INITIATIVE SUMMARY

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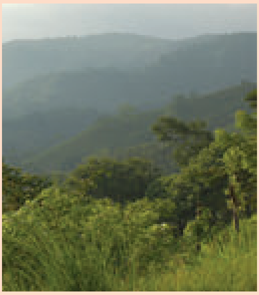
TFDReview



Investing In Locally Controlled Forestry

A Review of TFD's Initiative on Investing in Locally Controlled Forestry

2009–2012

The Forests Dialogue

TFD Review

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TFD Review

Investing In Locally Controlled Forestry

A Review of TFD's Initiative on Investing in Locally Controlled Forestry 2009–2012

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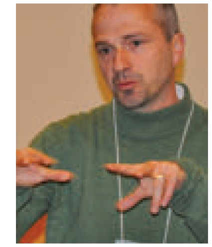
Executive Summary

Ruth Martínez

Under the right conditions, locally controlled forestry (LCF) can be a strong contributor to local livelihoods, forest protection and sustainable and equitable development. Creating the right conditions, however, needs the right sort of investment. A series of dialogues organised by The Forests Dialogue (TFD) between 2009 and 2012 on 'investing in locally controlled forestry' (ILCF) was designed to help catalyse investments in LCF by sharing learning between rights-holder groups and investors; improving mutual trust based on an agreed investment framework; and identifying practical ways forward. Instigated by the Growing Forest Partnerships (GFP) initiative and the TFD Steering Committee, the dialogue series (referred to hereafter as the ILCF initiative) involved 10 dialogues and over 400 participants from local rights-holder groups, the investment community, donors and non-governmental organisations from over 60 countries. TFD worked closely with three major rights-holder alliances representing Indigenous Peoples' forestry, community forestry and family forestry in developing and implementing the initiative.

This report outlines the development and key conclusions of the ILCF initiative and reviews its outcomes in the form of gaps, catalytic actions to address them and indicating ways forward. It is complemented by two companion documents, 'Guide to investing in locally controlled forestry' (Elson, in press), and 'Investing in locally controlled forestry—natural protection for people and planet' (Macqueen et al. 2012b) which also have their origins in the ILCF initiative, as well as the co-chairs' summaries, which distill the main takeaway messages from each dialogue from the co-chairs' perspectives.

Participants in the ILCF initiative considered that investment in LCF comes in two forms: 'enabling investment' in rights, organisation and capacity, from which a tangible financial return is not expected; and 'asset investment', from which a tangible financial return is expected. The G3 alliances collectively define LCF as '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'.



Duncan Macqueen

After identifying and exploring key constraints and opportunities for investment in LCF at a scoping dialogue, three field dialogues (in Panama, Macedonia and Nepal) were held to **clarify differences and commonalities in LCF contexts** between Indigenous Peoples' forestry, community forestry and family forestry in both the north and south. After these dialogues, an investors dialogue and a writeshop brought together rights-holder groups and investors to **explore investor perspectives** on the challenges and opportunities for investment in LCF and to set the scene for four more field dialogues (in Kenya, Burkina Faso, Indonesia and Sweden) to **interrogate specific cases** in various rights-holder contexts. The series concluded with a final writeshop to **distill the insights gained and articulate a way forward**.

Rights-holders want local control over culturally appropriate economic, social and environmental outcomes. Investors want viable business propositions with attractive risk-adjusted returns and adequate liquidity. Governments want secure public goods and a strong viable economy. The ILCF initiative made it clear that these wants are not mutually exclusive. But achieving compatibility between rights-holders, investors and governments requires an adjustment of the conventional investment approach, characterized as 'capital seeks forest resources and needs labour', in favour of a new paradigm, which can be stated as 'rights-holders manage forest resources and seek capital'. A number of **key insights** gained through the ILCF initiative will help achieve the conditions necessary for successful investments in LCF. These are described below.

Commercial forest rights. Commercial forest rights are the starting point for any investment in LCF. These rights are all about the legitimate sale of forest products and services for profit—beyond rights to forestland tenure and subsistence use, and beyond forest policies that lay out sustainable forest management responsibilities. Local rights-holders want them, investors need them, and most international efforts to improve livelihoods, protect forests and bring about sustainable development depend on them. While tensions are inevitable between

Dominic Walubengo

national and local control, participants in the ILCF initiative saw that, in general, the more the state devolves commercial forest rights to local people, and the more it restricts itself to regulatory and supportive extension activities, the better. The move towards local control is always likely to be a work in progress, and at no field site did participants see full local sovereignty. But the field dialogues repeatedly showed that progress can be made when rights-holder groups and investors work with what they have, be it customary norms or more formalized local control, while also pressing for further tenure reform. Moreover, experience shows that achieving successful investment within existing frameworks of rights can convince decision-makers to move further along that pathway.

Business capacity. Participants noted that there is little point in having commercial forest rights if rights-holders cannot use them profitably. One of the main bottlenecks for investments in LCF is a lack of rights-holder groups able to put up investible business proposals. Forest development support has tended to focus on transferring the technical skills needed for forest management but, as many rights-holder groups pointed out during the ILCF initiative, such technical skills need to be allied with business capacity if rights-holders are to get attractive returns and thereby have an incentive to manage forests sustainably. When local people develop business capacity they gain the confidence they need to take production risks that will deliver better returns. Field visits during the ILCF initiative showed that one of the key skills that rights-holders need is to manage and maintain profit margins to ensure that otherwise laudable social or environmental aims are kept on a sound financial footing. Governments can help in many ways, such as by putting in place simple business registration procedures and offering support for business extension and training. But often they adopt an overly bureaucratic approach or even compete with LCF enterprises for resources and markets. Civil-society groups and donors can play roles by, for example, offering business training and providing funds to create the space and logistics needed to build local associations.

