



## The Forests Dialogue

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## The Forests Dialogue

# Field Dialogue on Investing in Locally Controlled Forestry

6–9 February, 2012 | Yogyakarta, Indonesia  
Co-Chairs' Summary Report

by Peter deMarsh, Duncan Macqueen, Silverius (Onte) Unggul and Agung Wiyono

### 1: INTRODUCTION

The Forests Dialogue (TFD)<sup>1</sup> held a four day multi-stakeholder Field Dialogue on Investing in Locally Controlled Forestry (ILCF) in Yogyakarta, Indonesia from 6th to 9th February, 2012. This dialogue was hosted by Telapak<sup>2</sup> and The Forest Trust (TFT)<sup>3</sup> with financial support from the Growing Forest Partnership (GFP)<sup>4</sup> and the Swedish International Development Cooperation Agency (SIDA).<sup>5</sup> The dialogue was the eighth dialogue of TFD's ILCF Initiative,<sup>6</sup> which started in 2009. Previous dialogues and activities include a scoping dialogue in Brussels, five field dialogues (Panama, Nepal, Macedonia, Kenya, Burkina Faso), an investor dialogue and a writers' workshop in London.

One quarter of the world's forests are locally controlled and involve one billion people. These forests provide \$75–\$100 billion per year in goods and services and a broad range of other economic, environmental, social, cultural and spiritual benefits. Rights-holder organizations such as the Global Alliance of Community Forestry (GACF), the International Family Forest Alliance (IFFA) and the International Alliance of Indigenous and Tribal Peoples of Tropical Forests (IAITPTF), known collectively as the G3, define locally controlled forestry as follows:

“The local right for forest owner families and communities to make decisions on commercial forest management and land use, with secure tenure rights, freedom of association and access to markets and technology.”<sup>7</sup>

Exactly what ILCF means in practice has been the subject of ILCF initiatives. Building on past dialogue learning and local experiences in Indonesia, the Indonesia field dialogue aimed to:

- ➔ Define key steps that are critical for successful investments in locally controlled forestry in Indonesia;
- ➔ Identify concrete actions for developing new partnerships between communities and outside investors;

- ➔ Understand how to best leverage LCF to access financing mechanisms, including REDD+.

The Indonesia dialogue brought together 21 international and 32 local stakeholder groups representing indigenous people, local community, small land owners, forestry investors and companies, development assistance agencies, national and local governments, inter-governmental organizations, and international and national non-governmental organizations (see participant list in Annex).

This report summarizes key observations and discussions from the dialogue.

### ILCF in Indonesia

Indonesia's forests cover around 88.5 million hectares (2005 estimates), representing around 48% of the country's land area. Of this, 48.7 million hectares constitute primary forest, 36.4 million hectares semi-natural forest, and 3.4 million hectares productive plantation.<sup>8</sup>

Yet, about 120 million hectares of land are categorized as National Forest Estate under state control – suggesting that perhaps 31.5 million hectares of the Estate have no forest cover at all. The total Estate breaks down into 33.5 million hectares of protection forest, 20.5 million hectares of conservation forest, 58.25 million hectares of production forest and about 8 million hectares of forest designated for conversion to other uses.<sup>9</sup>

Within the Forest Estate, only 0.23 million hectares are allocated for use by communities and indigenous groups (2008 estimates) and only 1.7 million hectares of forest constitute registered private property, owned by individuals or firms, outside of the Forest Estate.<sup>10</sup> On field site visits during the dialogue participants visited private properties that are not part of the Forest Estate.

Recent research conducted by DFID estimates that there are around 6 million hectares of recorded community and family management spanning both state and non-state forest areas. This is equivalent to around 5% of the National Forest Estate.<sup>11</sup> But the true extent of *de facto* LCF may be much greater than this: data generated by the Ministry of Forestry and the National Statistics Agency Data (BPS) identify 31,957 villages in forest areas, of which 71% are directly dependent on forest resources. Furthermore, the 6 million hectare estimate does not yet take into account the extensive, and mostly unrecorded, customary land management systems in Papua.

