

The Forests Dialogue
Investing in Locally Controlled Forestry
London, UK May 24-25 2010

Breakout Session II

Group 1

Identify possible typology of investments in LCF and their key elements (asset categories), as well as the roles of partners and other stakeholders (incl. governments, intermediaries etc.) in each category.

- Consider forest types (natural forest, planted forest, etc.), tenure situations, parties, contractual situations, time-scale, payment mechanisms, return and benefits, etc.

Group 2

Develop an outline for principles/code of conduct for ICLF (principles, elements of best practice, safeguards, etc.).

Group 3

Identify key steps for a typical ILCF investment process. Such an approach should help avoid pitfalls in earlier investments (to be identified) as well as address the issue of scale of LCF investments and the associated transaction costs for investors.

All groups

How could new and creative approaches to partnerships and funding mechanisms be developed between LCF stakeholders and investors.

The Forests Dialogue
Investing in Locally Controlled Forestry
London, UK May 24-25 2010

Breakout Session II - Group 1

Task:

Identify possible typology of investments in LCF and their key elements (asset categories), as well as the roles of partners and other stakeholders (incl. governments, intermediaries etc.) in each category.

- Consider forest types (natural forest, planted forest, etc.), tenure situations, parties, contractual situations, time-scale, payment mechanisms, return and benefits, etc.

Platforms for investments

- What kind of rights?
 - Individual – collective
 - State forest
- What kind of forest?
 - Size or level of aggregation - scale
- What kind of assets?
- What kind of market?

- Collateral – level of security - predictability

What is the need of rights holders?

- What is the product?
- Time frame – present or future cash stream
- Reforestation – soft money
- Mix of soft and hard investments
- Need of products – need of management
- Who will benefit?

Typology

- Split between purpose and need
- Business model – business proposition
- Land or standing stock – collateral
 - Carbon – bio mass – avoiding deforestation
- Rotation period - Time period
- Ownership categories
- Type of products – wood / non-wood
- Types of assets
- Plantation or other types of forest
- Trust and relationship to the owner / village
- Transition – moving from one type to another

Outline typology ILCF

Type of forest	Asset	Rights platform	Investor mechanism	Value proposition
Natural forest	Wood			
Plantations	Non-wood			
Agro forest	Eco system services			
	Fast growing			
	Slow growing (high value)			
	Bio mass / energy			
	Bio fuel			
	Non-timber			
	Food			

Types for forest

- Natural forest
- Plantations
- Agro forest

Asset types

- What is being sold – business proposition
- Rights holder – tenure type – investor mechanism type
- Who are the beneficiaries
 - Rights holders
 - Investors

Wood

- Fast growing
- Slow growing (high value)
- Fuel
- Pulpwood
- Sawn wood

Non-wood

- Carbon
- Food
- Medicine
- Tourism?
- Oils
- Rubber

Other asset types

- Land – non-forest land (potential planting)
- License
- Capital
- Inventory
- Cultural values
- Intellectual property

Eco system services

- Water
- Erosion
- Carbon
- Bio diversity
- Tourism -

Rights platforms

- Licenses
- Rights
 - Individual ownership
 - Collective ownership
 - Aggregated rights – organisations?
 - State
 - Globally owned
- Tenure rights (without ownership)
 - Non-tenure rights
 - Traditional rights
 - Access rights

Market

- What are we selling – and to who?

Investment mechanisms vehicles

- What are you using the funds for?
- Loans
- Equity investments
- Local or remote investors
- Collateral or other types of security
 - Land , capital equipment, future income

Mechanisms involved

- Insurance – risk mitigation
- Soft investments
 - Creating enabling environment
 - Public – private - community linkage
- Trust fund
- Hard investments

Value proposition

- Right mix of mechanisms
- Do what – with what – for whom
- Discovery process
 - Build up a proposition
 - Due diligence process

The Forests Dialogue
Investing in Locally Controlled Forestry
London, UK May 24-25 2010

Breakout Session II - Group 2

Task:

Develop an outline for principles/code of conduct for ICLF (principles, elements of best practice, safeguards, etc.).

starting point...

- Check list of what should be in a good deal
- Business plan for local sustainable development
- G3 definition of local controlled forestry
- Equator Principles for managing social and environmental aspects for project finance

Principles for?

- Principles to achieve ILCF - self sustaining community development based on sustainable forest management (G3 definition)
- Principles to guide external Investment in Locally Controlled Forestry
 - Respects local control and equity
 - Deliver on local development needs

G 3 Principles – we endorsed

1. Local decision making
2. Secure tenure rights & freedom of association (political voice)
3. Access to market and technology
4. Responsible long term SFM strategies improved livelihoods (employment), biodiversity, multiple benefits
5. Respective for local right holders

Investment “process” to achieve G 3 principles

Joint development of a **transaction deal and business plan** that includes

1. Agreed long term “end game”
2. Organizational entity with whom a deal can be made based on appropriate local representation
3. Clear property & tenure rights – note: key role of central/local government in defining and conferring rights
4. Role of other development actors – soft investors
5. Governance and transparency
6. Capacity building investments (including G3 organization, business planning)
7. Entry/exit strategy
8. Appropriate and agreed arbitration and conflict resolution mechanisms
9. Commercialization of the resource respecting multiple benefits and cultural aspects
10. Benefit sharing
11. Effective safeguards
12. Size and scale of investments