Organisation-building. Where there is observable success in LCF enterprises, it is almost always preceded by efforts to organise production at scale—often through the formation of associations or cooperatives. Emerging collectives—such as shea butter associations in Burkina Faso, teak-grower groups in Indonesia, community forest user groups in Nepal and forest cooperatives in Sweden—are often able to attract enabling investment more easily than smaller enterprises, especially when assisted by brokers with links to investors. Many such organisations, especially those at the national level (e.g., in Nepal and Sweden), have played decisive roles in shaping the policy environment and creating enabling legislation. But such organisations do not appear overnight—for example, it took almost 100 years for non-profit timber associations in Sweden to develop from embryonic form into a globally competitive cooperative owning sawmills, pulp and paper mills, furnishing factories and wood energy plants. Even when they have been created, maintaining the motivation and loyalty of members of such cooperatives in ever-changing economic circumstances is a constant challenge.

Fair and balanced asset investment deals. LCF sometimes requires only enabling investments, with rights-holders content to sell existing products or services into existing markets without bringing in outside financial asset investors. But, in many locations, market access requires a step-change to add value to forest products and increase returns, thereby improving livelihoods and providing an added incentive to protect forests. The ILCF initiative found that the ability to attract the right sort of asset investor is closely correlated with the extent of rights and the capacity and organisation of the rights-holder group. Often, trustworthy intermediaries (of whom there are only few) also play a crucial role. The importance of a process that allows free, prior and informed consent on both sides is clear, as is the importance of mutual respect—treating local rights-holders as co-investors rather than as simple beneficiaries. Dialogue participants identified the need for a guide on investments in LCF to help rights-holders and investors to understand each other.

Enabling investment to unlock the potential of LCF. At whatever stage the rights-holders find themselves, their prospects will almost always be improved if they receive support in the form of enabling investment—whether this comes as advocacy for rights; business support; organisation-building; or help in attracting fair and balanced asset investment deals. Mobilizing the right kind of support from intermediaries is central to unlocking the potential of LCF. Dialogue participants identified four types of enabling investment—commercial forest rights, business capacity, organisation-building and fair and balanced asset investment deals—that have been critical to successful investments in LCF worldwide. Achieving a continuous cycle of investment (see Figure 3 on page 51) with the four main pillars of enabling investment is a challenge that requires coordination between rights-holders, enabling investors and asset investors. Crucially, governance towards an enabling environment can be actively pursued. The Swedish dialogue in particular showed how entry points for governance towards LCF varied through history and ranged from historical crisis-led shifts, through legislative foundation building and strong market intervention episodes, to the current light-touch service provision role.

An assessment of the four types of enabling investment led participants in the ILCF initiative to identify four gaps in the current effort. The **way forward** is to address these gaps by supporting actions for scaling up ILCF and contributory actions that in some contexts have already been instigated by the ILCF initiative:

Actions for Scaling Up ILCF

- **Alliance building around the framework of ILCF**—The G3 rights-holder grouping that emerged as a direct result of the ILCF initiative is an open alliance of Indigenous Peoples and community and family forest rights-holders who wish to pursue LCF. Further effort is needed to build strong local and national representative organisations and to unite them internationally. A strong G3 platform will increase the capacity of rights-holders to engage decision-makers and the private sector, secure commercial forest rights, develop business capacity, strengthen organisation and, ultimately, attract fair and balanced asset investment deals. Next steps for G3 partners will be to develop funding proposals targeting specific donors that contain support for central secretariat functions alongside practical organisation building, investment proposal development and lesson-learning functions.


Bharati Pathak

- **Enabling investment to broker partnerships at scale**—The ILCF initiative made clear the need to scale up well-targeted enabling investments. Insights from the initiative have been used in the planning of the proposed Forest and Farm Facility, a new phase of the National Forest Programme Facility and the GFP initiative. But further work is need to ensure that larger investment funding streams (such as those linked to Reduced Emissions from Deforestation and forest Degradation (REDD+) and to Initiatives in Forest Law Enforcement, Governance and Trade) also channel funds towards local forest rights-holders as enabling investments. This will help those rights-holders to attract private-sector capital with which to scale up efforts to reduce deforestation and increase the extent of legal and sustainable forest management. International organisations who have played a catalytic role in the development of the ILCF process (such as the UN Food & Agriculture Organisation, International Institute for Environment and Development, International Union for Conservation of Nature and World Bank), plus other interested partners, must now take the next steps towards building ILCF into major programmes of work such as the future of the Forest and Farm Facility, UN-REDD, the Landscapes and Livelihoods Programme, the Forest Investment Programme, the Forest Carbon Partnership Facility, and the Forest Connect alliance.

Kevin Whitfield

Contributory Actions

The development of an ILCF guide. Mutual misunderstandings between investors and rights-holder groups continue to constrain effective investment in LCF. The ILCF guide—a direct outcome of the LCF initiative—will help to provide an operational framework for LCF investment deals and equip brokers, investors and rights-holders with a step-by-step pathway for negotiating fair and balanced deals. Effort is needed to promulgate and continually improve the guide and encourage its use. Immediate next steps are for the lead firm in the guide's development, together with G3 rights-holder groups and catalytic international partners, to make sure that the guide reaches the hands of both national rights-holder groups and potential asset investors with ambitions in the forest sector.

- **Further information and pilot projects to consolidate the case.** For participants in the ILCF initiative, who have now seen diverse, successful examples of investments in LCF, the case for such investments is compelling. But more examples are needed, not only to convince those who may still be sceptical of the merits of investments in LCF, but also to enable local rights-holders and investors to learn from success stories in areas close to their own geographical and sectoral context. Investors require more data on potential returns from LCF, which necessitates the gathering and analysis of quantitative aspects of investments, including the type, scale and return profiles of current and potential projects, and information on the financing facilities that LCF might typically require. Immediate next steps would be for the catalytic international partners identified to build baseline data collection and reporting requirements on ILCF cases into programmes that support the scaling up of ILCF.

