



# Dialogue on Investing in Locally Controlled Forestry



Background Paper Overview

# Types of Investment

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- ▶ **Soft' investment**
- ▶ **'Hard' investment**
  - ▶ Value
  - ▶ Social
  - ▶ Conservation



# Value investors: Pre-conditions

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- ▶ **‘Attractive’ risk-adjusted returns on capital**
- ▶ **Stability**
- ▶ **Liquidity**
- ▶ **Viable business proposition and entity**
- ▶ **De-risking measures**
- ▶ **Social license**
  - ▶ triple bottom line?
  - ▶ legitimacy



# Value investors: Challenges

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- ▶ **Tenure and Rights**
  - ▶ What about the investor's rights?
  - ▶ Transaction vs. Ownership
- ▶ **Relations with rights-holders**
  - ▶ Delegate to CSR department
  - ▶ Local business development as afterthought
- ▶ **Capacity**



# Value investors: Challenges (2)

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- ▶ **Scale and viability of the enterprise**
  - ▶ Transaction costs for due diligence
- ▶ **Distributing costs and benefits**
  - ▶ Stocks and Flows
  - ▶ Opportunity cost of SFM
- ▶ **Sector Risks**
  - ▶ Political & economic, physical, institutional, market



# Value investors: Opportunities

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- ▶ **Improve the business proposition**
  - ▶ Portfolio approach / vertical linkages
  - ▶ Capacity building as initial cost
  - ▶ Strategic CSR
- ▶ **Innovative financing models**
  - ▶ e.g. REITS, leasing, aggregation
- ▶ **De-risking measures**
  - ▶ ‘Hard’ investment for political / economic / physical risks
  - ▶ ‘Soft’ investment for institutional risks
- ▶ **How else can long term asset value be protected?**
  - ▶ ILCF is pragmatic and strategic, not just CSR



# Social investors: Pre-conditions

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- ▶ **Advance development**
  - ▶ Institutional change
- ▶ **Address perceived market failure**
  - ▶ Middlemen, market risks
- ▶ **Planning-led project design**
  - ▶ Donor funding cycles and goals



# Social investors: Challenges

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- ▶ **Competing, multiple goals**
  - ▶ Institutional contradictions
- ▶ **Lack of business focus**
  - ▶ Quality control, timeliness, value proposition
  - ▶ poor financial management (e.g dividends)
- ▶ **Misunderstanding the value chain**
  - ▶ Tengkulak / coyote
- ▶ **Displacing private & public investment**
- ▶ **Dependency**
- ▶ **Funding led by trends**
  - ▶ 'climate change colonization'



## Social investors: Opportunities

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- ▶ **Networks and Reach**
- ▶ **Concentrate on ‘Soft’ investment?**
  - ▶ Organisational strengthening
  - ▶ Institutional reform
- ▶ **Managing change**
  - ▶ Vulnerable communities in transition
- ▶ **Access to cheap money**
  - ▶ Credit enhancement, co-investment etc.
- ▶ **Hybrid models**



# Conservation investors: Pre-conditions

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- ▶ Means to an end
- ▶ Low-disturbance activities
  - ▶ Humans are ‘invasive species’
- ▶ Long term legal instruments (e.g. concessions)
- ▶ Carbon revenue model



# Conservation investors: Challenges

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- ▶ **Competing goals**
  - ▶ Contradictory commitment to economic development
  - ▶ Local costs, global benefits
- ▶ **Lack of commitment to local rights**
  - ▶ Re-zoning of forest to favour conservation
- ▶ **Weak business models**
  - ▶ Reliant on philanthropic subsidy
  - ▶ 'Rent' model: Cash for not cutting down trees
- ▶ **Instinctively conservative**
  - ▶ Nothing changes, nothing moves.



# Conservation investors: Opportunities

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▶ ?

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▶

## Shared Opportunities: Legal & Institutional

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- ▶ Encapsulate rights in legible framework
- ▶ LCF groups become effective counterpart
- ▶ Design holistic REDD models
- ▶ Trusted arbitration
- ▶ Investors lead on tenure reform



## Shared Opportunities: Autonomy

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- ▶ Rights holders determine development path
- ▶ FPIC as strategic activity
- ▶ Confidence to say “yes”
- ▶ Business is separate body, and has rights too



## Shared Opportunities: Capacity

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- ▶ Role of soft investment
- ▶ Training costed into business plan
- ▶ Exposure to price signals and competition
- ▶ Nurturing leaders (without disrupting social norms)



## Shared Opportunities: Access to Finance

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- ▶ **Assess commercial opportunities, rather than development needs**
- ▶ **Portfolio approach, with transaction costs covered by social investors**
- ▶ **Supply chain innovations**
  - ▶ Warehouse receipt scheme
  - ▶ Raw material terminal
  - ▶ Equipment leasing



## Shared Opportunities: Partnerships

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- ▶ Profit sharing rather than paternalism
- ▶ Role of intermediaries (culture / power / logistics)
  - ▶ NGOs deliver services, funds and networks broker deals
- ▶ LCF groups could assemble portfolios
- ▶ Devise Standards
  - ▶ Code of practice
  - ▶ Transparency
  - ▶ FPIC



## Conclusion

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- ▶ ‘local control is a process’
- ▶ Carbon markets are both threat and opportunity
- ▶ ILCF is preferable to just collecting rent
- ▶ Trade-offs will be required
- ▶ Investors and rights holders can cooperate to reduce risk and transactions costs