Investment “process” to achieve G 3 principles

Will vary by type of investor and nature of investment opportunity

Leverage what exists – other principles/codes of conduct and process guides

Bilateral relations (right holders/investors) but be aware of and include multiple partners

Sequencing and phased approached

Investor wants to achieve a return on its capital

Right holders wants improved asset

Proposed Model - A **CONTRACT** (or covenant) THAT DELIVERS

A self sustaining viable business and an economically enhanced community

FOR INVESTOR

1. Retrieve/retain capital
2. Gain social/ecological goals

FOR Rightholder

1. Retain self determination and tenure rights
2. Gain access to markets, capital & technology

The Forests Dialogue
Investing in Locally Controlled Forestry
London, UK May 24-25 2010

Breakout Session II - Group 3

Task:

Identify key steps for a typical ILCF investment process. Such an approach should help avoid pitfalls in earlier investments (to be identified) as well as address the issue of scale of LCF investments and the associated transaction costs for investors.

Question 3: mapping out deals and pitfalls and safeguards

- There are not “typical” investments so this might be “academic” unless keep this in mind
- How to scale up and reach an economy of scale
- No necessarily an exit for the investor
- Community needs incentive to stay in the game
- Governments and buyers
- Might want to begin to focus on value investors but not constrain
- Who brings what to the deal, who take the risk, who provides what
- When is there an exit point? What is the life cycle.
- Business case study and business plan
- How many parties—are there more than two (community must be represented to arrange a deal—authority to sign off)
- Only so much cash flow and wish lists may exceed what the deal parties think will be invested. Investors will not be able to stay in a deal if there is not agreement on what in the wish list will be there.
- Concessions in PNG are template of deals almost carbon copies, but where the community has not prepared itself for the investment and is therefore likely not to deliver what the investor hopes—this is a problem deal

STEPS TO A DEAL

- J= joint, C=community, E=either, I=investor, M=multiple actors
- E Idea origination/concept/ often from strategic needs assessment Govt.
- M Pre-feasibility and identification (can be a broker)
- J/E Deal development (schedule, business plan, key terms, steps to follow, who is the team) –includes EIA/SIA
- I/J Letter of intent (binding document to reduce investor/community risk: no. of parties, terms, benefit sharing)
- C/I Due diligence (leads to ability of both parties being able to make a decision)
- I Final investment plan – closing with all approvals (lawyers with stacks of documents)
- Deal implementing and it evolves in a very idiosyncratic way
- Timebound relationship that is followed in time and may morph

STEPS in Implementing a DEAL

- Establishment phase in most projects :
business plan, management and capacity building
- Sharing of revenues through project activities
- Monitoring and Evaluation
- EXIT (share of vestiture; dilute holdings, if fail when do you “shut down”)

Factors that need consideration

- Look at the investment process: occurring in two different streams from the perspective of the investor and the perspective of the community
- Look at the typology of investments and product lines: plantation versus carbon
- Who initiates the process? Community or investors or donor projects?
- Terms may mean very different things and words need to be defined clearly
- Business plan should look at the dynamics of the deal including EIA/SIA and clarity of objectives, outcomes, and rewards
- ONUS of who initiates project: Principle--Debt is requested; equity are more proactive investors; might be both

Pitfalls that may not be considered

- Market risk – not assessed
- Political risk-policies shift suddenly as well
- Mismatched expectations of parties
- Lack of consultation or communications plan
- Corruption / Illegal logging
- Expectations of shareholders
- Natural disasters or climate change –changing opportunity costs
- Change in leadership
- Lack of shared objectives and shared returns

Communities	Investors
Local organizations were not formed to do business and there is a pressure to develop business even when this is a traditionally used forest	Investors have their own assessment of the sector and what is potential investment opportunity
<p>PREPAREDNESS OF THE COMMUNITY Important steps are needed to get community in position to do business</p> <ul style="list-style-type: none"> •Develop local capabilities •Specific product lines and business strategies—investors can meddle in designing product lines and become stakeholders in the community •Time for communities to do their own due diligence on implications 	<p>How does it find the communities with whom it would like to invest? Pre-feasibility from strategic needs of governments or communities who are visible—one stop shops for investors exist. Subsidize the costs of this—can't separate roles of donor or IIED or Nedbank in getting this deal together. A common hard core with some local organizations</p>
Who is at the table—decision making situations	How do you know the deal will be seriously followed through
What do they want	What can you offer
Do communities have a technical organization of its own members	Investment bankers; donor or govt. unit; investors may do this?
<p>EXPECTATION MANAGEMENT</p> <p>Cash and revenue flow needs can be high in community (due to existing debts)</p>	<p>EXPECTATION MANAGEMENT</p> <p>Hearing what the community is telling you</p>
<p><u>Ways to reduce costs of due diligence</u></p> <p>Community interested in local resources and a local market and a livelihood product</p>	Seemingly lower risk but this type of project is not something most investors have capacity/experience to evaluate: does this expertise need to develop