Acronyms

CFA	Community forest association (as understood in Kenya)
CFUG	Community Forest user group (as understood in Nepal)
FAO	Food and Agriculture Organisation of the United Nations
FECOFUN	Federation of Community Forestry Users Nepal
FPIC	Free, prior and informed consent
FSC	Forest Stewardship Council
GACF	Global Alliance of Community Forestry
GFP	Growing Forest Partnerships
IAITPTF	International Alliance of Indigenous and Tribal Peoples of Tropical Forests
IFFA	International Family Forestry Alliance
IIED	International Institute for Environment and Development
ILCF	Investing in locally controlled forestry
IUCN	International Union for Conservation of Nature
KWLM	Wana Lestari Menoreh Cooperative
LCF	Locally controlled forestry
NGO	Non-governmental organisation
SFA	Swedish Forest Agency
TFD	The Forests Dialogue
WWC	Wildlife Works Carbon

1. The Initiative

Chris Buss

1.1 Origin of the Initiative and Its Objectives

As used in this review, the term 'locally controlled forestry' (LCF) refers to the patterns of production and consumption that arise from Indigenous Peoples, communities and families living in proximity to and having control over forests.

Under the right conditions, LCF can be a strong contributor to local livelihoods, forest protection and sustainable development—with the right sort of investment. Investment in LCF can come in two forms: 'enabling investment' in rights, organisation and capacity, from which a tangible financial return is not expected; and 'asset investment', from which a tangible financial return is expected. In 2008, The Forests Dialogue (TFD) Steering Committee and the Catalytic Group of the Growing Forest Partnerships (GFP) initiative began a collaboration to explore how investment in LCF might be improved in both the 'global north' and the 'global south'. TFD had already explored, through dialogues, the themes of 'pro-poor commercial forestry' and 'intensively managed planted forests', making it the ideal convenor of the collaboration.

The GFP is a collaborative initiative between the International Union for Conservation of Nature (IUCN), the International Institute for Environment and Development (IIED) and the Food and Agriculture Organisation of the United Nations (FAO), with funding from the World Bank. It is designed to create and strengthen partnerships for the benefit of people who are dependent on forests by building and supporting networks at the local, national and international levels. The initiative aims to ensure that global discussions about forests include the real and current challenges faced by forest-dependent people and local forest managers, bringing forward the voices of local communities and Indigenous Peoples to influence decision-making.

With the support of the GFP, TFD began a series of dialogues on 'investing in locally controlled forestry', hereafter called the ILCF initiative, in June 2009. The aims were to:

- *Share learning* between forest rights-holders and investors (involving south-south, north-south and north-north knowledge exchanges) on the conditions under which LCF successfully contributes to local livelihoods, forest protection and sustainable development.
- *Improve trust through an agreed investment* framework between various forest rights-holder groups and investors that draws on field-based case studies and can spread understanding of both the need to improve investment flows to LCF and the challenges in doing so; and
- *Identify ways forward and catalytic actions* by dialogue participants and established processes (e.g., the National Forest Programme Facility, the United Nations Collaborative Programme on Reducing Emissions from Deforestation and Forest Degradation in Developing Countries, the Forest Carbon Partnership Facility, the Forest Investment Program) in which clear gaps are identified and ways to fill them agreed upon.

(l–r) Peter DeMarsh and Estebancio Castro Diaz

1.2 Rationale for the Initiative

The ILCF initiative did not emerge in a vacuum. It built on a history of community forestry starting in the 1970s (see reviews by Arnold 2001 and Molnar et al. 2007) with a gradually increasing emphasis on small- and medium-sized forest enterprises and the value of locally controlled forests supported by international organisations such as FAO (FAO 1987; Wagner et al. 2011), IIED (Macqueen 2004; 2008; Macqueen et al. 2012a), Tropical Agricultural Research and Higher Education Center (CATIE) (Donovan et al. 2007), Program on Forests (PROFOR) (Dewees et al. 2011), IUCN (Emerton 2011) and Rights & Resources Initiative (RRI) (Kozak 2007). ILCF also builds on a long history of family forestry (see IFFA 2012) and Indigenous Peoples' rights, most recently articulated in concepts such as free prior and informed consent (FPIC) (Colchester 2010), where local control of forest resources is at the core of strategies designed to realise the value of forests. Drawing on this and other evidence, the originators of the ILCF initiative saw greater clarity over, and emphasis on investment in, locally controlled forests as a

Kerstin Jonsson Cisse

central response to three pressing global issues: poverty reduction, forest protection, and social justice.

Economic opportunities and poverty reduction. There is little evidence that large-scale commercial forestry has helped to reduce poverty (Mayers 2006), but prospects for LCF are much brighter. Unlike the vertically integrated industrial model of forest resource management that has long been the dominant global paradigm, small-scale industry has certain micro-economic characteristics that have a multiplier effect in rural economies, translating into more skilled jobs, higher incomes, higher consumption and improved terms of trade. According to the Livelihoods and Forestry Programme (2009), this multiplier effect is approximately 10:1 in Nepal (that is, one dollar invested generates ten dollars in local economic benefits), but other studies have calculated it to be as high as 20:1. In addition to accruing and reinvesting wealth locally, LCF helps to secure the resource rights upon which that wealth is built and to encourage entrepreneurship and social organisation, opening up business opportunities more broadly. LCF tends to favour the integration of agriculture and forestry across diverse landscapes to meet multiple local demands for products and services. Crucially, it can also increase productivity and help maintain the resilience of landscapes in meeting growing demands for food in the face of climate change (see the assumptions of Fischer et al. 2002 and Fischer 2009). Finally, it fosters the creation of social capital and cooperation between local groups, which is critical for scale efficiencies and competitiveness.

Forest protection in the face of climate change. Deforestation, forest degradation and land-use change contribute 8–20% of human greenhouse gas emissions (Van der Werf et al. 2009). Those forests that remain, however, have acted as carbon sinks, collectively absorbing as much or more carbon than has been produced by forest loss and degradation (Pan et al. 2011).[4] LCF provides local people with a financial incentive to sustainably manage existing forests and to restore degraded forest and agricultural land. It already accounts for at least one-quarter of forests in developing countries, and rights-holders invest $2.6 billion

in conservation, exceeding state funding and all forms of international conservation expenditure combined (Khare 2003). LCF has been shown to be as effective as state-enforced protected areas as a means of stemming forest loss (Porter-Bolland et al. in press), a generality that seems to hold true in Indigenous Peoples', community and family contexts (Nepstad et al. 2006; CEESP 2008; Bray et al. 2003; Ojha et al. 2009; Molnar et al. 2007; Ackzell 2009). Harnessing the potential of local people to restore forests—using tree species that can cope with climate change—and thereby add to local incomes may be the best way to build resilience into forest landscapes.

