

The Forests Dialogue

Dialogue on Investment in Locally Controlled Forestry

24-25 May 2010

London, United Kingdom

Some highlights of Day 1

Said, but not quoted:

- *Where's the meat – what's the proposition?*
- *You get the investment you deserve*
- *Investors interest in local development? – big brochure, small money*
- *If you want local control you will never attract investors*
- *I invest in the forest for food, investors want cash, how do we reconcile?*

For and against investment in LCF

Opportunities:

- Reliable returns from unconventional assets
- Large potential areas
- A key means to realize a holistic vision of forest management
- Improved local livelihoods

Barriers:

- Insecure land and resource tenure
- High transaction costs
- Long time scale and multiple risks
- Misperceptions by investors and communities

Opportunities

- LCF value proposition CAN be clear, and improved
- Rights CAN be legible – a basis for investment
- Synergy of soft and hard investment – legitimate subsidy to achieve critical mass for investment, which in turn helps improve systems and frameworks
- Business support services and capacity building CAN be in the business plan
- Invest in collective strength - partnerships, alliances, aggregation, portfolios
- REDD+ and the new potential for holistic approaches
- Economic crisis and the new focus on more reliable long-term assets like forests?

Models that inspire

- Much commercial LCF out there – particularly independent growers and SMEs – that have had no soft or hard investment
- Many examples in natural forest, planted forest and ecosystem services , some show promise for value investors, some have them
- Green Resources (East Africa) and Forest Finance (Central America) – useful cases rather than models to copy for LCF
- Others discussed: Guatemala, Mexico, Brazil, Vietnam, Uganda, Austria, Germany, Japan, China...

More models that inspire

- New Zealand: individual landholdings aggregated into large estates managed as a partnership with government for a pre-defined time; gradual elimination of government stake
- Nordic model: forest owners' cooperative aggregates supply; provides land management services; internal financing mechanisms; investment in secondary industries, e.g. pulp, paying dividends to cooperative members
- Cochabamba Bolivia Project: CDM project using carbon credits to fund professional management

Common ground on key roles

Partnerships yield deeper benefits than one-sided manipulation

Each side has contributions to make:

Investors

- Capital, including for capacity building/training, as in many other businesses
- Management expertise
- Market access/ information
- Political strength
- Willingness to take on SOME risk e.g. through pilots

Forest Rights Holder Groups

- Legitimacy among people, building social license
- Local ecological knowledge
- Credible business propositions and ability to fulfill obligations
- Labour—can buy shares in enterprise
- The land resource

Mechanisms to safeguard rights and foster partnerships

- Standardized models – a typology
- Repository of deal documentation (but care with confidentiality agreements)
- Code of conduct - learn from e.g. mining, water, SFF toolkit, FAO-CIFOR-IIED company-community partnerships guidelines
- FPIC processes
- Certification
- Innovative legal and financial mechanisms: REITs, leasing, aggregation

More mechanisms to safeguard rights and foster partnerships

- Risk-reducing measures, e.g. escrow accounts, smallholder insurance against disasters, political risk insurance, systems for dispute resolution
- Access to range of capability strengthening systems
- Means to aggregate land resources and raw materials to provide opportunities of scale
- Phased approach as in REDD (and help get REDD expenditure focused initially on securing rights rather than changing behaviour)

And keep experimenting/ doing things based on what is known!

Test: would [this action] be valuable to an investor or a rights-holder group in a particular case?

Next up...discuss concrete steps

- Primary focus on value investors so we contribute where most needed?
- Typology of main investment models for ILCF?
- Code of conduct – principles, inspiration, best practices – for investors and communities?
- Process model – main steps, key questions, possible obstacles - for any investment?

...more concrete steps to discuss

- Enrich the data, map 'banks of experience' ?
- Numbers: type, scale and return profile of finance needed
- Further issue or location-context dialogues?
 - Models of effective investment partnership
 - Good principles, processes, practice
 - Location-specific cases and issues