There is great potential for LCF in Indonesia: declining productivity in the industrial wood processing sector combined with sustained pressure on natural forest has led to a widening gap of raw material supply that LCF has the potential to fill.

But a background paper<sup>12</sup> developed for the dialogue states that despite LCF's significant potential for revenue generation and employment, LCF still remains on the margins of forest policy and planned economic development. Key constraints for LCF include the incomplete delineation of state and private/customary claims in forest land and resources, a legal framework which provides little tenure security for customary owners, the gap between formal LCF arrangements and existing best practices, complex and costly administrative procedures, lack of government support, and the inability of LCF Small-Medium Enterprises (SMEs) to access financial tools.



Co-Chair Peter deMarsh

## 2: FIELD VISITS

### Dipantara Site in Gunung Kidul Regency

Established in 2006, Dipantara is a company that has built its business based on a sustainable community-based forest management system in Java. Dipantara pays higher than market price for wood produced by communities. And, for communities who sell wood to Dipantara, Dipantara provides seedlings free of charge as well as technical training for farmers to sustainably manage their plantations. Dipantara also assists communities with establishing management units and developing forest management plans. The management plans detail the Annual Allowable Cut (AAC) for each community forest land as well as how to properly maintain tree inventories, mapping, sustainable harvesting and agroforestry.



Co-Chair Duncan Macqueen

Starting with 10 farmers' groups in 2008, Dipantara has now expanded to 96 farmers' groups and is working towards establishing a relationship with 30 more farmers' groups in 2012. Each farmers' group is formed by individual landowners, organizes its own members, manages members' AAC and works with Dipantara as a group entity.

In 2012, Dipantara aims to have a standing stock of 50,000 m<sup>3</sup> (34,103 m<sup>3</sup> in 2011), an Annual Allowable Cut of 2,600 m<sup>3</sup> (1,790 m<sup>3</sup> in 2011) and sales of 2,500 m<sup>3</sup> (1,600 m<sup>3</sup> in 2011).

#### Opportunities:

- ➔ Declining stocks and increasing prices on state-owned forestland: Due to unsustainable management practices, the standing stock on state forestland is declining. The teak price from Perhutani, the main state-owned timber company in Java, has almost doubled in the last five years. Although Perhutani offers better quality teak, Dipantara competes on price by setting its timber prices at least 15% lower than Perhutani's. With Perhutani's rising prices, Dipantara can also increase its price and margin while remaining competitive;
- ➔ Certification: Supported by TFT, Dipantara is expecting to get FSC-certified by Quarter 3 of 2012. The certification may provide them with more access to the market and higher margin;
- ➔ Well-organized farmers' groups: Facilitated by the government, farmers' groups were established in 1984 in this region. The aim was to organize farmers to engage in multiple-cropping farming. The existing system of farmers' groups made it easier for Dipantara to work with land-owners.
- ➔ Good standing stocks on community land: the current standing stock is 20–30 years old. The communities can utilize the current stock to gain cash flow while receiving training from Dipantara to ensure sustained timber supply in the long-term.



Co-Chair Silverius (Onte) Unggul



Co-Chair Agung Wiyono

**Challenges:**

- ➔ Thin margin: Although Dipantara offers communities a higher price than the market, the wood is of lower quality. As a result Dipantara has to sell wood at a price lower than Perhutani to compete for market share. With the price-squeeze from both ends of its value chain, Dipantara only has around 11% margin from its timber sales. Such a thin margin may not be able to sustain the business in the long-term.
- ➔ Lack of silviculture knowledge in farmers' groups: Thinning is standard silviculture practice that is important to improve timber quality and production in agroforestry systems. But farmers have a hard time accepting the concept of “thinning” and its importance is perceived instead as waste in the plantation system.
- ➔ Need-based cutting: Farmers sometimes cut trees prematurely for quick cash. To limit premature cutting, Dipantara does not accept premature logs from farmers and is trying to establish access to micro-finance for farmers.
- ➔ Most of the teak planting has occurred on previous farm land including rice paddies. The broader consequences of this reallocation of land use for food security, landless farm-workers and sharecroppers and other livelihoods was not made clear.