Social justice. Rights-holder groups with a mosaic of locally owned businesses tend to have more self-confidence, political influence and autonomy than those without rights. This is increasingly important: the world's ecological footprint exceeded the Earth's biocapacity (i.e. the area available to produce renewable resources and absorb greenhouse gases) by 50% in 2007, due largely to an eleven-fold increase in the world's carbon footprint since 1961 (WWF 2010). There are deep inequities in how this footprint is produced: the richest one-fifth of the world's population consumes 86% of all goods and services. If the global population exceeds 9 billion by 2050 (United Nations 2011), and if global gross domestic product grows as projected from about US$47 trillion in 2005 to almost US$100 trillion by 2030 at constant prices (Rademaekers et al. 2010), the prospects for natural resources and the poor look bleak. Already there has been a huge shift in agricultural production to the faster-growing conditions of the tropics, leading to land grabs by elites (Gibbs et al. 2010; Cotula and Vermeulen 2009). Investments in LCF can counter these threats by anchoring natural resources in the hands of local people, who, given adequate organisation and capacity, can ensure that income, products and services are shared more fairly. Moreover, a strong case for increased investment in LCF can be made in terms of the preservation of vibrant communities and cultural identities, which, while ignored by much economic decision-making, is a central issue for many forest-dependent people.

A series of dialogues to explore how investments in LCF might better deliver gains in livelihoods, forest protection and sustainable development was therefore considered to be both timely and important.

1.3 PROCESS UNDERLYING THE INITIATIVE

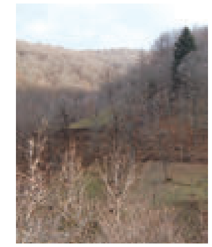
The ILCF initiative consisted of a scoping dialogue in Belgium, seven field dialogues (in Panama, Macedonia, Nepal, Kenya, Burkina Faso, Indonesia and Sweden) and, in the United Kingdom, one dialogue with investors and two writeshops. In total, the ILCF initiative involved more than 400 participants, including rights-holders, investors and representatives of non-governmental organisations (NGOs), donors, governments and intergovernmental agencies from over 60 countries.

FIGURE 1. THE ILCF INITIATIVE

Source: TFD (2012)

The scoping dialogue. The ILCF initiative commenced with a scoping dialogue (held 9–10 June 2009) in Brussels, Belgium, with a wide range of forest stakeholders. Three key groups of forest rights-holders—Indigenous Peoples, community forestry groups and family forest owners—were identified. It was clear that these groups had in common

many opportunities and obstacles, within a wide range of circumstances. Thus, the ILCF initiative aimed to bring these three groups of rights-holders into dialogue with the investment community, comprising both enabling and asset investors.



Field site in Macedonia

Rights-holder representatives participated in the ILCF initiative through the International Alliance of Indigenous and Tribal Peoples of Tropical Forests (IAITPTF), the Global Alliance of Community Forestry (GACF) and the International Family Forestry Alliance (IFFA), the three largest (but not the only) representative groups of forest rights-holders worldwide.

The scoping dialogue identified and explored the key constraints and opportunities facing rights-holders and investors in realising opportunities for investment in LCF, ensuring that those stakeholders owned, designed and drove the process. It also tackled misperceptions of LCF. Too often, Indigenous, community and family forestry is perceived as romantic but unrealistic—a form of alternative subsistence utopia—or simplistically as a threat to forest conservation because of a supposed reticence among Indigenous Peoples, communities and families to engage in sustainable forest management. Participants in the ILCF initiative agreed that such perceptions were generally false, and many examples of sustainable commercial activity in Africa, Asia, Europe and North and South America were advanced that conformed to the broad definition of LCF (Degawan et al. 2009a).

Defining LCF. The scoping dialogue showed a diversity of views among the three rights-holder groups and other stakeholders on the meaning of LCF. Rights-holder representatives expressed the wish to guide the way in which LCF would be defined during the process. It became apparent that more dialogue was needed on what LCF meant to stakeholders and on the commonalities among and differences between Indigenous Peoples, community forestry groups and family forest owners and the constraints and opportunities they face. It was decided, therefore, that each of the first three field dialogues would focus on one of the groups in order to tease out what LCF means to that group and to the stakeholders, including investors, working with it. Following the scoping dialogue, TFD worked closely with IAITPTF to cover the perspectives of Indigenous Peoples in the Panama dialogue (22–25 August 2009), with GACF to address the perspectives of communities in the Nepal dialogue (21–25 September 2009), and with the IFFA to examine the perspectives of family foresters in the Macedonia dialogue (1–4 December 2009).

Focusing on what is required to increase investments in LCF. With the common ground established in the first phase of the ILCF initiative (see Sections 2.1 and 2.2), subsequent dialogues focused on the 'nuts and bolts' of particular investments. Sometimes the private sector mistrusts the motivation or capacity of Indigenous Peoples, forest communities and small-scale family forest owners to engage in commercial forestry (Degawan et al. 2009a). Indigenous Peoples and local communities are often portrayed as lacking credibility as responsible stewards of their forest resources and as legitimate stakeholders, even though they are frequently the most effective forest managers and the original rights-holders. The ILCF initiative recognized the mismatch between existing funding mechanisms and LCF on the ground, as well as the lack of clear models for investments that benefit both rights-holders and investors.

In May 2010, TFD convened a dialogue in London that brought in more representatives of the investment community—referred to hereafter as the investors dialogue. Based on the outcomes of this dialogue, it was decided that subsequent field dialogues, to be held in Kenya (29 November–2 December 2010), Burkina Faso (12–15 September 2011), Indonesia (6–9 February 2012) and Sweden (16–19 April 2012), would focus on on-the-ground cases that highlighted the successes and challenges faced by investments in LCF. In the final 2012 phase of the ILCF initiative, the Swedish International Development Cooperation Agency joined GFP as a co-financer. In addition to the field dialogues, an experts' writeshop was held in London on 5–6 April 2011 to focus on the development of 'Unlocking the value of locally controlled forests: Investment Guide', which has its origins in the London investors dialogue.

