ethiopia
- E.g. Training and installation of 'energy enterprises' based on charcoal in new co-management block committees in Malawi.



Thanks!