**Wana Lestari Menoreh Cooperative (KWLM) Site**

Established in 2008, Wana Lestari Menoreh cooperative aims to:

- ➔ Improve members' welfare: the cooperative trains members to employ sustainable forest management techniques with an aim to improve quality and quantity of timber production and gain more access to national and international timber markets.
- ➔ Protect forest resources in Kulonprogo: the cooperative practices sustainable forest management in order to conserve the environment for the community's long-term welfare.

The cooperative was initiated by 12 community forestry group leaders from 12 villages and 3 sub-districts in Kulonprogo District Yogyakarta Special province. Currently, there are a total of 772 households involved in the cooperation. Each household owns, on average, 500 m<sup>2</sup> of land. Unlike in the case of Dipantara, the cooperative is owned by community members and the members receive dividends from the cooperative each year. The cooperative also provides seedlings and training to its members on sustainable management of forests and agroforestry. The cooperative aims to establish a company to attract more investments: the community owns a 60% share of the company while the remaining 40% share will be sold to stakeholders who share the cooperative's vision. There is also a credit union that collaborates with the cooperatives to provide the members with financial loans using trees as the collateral. Currently, all products from the cooperative are traded on the local market. The cooperative is aiming to be FSC-certified in the coming years so that they can access the international market. In the long-term, the cooperative plans to control the entire production chain of its products, from planting and processing to marketing.



Participants at Dipantara Community Forestry Site

### Opportunities:

- ➔ Key partnership: Telapak has been assisting the cooperative and building its capacity to establish a sustainable business model. Through Telapak, Wana Lestari Menoreh cooperative is part of a large network of other community forestry enterprises across the country with which they share experiences.
- ➔ Strong women's involvement in the cooperative: 40% of the cooperative members are women actively involved in community meetings, trainings and planting/farming activities.

### Challenges:

- ➔ Difficulty in obtaining and justifying the cost of FSC certification: it is difficult to disseminate information about FSC to all community members. Even when people understand the rules, it is hard to break entrenched need-based cutting habits. Also, FSC certification takes 2–3 years to obtain and costs 13,000–15,000 USD to get the first audits, with extra costs for additional audits after completing the certification.
- ➔ Low quality and safety in processing facilities: due to lack of investment and quality control, the current processing facilities do not meet standard safety regulations or have decent machineries to produce quality products.
- ➔ Lack of understanding of market niche and consumer needs: the cooperative does not have a clear understanding of their target consumers, their own unique advantages, or the specific needs in their targeted market, whether local or international. Nonetheless, the cooperative has already started to build a vertically integrated production system that may not provide the quality and the products the market desires. The business operations are built on short-term thinking rather than long-term strategic planning.



Hapsoro



Community members at KWLM

### PT. Java Furni Lestari

Founded in 2000, Lestari is a wood and leather furniture company based in Java. It owns 19,000 m<sup>2</sup> of workshop space and employs 182 workers. The main products include chairs, benches, tables, cabinets and beds. 80% of its furniture is made from teak and 20% from mahogany. The current workshop can process 400 m<sup>3</sup> per month and the current production is at 260 m<sup>3</sup> per month. Lestari purchases wood only from community forestry operations and the production system is certified by ISO 9001-2000. Currently, 35% of its products are certified either through VLO (verification legal origin), Lembaga Ekolabel Indonesia or FSC. Different certification schemes have allowed Lestari to access foreign markets where the standards on environment and social impacts of products are higher. Currently, all Lestari's products are sold to foreign markets: 65% to Europe, 15% to Asia and 20% to the US.



Jeannette Gurung

**Opportunities:**

- ➔ Utilization of small diameter wood: by adopting some unique designs, Lestari has been able to utilize different parts of trees, including small-diameter logs, branches and roots, for its furniture production. This has allowed Lestari to purchase cheaper materials while providing the community with more income for materials that usually go to waste.
- ➔ Combining good quality with a good story and transparency: Lestari emphasizes the quality and design of its products, and the owner of the company himself is a designer. While ensuring the quality and design, the company also attracts consumers by building a good story around its wood sourcing from community forestry. It records the supply chain information in the coding of each piece of wood purchased so that consumers can then track furniture all the way to the community member who produced the wood. Such a transparent system has helped Lestari quickly gain trust from its consumers.