Reviewing the initiative. Lastly, a final writeshop that wrapped up the initiative was held in Edinburgh, Scotland, on 14–15 May 2012 to discuss and validate the contents of this review. The small multi-stakeholder group that met in Edinburgh developed the structure and key components of the ILCF TFD Review. The first draft that emerged from this writeshop was then sent to an extensive network of reviewers, representing a diverse and wide range of stakeholders, that had been intimately involved with the initiative throughout its development and implementation. Finally, the inputs from the reviewers were incorporated to shape this final draft.

Joe Lawson

The goal of the TFD Review is to give an overview of the initiative, its context and the way it came about (Chapter 1); to elaborate on important points of consensus that were developed and found during the dialogues regarding our understanding of LCF (Chapter 2); to highlight key insights based on the critical gaps that were repeatedly identified by the participants throughout the dialogues (Chapter 3); and to signal a way forward for ILCF through a set of recommended catalytic actions to address these gaps (Chapter 4). The ILCF TFD Review should not be understood as a summary of all that took place and was discussed during the dialogues. For this information, the reader can look to the background papers developed prior to the dialogues and to the follow-up summaries prepared by each dialogue's co-chairs. These materials, which were designed to complement the TFD Review, can be found on TFD's website (http://environment.yale.edu/tfd/dialogues/locally-controlled-forestry/).

2. An Agreed Agenda and Some Important Definitions

2.1 The Emergence of the G3

Finding common ground. One of the major successes of the ILCF initiative had become evident by the end of 2009. The representative organisations of the three groups of forest rights-holders—Indigenous Peoples, communities and families—had begun to develop both a better understanding of their differences and a shared agenda that stamped their own mark on the process.

Differences in perspective centred around patterns of land tenure and use rights security; changing trends in ownership of both resources and enterprises; levels of corruption and deficiencies in governance in the national contexts in which they operated; and organisational structures, internal decision-making processes and scales of production (Degawan et al. 2009a). Commonalities, which formed the foundation of a shared agenda, included a collective rich knowledge of local forest dynamics; increasing international interest in their forests for local and global public goods; increasing recognition of the significant extent of the world's forests under local control; the increasing influence of international standards in shaping rights (e.g., the United Nations Declaration on Indigenous Peoples), addressing issues such as legality, fair trade and climate change, and providing space to organise at the national level; the diversity of local projects and partnerships at different scales that together form a wide portfolio of options; and the need for a richer exchange of knowledge and experience on such options.

Creating space to develop a shared agenda. The GFP resourced a series of meetings between members of the IAITPTF, GACF and IFFA (in Rome, Brazil and Austria) that helped map out a shared agenda and develop agreed definitions and a joint communication strategy.

This emerging collaboration became known as the G3, a network bringing together local forest-dependent people and representing Indigenous Peoples, community forestry organisations and family foresters. Since 2009, the G3 partners, with the support of the GFP and the Christensen Fund, have pushed the LCF agenda forward and increased the influence of forest-dependent people in local and global policy arenas.

2.2 DEFINING LCF

Locally controlled forestry defined. The background paper for the scoping dialogue (TFD 2009) deliberately framed the issues broadly, expecting that more precise definitions of terms would emerge through the dialogue process. LCF was considered initially as 'the range of actions to manage or grow forest resources and run small enterprises based on forest goods or services, carried out by smallholders, community groups, forest-dependant people and other local groupings, and over which they have substantial decision-making power'. This initial breadth allowed Indigenous, community and family forest rights-holders to work together under the overarching term of LCF—while recognizing that there were important variations between each set of rights-holders related to their specific identities, cultures and contexts.

The G3 developed the following definition of LCF:

> *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.*

For rights-holder groups, 'locally' means near or in the forest. Local is (literally) where you can hear and see what goes on in the forest. Local is different from 'central and regional', in the sense that those at the central and regional levels cannot 'hear and see' or adequately control forest activities, nor can they understand the complicated web of inter-connected values associated with forests that have importance, beyond financial income, to local people.

The word 'controlled' is fundamentally about decision-making power—involving both rights and responsibilities, with a strong assertion that local management control and local political control are good for the people and the forest. The key ingredients for rights are:

- local decision-making rights for Indigenous, community and family forest owners over forest management and broader land use;
- freedom of association; and
- secure tenure and commercial use rights to forest resources, plus access to markets and technology.

Teresa Sarroca

They key ingredients for responsibilities are:

- long-term forestry resulting in improved livelihoods and sustainable forest management, including the protection of biodiversity;
- the provision of multiple forest products and services, through local enterprise, to benefit society; and
- respect for Indigenous Peoples, communities and families and their customary use and traditional and local knowledge.

Finally, the term 'forestry' encompasses many uses and services that are interlinked. It may or may not include timber production (and is often more than that). Forestry means business for local people, and any definition of forestry must be based on both the needs of local people and the considerate use of forest resources, including protecting biodiversity.

2.3 DEFINING 'INVESTING'

Broadening the concept of investment. In the scoping dialogue, 'investment' was defined broadly as 'the types of actions that can enhance LCF assets, chiefly the supply of finance and the development of human resources and practical management systems'. To investors participating in the dialogues, 'investment' was generally understood to mean asset investment—'putting money in to get money or product back'. But for rights-holders the term had a much broader meaning, encompassing all the potential ways of 'putting something in to get something back'.

