



THE FORESTS DIALOGUE

TFD STEERING COMMITTEE 2010

GEORGE ASHER

Lake Taupo Forest Trust -
New Zealand

MARCUS COLCHESTER

Forest Peoples Programme

MINNIE DEGAWAN

International Alliance of
Indigenous and Tribal Peoples
of the Tropical Forests

GERHARD DIETERLE

The World Bank

PETER GARDINER

Mondi

JAMES GRIFFITHS, TFD CO-LEADER

World Business Council for
Sustainable Development

JACK HURD

The Nature Conservancy

PETER KANOWSKI

Australian National University

MATTI KARJULA

Stora Enso

JEANNETTE GURUNG

Women Organizing for Change in
Agriculture and NRM (WOCAN)

LARS LAESTADIUS

World Resources Institute

STEWART MAGINNIS, TFD CO-LEADER

International Union for the
Conservation of Nature (IUCN)

JAMES MAYERS

International Institute for
Environment and Development
(IIED)

COLIN MCKENZIE

Global Forest Partners

CASSIE PHILLIPS

Weyerhaeuser Company

BOB RAMSAY

Building and Woodworkers
International (BWI)

CARLOS ROXO

Fibra

ANTTI SAHI

Confederation of European
Private Forest Owners

LIZ SANDLER

American Forest Foundation

ROBERTO SMERALDI

Amigos da Terra -
Amazonia Brasileira

KEN STRASSNER

Kimberly-Clark

ROD TAYLOR

WWF International

JUSTIN WARD

Conservation International

EMMANUEL ZE MEKA

International Tropical
Timber Organization (ITTO)

GARY DUNNING

Executive Director
The Forests Dialogue

Dialogue on Investing in Locally Controlled Forestry

May 24-25, 2010 – PricewaterhouseCoopers, London, UK

Concept Note

Funds potentially available to support locally controlled forestry activities are increasing with the latest national donor country commitments to REDD in the region of US\$4-8bn (PwC analysis, 2010), and with the current level of forest-related ODA at approximately US\$1.9 billion annually for forests in developing countries, including approximately US\$700m for forest conservation (Simula 2008).

However, only a fraction of funds from REDD commitments and ODA are applicable to locally controlled forestry. Furthermore, these funds are dwarfed by institutional, or 'mainstream', investment (including lending) in the global forestry sector as a whole, which in 2010 is estimated to be at least US\$150bn (PwC, 2010, informed estimate). By another measure, the total value globally of forest land assets held by private individuals and companies (financial investors and forest product producers) is estimated to be more than US\$212 billion (University of Georgia, Center for Forest Business, 2009).

Research indicates there are huge opportunities to invest in small-scale forest projects e.g. 90% of EU forestry enterprises employ less than 20 people (Rhein, 2009). In the developing countries the small and medium scale enterprises dominate the forest-based industries, including wood and non-timber products. Indigenous Peoples and local communities own or manage about 20% of developing country forests, but their economic potential remains largely untapped. If financing mechanisms can be adapted and channelled towards these target groups, significant social and economic benefits could be created.

Locally controlled forestry (LCF) includes the sustainable management of forests for wood, non-timber forest products (NTFPs) and other social or environmental service values, carried out by forest-dependent families or smallholders, community groups and indigenous peoples. Together these groups are called 'rights-holders' who have substantial (and growing) decision-making power and control over forestland but not necessarily secure tenure or ownership rights. A key feature of the ILCF dialogues to date has been the active participation and co-chairing of these dialogues by these three rights-holders groups themselves.

Investment, as defined in the context of the ILCF initiative, is the active allocation of resources to enhance forestry assets not only in the present but also for future benefits. Investment in locally controlled forestry can be made in a variety of ways and by a variety of actors. It can include 'soft' investment in securing forest rights, building capacity to manage forests effectively, developing business skills, strengthening collective action and cooperation, facilitating credible forest certification for assurance of sustainability and improving governance. It can also include 'hard' investment of a more commercial nature in creating new forest resources, building production and processing facilities and other infrastructure. The term 'investors' therefore includes a wide spectrum of multilateral organizations, bilateral donors, financial investors, banks, forest companies, governmental organizations, environmental and civil society non-governmental organizations, research institutions, small and medium forest enterprises and rights-holders themselves.

There are many different perceptions (and perhaps even misconceptions) among ILCF dialogue stakeholder groups. This often involves a mutual lack of understanding of small-scale or community forestry by the investment community and of investment by small-scale and community foresters. Nevertheless, there is shared recognition of the importance of investing in locally controlled forestry

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to create resilient economies that are able both to sustain and make returns from forest resources – and the interest in learning more about how to do this has been widely expressed. The goal of the dialogue initiative is to build relationships between the stakeholders, identify the obstacles and opportunities for investment in LCF, and increase the visibility, role, and potential that locally controlled forestry can have.

TFD's upcoming fifth ILCF dialogue should be seen as a first opportunity to have a wide range of investors tell representatives of family, community and indigenous peoples' rights-holders what they think needs to be included within this dialogue stream in order to make progress.

Dialogue Objectives

1. Bridging the gap

- How can 'rights' be correctly understood and applied to both locally controlled forestry and investors?
- How can investors demonstrate that business goals are not incompatible with social and environmental goals (triple bottom line)?
- How can rights holders demonstrate that local control strengthens the forestry business case and mitigate risks?
- What are the ground rules and safety mechanisms for successful partnerships?
- How can all types of investors work together to design innovative financial models for LCF?

2. Building Investment Preparedness

- How can we get the buy-in from 'soft' investors to provide the funding that will be able to respond to the preconditions the rights holder groups have identified in the previous dialogues as essential for successful 'hard' forestry investment? (e.g. land tenure and commercial forest product rights, mechanisms for converting this into collateral, developing organisations and capacity building, forming cooperatives and business organisations, networking, proper accounting, proposal writing skills, etc.)
- How can 'hard' capital investors support and promote the establishment of these identified needs? To what extent can they be costed into the business plan?
- How can social and conservation investors make their projects more sustainable and able to attract value investors?
- What kind of regulatory, policy and institutional conditions would be required for investment in LCF?

3. Identifying Concrete Actions

- What models exist of effective investment in locally controlled forestry? How can these be supported and improved by all stakeholders?
- How do we develop new and creative models of partnerships and funding mechanisms between LCF stakeholders and investors?
- How do we meet the market requirements for sustainability and legality? What tools exist already and where are there needs for further development (for example legal logging, certified sustainable forest management, fair trade and other tools in LCF)?
- What mechanisms can be put in place so that any new investments safeguard the rights of forest rights-holders and maintain the local control?

Outputs

- ➔ Create a platform for the design of processes to support the development and implementation of LCF programs, projects and partnerships at local, regional or international levels.
- ➔ Develop a more holistic opportunity and risk assessment framework for locally controlled forestry.
- ➔ Identify next steps for moving the process forward at the international level.