**Challenges:**

- ➔ No major cost savings by utilizing community forestry wood: for example, although the timber price at Dipantara is lower than Perhutani, timber provided by Dipantara has lower quality and requires further treatment before it can be utilized for furniture. Adding the extra treatment costs, there is not much difference in costs between purchasing from Dipantara or Perhutani.
- ➔ Low margin from selling certified wood: while certification helps the company access a bigger market and build trust with its customers, certified wood has only a 3% higher margin than non-certified good quality furniture.
- ➔ Shortage of FSC-certified wood: although Lestari predicts increased revenue by selling more FSC-certified furniture, there is a limited supply of FSC-certified community forestry timber.
- ➔ Malicious threats from local competitors: Lestari is offering transparent and fair pricing for community produced wood, which is pushing up the price and expectation for buyers' conducts in local market. This has made some competitors uneasy and they have posed threats to the owners of Lestari.

**Key Learning from the Field Visit****Key opportunities for ILCF in Indonesia:**

- ➔ Increasing importance of community forestry for Indonesia timber industry: Deforestation in state forests, especially in Java, has increased the importance of community forests in supplying raw materials in a sustainable fashion. In comparison to state-managed forests, community forestry delivers the benefits directly to the local people. Community forestry also generates social and environmental benefits. On the other hand, agricultural intensification and urbanization is reducing population in rural areas and sparing more land for potential community forestry. As a result there is a great opportunity for community forestry to fill the looming supply gap for timber in Indonesia.



Dewi Rizki

- ➔ Wider benefits of LCF can be explored: Forest management can be combined with other resource management (NTFPs etc.) that generate other incomes for the community, including potential REDD+ benefits. An integrated landscape management business plan for LCF, which take heed of the livelihood needs of the community, can ensure that communities receive most of the benefits from the land.
- ➔ Existing organizational structure to build on: There are existing forest management units and trading entities that can be strengthened to support community forestry. The community's work towards obtaining a certification has also helped in putting key components of a good organizational and management structure into place. The successful experiences of using the credit union to limit need-based cutting can be applied elsewhere.



Dipantara Logyard

**Key constraints for ILCF in Indonesia:**

- ➔ Diverse and complex land tenure systems and lack of recognition of communities' land tenure rights: The case studies visited by participants in Java were in forestland that was not classified as such by the government, but instead classified as privately-owned agricultural land. However, these are not typical cases in Indonesia: 65% of Indonesia is classified as forest, but less than 0.2% of forests have been formalized as community forest or registered as private land. The majority of the forest lands are controlled by government and companies. There is an urgent need to formalize locally controlled forestry rights and devolve landscape management in Indonesia, thus ensuring LCF can fully realize its potential.



Bernardus Windratmo

- ➔ Lack of support from the government: the regulations for smallholder and community forest units are currently too complicated and difficult to navigate. The government needs to simplify regulations and provide additional support for the SMEs by, for example, financing credit unions who work with communities, supporting marketing for SME products, and providing technical support for community forestry. Government should also provide infrastructure that can help lower SME transportation costs.



Participants at Dipantara Logyard

- ➔ Lack of access to capital: Costs for certification and costs for trading are high (a 50% down-payment is required for Dipantara to purchase timber from communities), but it is hard for SMEs to qualify for bank loans.
- ➔ Need-based cutting: credit unions can help reduce need-based cutting, but sometimes this does not suffice. It is important in the community forest management plan to include social services and activities that can provide ongoing support for community livelihoods. A strong community management structure can help limit premature cutting for fast cash.

- ➔ Demand-side pressure for unsustainable practices in community forestry: there may be buyers who do not care about product sustainability, which may tempt communities to manage timber unsustainably for short-term profits.
- ➔ Lack of bargaining power: there is no structure to support and coordinate the development of a unified small landowners' voice in the market or the political arena. This would establish more bargaining power over both the price of timber and policy reform
- ➔ Lack of a good business plan: there may be a lack of clarity on where the target markets for community forestry should be and how the businesses should build core strengths to compete in the market. Communities have to take time to think more strategically about their business plan and core competitiveness. Some participants worry that communities are putting too much emphasis on obtaining certification and international market share while forgoing opportunities in the local market.