Alda Salomao

TABLE 1. ENABLING AND ASSET INVESTMENT

Investment Type	Activity Type	Investor Type
Enabling investment	Preparing the ground for asset investment—e.g., improving governance, securing forest rights, developing human resources and building capacity	'Enabling' investors providing grants—e.g., multi-lateral organisations, bilateral donors, government organisations, civil-society organisations, research institutions, rights-holders, forest companies
Asset investment	Creating new forest resources, managing forests, building production and processing facilities and other infrastructure, direct financial investments	Collectively, 'asset' investors, subdivided into 'value', 'social' and 'conservation' investors 'Value' investors, investing through (i) debt, bonds and securities (banks, pension funds, etc.); (ii) equity in commercial enterprises (equity funds, foundations, venture capital, individuals, etc.); (iii) co-investment (multilateral investment institutions such as the International Finance Corporation); (iv) ecosystem service payments (REDD+, hedge funds, etc.); (v) direct ownership of forests (timber investment management organisations, real estate investment trusts, etc.); and (vi) insurance and derivatives (specialist insurers such as GuarantCo and ForestRe) (NGOs, multi-lateral and bilateral donors, etc.); and (ii) equity in commercial enterprises (foundations and endowment funds, socially responsible investors, individuals, etc.) 'Conservation' investors, investing through (i) grants (conservation NGOs and multi-lateral and bilateral donors); (ii) equity in commercial enterprises (foundations or endowment funds, socially responsible investors, etc.); (iii) conservation trust funds (foundations and endowment funds); and (iv) ecosystem service payments (REDD+, socially responsible investors, etc.).

Source: Adapted from Elson (2010), in which the terms 'soft' and 'hard' investment were used for 'enabling' and 'asset' investment.

Clarifying a typology of investors. Participants in the dialogue in Macedonia used the terms 'hard' and 'soft' to distinguish between the types of investors that could usefully engage with LCF. Based on this, the investors dialogue (24–25 May 2010) and subsequent writeshop (5–6 April 2011) in London set out clear distinctions between 'enabling' investors and 'asset' investors, as well as differences within the latter group, as shown in Table 1.

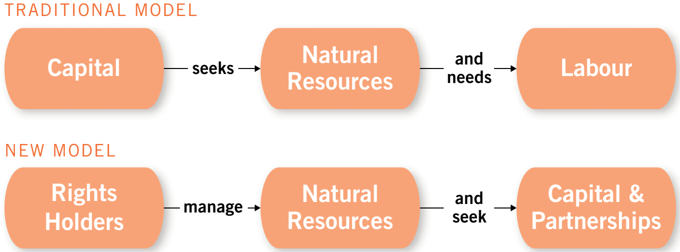
Assessing what asset investors want. While the aspirations of rights-holder groups had been considered in some detail in preceding dialogues, the investors dialogue and associated writeshop in London provided an opportunity to explore the aspirations of investors. The dialogue's background paper (Elson 2010) set the scene by introducing key prerequisites for value investors, such as:

- viable business propositions (based on a clear understanding of customer needs, value proposition and a relatively secure and transparent value chain or chain of custody);
- attractive risk-adjusted returns on capital (usually with a premium above usual internal rates of return for smaller, higher-risk investments);
- stability or clear de-risking measures (regarding clarity of tenure, enforceability of contracts, investment rules that permit the investment, and a level legislative playing field)
- liquidity (the ability to get money back by selling assets if required);
- investible entities (legal registration in an appropriate business type); and
- social license to operate (i.e. the acceptance by local people of the proposed investment and its likely economic, social and environmental impacts).

In many forested countries, achieving these prerequisites is a considerable challenge for LCF. A particular hurdle is that rights-holders often perceive their autonomy as immutable and their rights as inalienable—yet the partial relinquishment of both is often critical to investors if contract-based investments are to take place. The practical and logistical difficulties of meeting these prerequisites confirm the need for greater synergy between enabling and asset investors. It was felt, at the investor dialogue, that enabling investors could do more to secure rights that were legible to asset investors (e.g., not based solely on unrecorded customary rights); underwrite the organisation and alliances necessary to aggregate product at scale and create adequate portfolios of investment opportunities; and up-skill rights-holder groups in business development and the provision of financial services. The availability of accurate data on rights-holders, investors and opportunities for engagement was also considered critical. Novel financial mechanisms such as REDD+[5] should be channelled towards enabling investments in order to deliver asset investments in sustainable LCF.

Defining a new investment pattern. By the time of the London investor writeshop, the focus of the ILCF initiative was firmly on the development of a guide to LCF investment that included a set of principles and an investment process model. In working through an initial set of principles advanced by participants in the investor dialogue, it became clear that increasing investments in LCF was really about changing the pattern of investment, away from a model in which capital sought natural resources and labour towards a model in which rights-holders manage natural resources and seek capital (Figure 2).

FIGURE 2. CHANGING THE PATTERN OF INVESTMENT



Source: Elson (2011)

3. Insights

3.1 COMMERCIAL FOREST RIGHTS

Ghan Shyam Pandey

Moving beyond subsistence to commercial forest land tenure and resource use rights. The essential need for secure tenure and resource rights was a common theme in all the dialogues. But land tenure rights are not enough if local people are only allowed subsistence use of the forest. In order to create a strong local incentive for maintaining forests, local people need to be given the right to make *commercial* use of the forest. Moreover, the process of getting such rights needs to be accessible to them. This means accessible and secure rights to sell, at commercial scales and prices, the full range of forest products and services. Rights-holders want such security, investors need it, and most international efforts to reduce forest loss and install good governance and forest legality depend on it. The rationale is simple. Forestry is a long-term business and nobody will plant or maintain forests unless they can be sure to derive commercial benefit from them. But despite its centrality to sustainable, profitable forestry, many of the problems associated with LCF stem from resource-rights failures. The success of LCF in parts of Canada and Scandinavia is due primarily to the accessibility of commercial resource rights. In contrast, field dialogues in Burkina Faso, Kenya, Indonesia, Nepal, Panama and Macedonia showed that weak or confused resource rights create major impediments to investment. Yet in each country there are examples of success that could and should be strengthened by concretizing, in policy, the arrangements that are proving successful.

Acknowledging tensions between national and local control. The field dialogue in Panama brought participants face-to-face with a key tension between state ownership and 'national interests' and the autonomy, self-determination and identity of Indigenous Peoples (in this case exemplified by the Kuna and Emberá Indigenous Peoples). As plans emerge from state, private-sector and NGO interests in Panama, the Kuna and Emberá Indigenous Peoples continue to stress the need for more space and financial capacity to enable them to establish their own clear vision and priorities and to design projects that integrate those

Diji Chandrasekharan-Behr

priorities. They also call for processes of fair and effective negotiation with project developers (Castro Diaz et al. 2009).