### 3: HOW TO ADVANCE LCF IN INDONESIA?

#### Building Appropriate Business Models

Participants listed the following key components as important for a successful business model for LCF:

- ➔ Direct link with buyers/markets: it is important to strategically invest the limited capital of community enterprises to help build the business most effectively. Instead of investing heavily in vertical integration of the value chain, participants suggested that communities should invest time and resources building a direct link with consumers in their target market, tailoring their products to consumer needs. This direct link can help community enterprises gain a higher premium on their products by cutting out other intermediaries.
- ➔ Transparency: community forestry enterprises need to be transparent with their cash flow and management structure. Transparency will help gain consumer trust. Participants noted that certification is only one of the methods toward transparency and consumer trust; it is not necessary for every business model to gain certification.
- ➔ Core competitiveness combined with a good story: community forestry can potentially create social and environmental benefits together with economic gains. By combining all those benefits for consumers, it can help distinguish CF products from similar timber products and, potentially, gain a premium. But a good story alone cannot sell the product; for assessing international markets, the key competitive advantage of a community enterprise may be certification and good quality products. For local markets, the key may be lower prices and timely deliveries.
- ➔ Soft investment linked with hard investment:<sup>13</sup> Hard investors should strategically invest in community-wide capacity building, including technical training for Sustainable Forest Management (SFM). Soft investment can help build trust between community and hard investors; soft investment provides good business narrative to consumers and can improve the quality of the timber produced on community-owned land.





Sean Watters

- ➔ Credit unions and integrated land-use systems to deal with delayed cash-flow: the payback period for investment in forest plantations is relatively long and the community enterprises do not usually have alternative income or savings to support the payback period. Incorporating credit unions into the business models can help limit need-based cutting. Communities should also develop NTFP businesses and include subsistence farming activities on their land for sustained income streams from the land.
- ➔ Different models for raising capital: Where loans are hard to obtain from banks, some other models to raise capital can be used: for example, establishing limited liability companies and selling shares to raise capital, as in the case of KLWM. But participants also cautioned that unless community enterprises make the business attractive to investors, it will remain hard to attract capital.



Participants on a field trip

### Gear Partnerships Towards More Investments

Forming strategic partnerships with other actors is extremely important for a successful community forestry business: partners can bring technical, marketing and management expertise, assist in capacity building and attract additional investments. A sustainable partnership must be formed on the basis that all partners add values to the partnership, enjoy benefits and also share risks.

When establishing a partnership, all partners should agree on a shared vision for the business: for example, what's the target market? What is the desired development path for the business? There should be a clear arrangement for sharing responsibilities among all groups engaged in the partnership. The decision-making process as well as the management of the partnership must be transparent in order to ensure trust among partners. And there should be a dispute resolution plan in case of disagreement and conflicts.

When partnering with communities, it is important to respect their rights and let them have their own voices. Free, Prior, Informed Consent (FPIC) principles should be followed. All partners should be careful to not create false expectations among communities and should have an exit strategy so communities can develop independence and operate independently in the long run.

If the aforementioned criteria for partnerships are met, communities can form partnerships with a spectrum of stakeholder groups that bring different values to the partnership, including private sector partners that can share business expertise; government that brings secure tenure; and NGOs that can help with capacity building as well as technical training.

### Persuade Policy Makers to Support ILCF

Participants pointed out that some policies can be improved to encourage investment in locally controlled forestry including: streamlining procedures for small communities



Aisyah Siteuw



Agus P. Djailani

to obtain business licenses; cutting taxes for community enterprises; supporting capacity building in communities; promoting community products in the market; building infrastructure to lower transportation costs for community products; and addressing land tenure issues.