Clarifying the role of the state. In Macedonia, competition between the government's role as regulator, producer and promoter of forest products and the interests of forest owners has had an impact on local control. With an estimated 60,000 family forest owners, there is a wealth of opportunities for families, communities, the national economy and the environment to benefit from LCF. Dialogue participants considered it vital to reduce the level of competition between government and local enterprises, to restrict government involvement to a regulatory role, and to secure enabling investments linked to a shift in responsibility for

PANAMA

CASE BOX 1. Pursuing forest land rights and FPIC among Kuna and Embera Indigenous Peoples

Introduction—Visits were made with the Kuna Indigenous Peoples of Panama with site visits to the Orozco sawmill, in Chepo (a small-medium private enterprise working with WWF and USAID and pursuing FSC certification), and to a local Embera Indigenous Peoples' community, Ipetí Emberá (a REDD+ project and a reforestation community project with technical assistance from the Smithsonian Tropical Research Institute and McGill University).

Main achievements—The formal autonomy of Kuna Indigenous People's lands (for example within the Kuna Yala Comarca) and institutional development to engage national policy makers and protect their lands from external investors – for example the 1975 establishment of the Kuna Youth Movement, and latterly the Association for Kuna Employees in protecting land in the Udirbi Mountains from outside settlers.

Lessons learned—Field visits highlighted the importance of using international agreements such as UNDRIP and FPIC to strengthen advocacy work for secure forest rights. Also, to reduce the tension between State ownership and 'national interests' and the autonomy, self-determination and identity of Indigenous Peoples it's important to invest in the space and logistics for Indigenous Peoples' to create their own clear vision and priorities, to design projects that integrated those priorities, and to have processes of fair and effective negotiation with project developers. Support for business capacity development was a critical requirement to enable Indigenous Peoples both to develop their own resources profitably and negotiate where necessary with outside developers.

production and promotion to the local level (Ooft et al. 2009). It was felt that government's role should be as an intermediary, linking local groups and other stakeholder groups; facilitating and promoting forest management; defining, facilitating and protecting rights; and ensuring the full, effective and equitable participation of stakeholders in forest activities. In both Panama and Macedonia, dialogue participants viewed the key task of government and other actors as facilitating a shift towards local control of forests to enable forest management decision-making at the local level.

Realising that local control is an on-going process. An important realisation made during the ILCF initiative was that in no country did the

INDONESIA

CASE BOX 2. Developing business capacity along the value chain with Indonesian teak grower groups

Introduction—Dipantara was established as a separate company in 2006. It manages seedling supply, technical training for community organised teak growers groups, wood aggregation and transport, sale of timber to furniture factories.

Main achievements—Successful organisation of teak farmer grower groups to sell their wood to Dipantara (at competitive or higher than marklet prices) in exchange of free seedlings, technical training (planting, tree inventories, forest mapping, production planning, and management plans). It hope to secure its profit margins through achieving FSC-certification; and through the support of The Forest Trust, it has developed links to high quality furniture producers with both domestic and overseas abroad.

Lessons learned—A key element of success has been the professionalization of the business with careful financial accounting; prioritising the financial margins of that entity to ensure long-term financial sustainability; working with others to do the bits the core business cannot do (e.g., export grade furniture manufacture).

perfect framing of rights exist—there is always scope for increasing the sense of security and thereby the level of active stewardship. In Nepal, for example, the devolution of rights to communities has fostered the establishment of more than 16,000 community forest user groups (CFUGs). Yet the law currently recognizes only user rights (rather than full ownership rights), leaving open the possibility that communities will one day lose control of their forests. During the dialogue in Nepal there was a call for recognition, not only of user rights but also of land ownership and rights, based on traditional systems and knowledge (Degawan et al. 2009b). The recently established regulatory framework for forestry in Kenya (forest law and policy) is not yet fully understood or implemented. This has resulted in confusion and a loss of trust, but it also offers an opportunity to interpret the framework in ways that favour local groups and to cement those interpretations into the day-to-day practice of government authorities. In a country such as Kenya there is often considerable variety in the ways in which local organisations and their partners seize such opportunities; the stability of rights can be fleeting and the efficiency with which they are turned into investment opportunities can be low (Barrow et al. 2010). During the Burkina Faso dialogue, many argued that not having formalized tenure should not be a deal-breaker for initiating an investment. Participants felt that stakeholders involved in LCF should always work together towards a formalized tenure system weighted in favour of local people, but they should be prepared to work with the rights that are currently afforded them in securing investments (Bonkoungou et al. 2011).

A phrase that came to be used during the ILCF initiative was that of 'good enough governance', meaning a policy and institutional environment that provides enough of a framework within which investments in LCF can be made successfully. The question of what constitutes 'good enough governance' is difficult and is explored in the guide to investment in LCF.

Customary norms as an initial basis for investment. LCF investments may use conventional business models or be based on customary norms, or they may involve a combination of both. The dialogue in Burkina Faso

provided an example of a business built using a customary model. In that country, the production of shea butter is based on customary patterns of resource use, in which women's groups harvest shea nuts on public land on the basis of customary rights (although formal commercial rights might have created a stronger incentive to enrich or restore forest areas with desirable trees, such as shea). The customary model has evolved: newer processing technology has improved on customary production methods, and more enterprise-oriented cooperative structures (involving a general manager, communications officer, etc.) have emerged over time. Nevertheless, groups such as the Nununa women's cooperative are built on customary practice. Their strong, continued emphasis on solidarity, equity and sustainability has upheld the traditional fabric of trust among and between women's groups that is critical for the success of the enterprise.

Participants at local community saw mill in Indonesia

Unlocking further market potential through tenure reform. One of the problems in Indonesia is that, outside Java, there are few incentives for plantation-based LCF (known as Hutan Rakyat). While customary ('adat') law is recognized in terms of usufruct rights, commercial timber exploitation by communities requires state-sanctioned agreements. Vigorous contestation between central and local authorities over the authority to issue forest licenses, a plethora of contradictory policies and ministerial regulations, and practical failings in the land registration system have hampered the roll-out of such agreements. For example, only 30,000 hectares of village forest licenses have been issued to date, despite an official target of 500,000 hectares per year. In the absence of genuine tenure reform that encourages LCF, the supply of timber in Indonesia will remain insufficient to sustain the forest industries, a major source of job creation and employment will be lost, and up to 20 million hectares of degraded land will continue to remain idle.