Participants also discussed what measures should be taken to persuade policy makers to make the necessary changes:

- ➔ Document successful stories of ILCF where local community enterprises have generated economic, social and environmental benefits for the region. Of particular importance in influencing community forestry policies is the prospect of rising community income and, in turn, government tax revenue from timber and NTFPs ;
- ➔ Form associations of community groups at regional and national levels so community interests are represented in the policy making processes;
- ➔ Motivate and educate community members to advocate and protect their own rights; lobby government to execute relevant policy reforms;
- ➔ Form partnership with other stakeholders, including the private sector, NGOs, and AID agencies to influence government;
- ➔ Establish dialoguing and learning processes between government and civil society on locally controlled forestry so that stakeholders can learn from each other and collaborate towards policy reforms that benefit ILCF.

### Link LCF and Climate Mitigation Funds

Participants concluded that LCF can constructively help support a REDD+ mechanism in Indonesia and listed the following supporting arguments:

- ➔ LCF in Indonesia is currently not linked to any carbon market, though the end result of a successful LCF case is reduced deforestation and sequestration of carbon, which is what REDD+ aims to achieve.
- ➔ Both ILCF models and REDD+ potentially involve market concepts. Through preparing communities to attract more investments in ILCF models, communities will also be prepared to deal with carbon market transactions.
- ➔ LCF can be a mechanism to address land tenure issues, which underpin deforestation in many areas. It respects basic rights of communities and treats farmers as entrepreneurs, not just recipients of funds.
- ➔ LCF offers a rights-based decentralized model for governance that can help reduce conflicts and make REDD+ more operational on the ground.
- ➔ Monitoring requirements for LCF-linked projects for REDD+ can potentially be simpler, as carbon sequestration is linked with established commodities and, sometimes, certification systems.



Yani Septiani

Participants also argued that REDD+ should formally embrace LCF to channel funding to local communities, generate social benefits and build local capacities to derive sustainable benefits from both carbon market and other markets. The current public funding for REDD+ readiness and policy reform phases should support LCF, including activities such as spatial planning, streamlining licensing, and participatory mapping of land/resource rights.

Some participants also cautioned that, compared to large-scale landscape restoration controlled by big corporations, INGOs or government, LCF may require too much time for capacity building for the carbon market. It may not even be realistic to expect those entities with power over forest resources (including carbon) to share those potential benefits by handing over control to communities.



KWLM women representatives

But some also argued that LCF is the only way to reduce social conflicts, limit leakage and make REDD+ work. By showcasing some of the successful cases of ILCF achieving economic, social and environmental gains, government may see the value in reforming the current regime for longer term benefits, as discussed in the previous section. The questions remain: will REDD+ really offer the extra push that is needed to make LCF happen more quickly and more broadly? Would the ties to business that LCF offers actually help communities to regain and maintain their control over land and resources?

Broad application of the LCF approach in official Forest Areas will require tenurial and policy reforms so communities can secure their rights over forest resources.

### Building Associations for LCF



Zainuri Hasyim

There are different forms and functions of associations in community and family forestry. Three typical functions of associations include: 1) Service provision: for example, associations can provide assistance to forest management; supply high quality seedlings at relatively low costs; or offer legal support for land tenure conflicts. They can also provide marketing services, improved access to markets and negotiation of better prices. 2) Lobbying: associations will represent their members and put pressure on government as a unified voice to support policies beneficial to its members and LCF. 3) Processing of timber and other forest products can also be undertaken by associations, directly, or through specialized structures.

Associations can also be formed at different levels: local, provincial, national and international. Local associations usually have a simpler structure and have more direct links with their members. Provincial and national associations may be more effective in lobbying government for policies that are favorable to its members; and international and national associations serve as platforms to share learning and jointly improve practices among different groups.



Wana Lestari Menoreh Cooperative Sawmill site

Three types of funding streams for associations are: 1) Government Grants 2) Government Cost Shares (indirect funding) 3) Percentage of sales revenue from members. To maintain the autonomy of the associations, the best funding structure may be to obtain as much funding as possible from sales revenue from members as a service fee. Government cost shares can be reasonable, too, as associations provide public benefits. It is important for the government to see associations as allies instead of threats in pursuing better forestry management for the public good.

Associations can contribute directly and indirectly to creating an environment that is favorable to investments: associations can help communities to reach economies of scale by aggregating product volumes, provide technical support, business skills training, and market access; for investors, associations can support the development of members' business plans, help evaluate local market opportunities and manage member production processes; for governments that may look suspiciously on associations, associations can actually deliver services to the communities and investors at lower costs than governments can, providing a direct platform for government to interact with members of the associations.

There is no cookbook for what functions an association should carry out for LCF or at what levels they should be formed. It all depends on local economic, social and environment contexts, which evolve through time. But there may be some universal principles. Associations should:

- ➔ Respect and uphold the rights of members and provide them as much control as possible. The key that holds an association together is shared interests. Members of the associations need to think through what they need most from associations as a group and how the associations can work best for them. It should be the members themselves who decide the form and function of the associations based on their own local context. And it is important for an association to be transparent in its conduct, especially financially, to maintain trust among its members.
- ➔ Root operations in their members, carrying out functions as close to members as possible. Each time a new tier is added to an association, such as creating a federation of local associations, costs rise and effectiveness may decline. Added layers are expensive, take time and energy to maintain, and are harder for farmers to control. As distance from individual families and villages grows, sense of ownership and trust in the accountability of elected representatives and staff may decline. While higher tier associations have important contributions to make, the core functions of an association should be carried out as close to its members as possible.
- ➔ Learn and evolve in different local conditions. Members always need to think through what functions are most essential to an association and at what level those functions can be carried out most effectively. It is always a learning process in which members need to reevaluate the operations of associations on a regular basis, learn from experiences and improve practices accordingly.
- ➔ Inclusion of women and youth is vital. Given women's strong involvement in forestry management and youths' central role in the future of LCF, it is necessary to understand what the incentives are for those groups to participate in an association in order to strategically involve them.



Christine Padoch

In Indonesia, there are various national community associations. Some of them are facilitated by the government and may be controlled by political interests, so do not have links to communities on the ground or serve and empower communities. Participants suggested that, in Indonesia, it is important to first provide communities with the space and time to explore what they require most for establishing LCF, whether and how an association structure may help them obtain what they need, and at what level these support functions can be carried out most effectively. Such a process should be truly owned by the communities so that they can speak freely, without inhibition from the presence of outside interests, and in order to really understand their own needs and priorities as a group. Some participants also cautioned that there is currently a lack of understanding among local communities of what an association is. It is important to first introduce them to the pros and cons of associations so that they can then discuss how associations may benefit them. Participants also highlighted the importance of starting associations at the local level, aiming to have a unified voice at regional and national levels so group members can achieve economies of scale and have more bargaining power politically and economically. In order for the government to not view the rise of locally controlled associations as a threat, some suggested that associations should first build strategic partnerships with the government and highlight the fact that associations are sharing some roles of the government and providing services for the public good.



Participants at KWL M Sawmill

### Understanding the Expectations of Communities and Investors

To establish a good business relationship, it is important for business partners to first understand each other's expectations. Participants of the dialogue separated into two groups to identify the respective expectations of communities and investors.

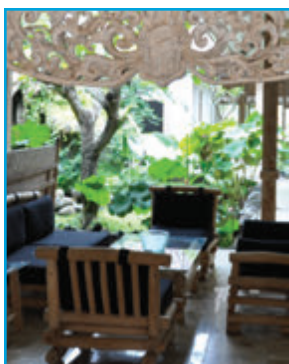
#### *What do the investors expect from the community?*

Investors are looking for a good business plan from communities that can demonstrate the following qualities:

- ➔ Strategic thinking: communities need to demonstrate that they understand the current strengths and weaknesses of their enterprise and have a plan to take the best advantage of the skills and capital they have for building the business. Participants noted that, given the nature of small enterprises, it is hard to set specific outcomes in a business plan at the very beginning. But as long as there is a willingness to adapt and learn to plan more strategically, there is a potential for a good business in the long term.
- ➔ Identified impacts: both soft and hard investors are looking to use their investments to create certain impacts, economically, environmentally and/or socially. Those impacts need to be measurable with credible methods. (Participants highlighted that there are existing methodologies that can measure environmental



Kanchan Lama



Lestari Furniture Workshop

and social impacts.) Sometimes investors want the impacts closer to their stakeholders so it is easier to monitor and sell the good story from those impacts.

- ➔ Business scale: Investors expect to generate as much return as possible on their investments. For hard investors, economies of scale are important to build a business case for investment. The land area that is required to achieve an investable scale of enterprise will differ from country to country, and region to region depending on the productivity of land.
- ➔ Acceptable levels of business risks: the higher the potential return from a business, the higher the risks an investor may be willing to consider. Many factors can influence the level of business risks including: whether the communities have secure land tenure; whether the benefits are shared equitably among communities; whether there are political risks in the activity location.
- ➔ Reliable performance: investors will expect a business to maximize production capacity, meet the needs of customers (e.g., quality and on-time delivery) and have a robust organizational structure.
- ➔ Exit strategy: soft investors must be able to clearly identify an exit strategy so that communities do not become dependent upon subsidy and grants. Hard investors need timely information if risks increase or if investments are not generating anticipated benefits; they can then decide if it is necessary to end the business relationship with the community.
- ➔ Accountability: all stakeholders involved in the business plan should have clear roles and responsibilities. Payment structures should be results-based and there should be established mechanism to hold the involved parties responsible.

### ***What communities expect from outside investors?***

Communities are looking for investors who offer:

- ➔ Respect for communities' rights and traditional systems: investors should make a genuine effort to understand community enterprises. They must respect communities' rights and traditions and be able to work with communities and involve them in designing a feasible business plan, which can be based on community values and bring not only economic, but social and environmental benefits.
- ➔ Direct contact: Instead of only communicating through intermediaries, Investors should be willing to work directly with communities, for instance visiting them on their own ground so that they can value the unique attributes of the community and the potential impacts generated by their investment.
- ➔ Fair deals: Loan terms, interest rates and definition of collateral should be adapted to fit the local context and communities' abilities and needs, and to reflect the real value of community assets. Contracts should set out clear roles and responsibilities shared between investors and communities. Business risks should also be shared fairly.
- ➔ Constructive partnerships: investors should also help communities build partnerships with other investors and government. For example, hard investors can bring in soft investors and govern-



Dominic Elson

ment to help organize and educate communities and help them understand how they can benefit most from hard investments. Partnerships with different actors can also help maintain trust between hard investors and communities.

Participants also pointed out that communities and hard investors usually speak different languages, use different vocabularies and operate on different time frames. It is important for both sides to be open and willing to learn and understand each other better. There is also a role for soft investors to help bridge the differences between the two groups.

#### 4: NEXT STEPS

All participants found the dialogue discussions constructive and helpful in moving forward with their work on LCF. Within two weeks of the dialogue the key findings will be shared with the broader networks of the participants who joined the Field Dialogue and the Telapak annual meeting, along with all partners and community members. Several community representatives will further pursue contacts with the Global Alliance of Community Forestry (GACF) to establish continued dialogue and collaborations.

TFD will convene one more dialogue on ILCF in Sweden in April before its initiative on ILCF draws to its end. The inputs from the Indonesia dialogue will be reflected in two major publications of the ILCF initiative: *Guide to Investing in Locally Controlled Forestry* and the *TFD Review on ILCF*. Both publications will be released and distributed widely in September 2012.



Local craftsman at Dipantara Site

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## ENDNOTES

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[http://environment.yale.edu/tfd/uploads/ILCF\\_Indonesia\\_Background\\_paper\\_English.pdf](http://environment.yale.edu/tfd/uploads/ILCF_Indonesia_Background_paper_English.pdf)
- 13 By “hard” investment we mean direct financial investment in creating new forest resources, managing forests, building production and processing facilities and other infrastructure, principally by financial investors (banks and forest or agricultural companies), but also governmental organizations, small and medium forest enterprises and resource owners and rights-holders. By “soft” investment we mean development funding that prepares the ground for “hard” investment, for example by improving governance, securing commercial forest rights, strengthening enterprise organizations, developing human resources and business capacity building. Such development funding has traditionally come from government donors and NGOs, but this could now be complemented by multilateral institutional funding for REDD+, or by new initiatives to establish food security based on agro-ecology.