3.2 Business Capacity

Enhancing capacity to benefit from commercial forest rights. The ILCF initiative showed that many investors are willing to invest in LCF but struggle to find credible LCF-based business proposals with which to

Max Ooft

engage. This is partially to do with the scattered nature of LCF rights-holder groups, which are rarely organised at an appropriate market scale (see Section 3.3). Investment opportunities are also limited by a lack of capacity among rights-holder groups to put up credible investment proposals. Where such proposals have emerged it has almost always been due to the hard work of intermediaries, who have channelled enabling investment into business capacity-building (see Section 3.5). In Panama, the Kuna and Emberá Indigenous Peoples noted their lack of familiarity with business plan development, marketing, accounting and administration. In Nepal, CFUGs have been very successful in organising at scale but are still hampered by a lack of experience in developing business opportunities and a lack of capacity in business management, financial planning, accounting and communication and information technologies. In Indonesia, dialogue participants visited successful initiatives in which intermediaries have played a key role in developing business capacity and, ultimately, investment proposals.

Technical and business capacity is a precondition for the successful commercial establishment of LCF. Participants in the ILCF initiative recognized the significant efforts that have gone into capacity-building in many sustainable forest management projects, but felt many such efforts were inefficient or were misdirected towards technical forest management—driven by donor priorities rather than by the real needs of potential Indigenous, community and family-based entrepreneurs. Specific capacity-building activities were rarely designed at the community level (Degawan et al. 2009b). Nevertheless, several recent examples of promising networks to improve technical and business capacity, provide guidance and amass and share lessons were noted (for example the Forest Connect alliance).

Building confidence to take risks for higher returns. Participants agreed that, to attract investment, a credible business plan overseen by competent entrepreneurs was needed, and it must present a strong case for the value proposition (that is, the promise of value to be delivered by the business). Exactly what such a value proposition should

BURKINA FASO

CASE BOX 3. Developing business capacity among Burkina Faso Shea butter producers

Introduction—Shea-Products Producers Union of Sissili and Ziro (UGPPK/S-Z) (also known by its previous name NUNUNA) has been established since 2001 producing shea butter, cosmetic products and soaps

Main achievements—Organisation of a union among 18 groups district-wide that has grown to a cooperative including 101 groups representing 4,596 women. Developing business capacity for mechanical processing of shea into cosmetic products with links to international markets. Successful certification of thirty-two groups in the cooperative as Fair-trade in July 2006, and the cooperative as a whole gaining organic certification in December 2007. Shea butter sales of US$ 360,000 were achieved in 2009.

Lessons learned—Importance of formal identity and registration, plus scale to attract intermediaries to support technology investment, quality control, marketing, and certification processes. Fair division of labour and benefit sharing between nut harvesters, who gather, sort, wash, and dry the nuts; and butter producers, who harvest about a third of the nuts they need and buy the rest from harvesters. Another key point was that not having formalized tenure in place (the cooperative relies on customary tree rights) should not be a deal-breaker for initiating investments provided there are adequate institutional management structures in place.

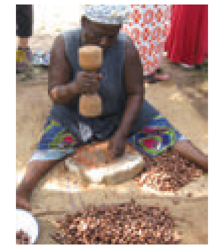
entail depends partly on the extent to which the lead rights-holders are risk-averse or entrepreneurial. In Burkina Faso, some of the more ambitious groups producing shea butter have diversified into cooperatively owned soap manufacture, while some risk-averse groups appear content to supply the labour for investments in the farm–forest supply chain. Both are viable options. In the case of the Nununa women's cooperative, there is a clear trajectory away from traditional production methods towards investments in technology for shea butter processing and packaging and away from customary decision-making structures towards a formalized business cooperative model. The capacity of the Nununa rights-holders to embrace business technicalities and understand that the business is to be run as a partnership with investors has clearly benefited both parties.

Managing margins and finding solutions to cash flow problems. In Indonesia, the Dipantara and KWLM teak-grower enterprises have narrow profit margins: both struggle to offer teak-growers sufficient premiums because the relatively low quality of their product means they have to sell their timber at lower prices than competitors. Both groups are pursuing FSC certification in order to attract slight premiums (e.g., PT Java Furni Lestari can sell its certified furniture at a 3% premium), but the high cost of certification and the imposition of strict management guidelines create financial challenges. One of the most pressing of these is how to reduce short-term 'needs-based' cutting (whereby teak-growers cut timber to meet immediate cash flow needs), which invalidates the group management plan required by the FSC. In the KWLM model, an innovative solution is to use a community credit union (separate from the cooperative) that provides immediate cash loans to members who otherwise might solve their cash flow problems through needs-based cutting.

Members of a cooperative with access to such credit facilities are better-placed to ride out difficult times. For example, following a major storm ('Gudrun') in Sweden in 2005, the Södra cooperative bought timber from affected family farmers at a reasonable price—despite the impact on its own profit (since prices plunged after the storm due to a glut of available wood). Effectively, this provided members with credit, enabling them to get back on their feet, and at the same time built loyalty to the cooperative.

Learning how to make businesses competitive. The field dialogue in Java, Indonesia, showcased two locally controlled success stories that have achieved varying degrees of profitability and competitiveness. The Wana Lestari Menoreh Cooperative (KWLM) in Kulon Progo, comprising 772 household teak-growers, provided technical assistance, aggregation and transport support and a market outlet through a locally owned sawmill—all with enabling investment from an NGO, Telepak. KWLM has put in place a sustainable management plan with the aim of obtaining certification through the Forest Stewardship Council (FSC).

Dipantara, a private company in Gunung Kidul, performs roles in technical support, aggregation and transport for local teak-grower groups (with enabling investment from The Forest Trust) and supplies local markets and the PT Java Furni Lestari furniture export company, all with full timber tracking and FSC certification.



Local Women's Group demonstrating Shea butter production in Burkina Faso

Both business models involve teak-grower groups, some form of registered brokerage and technical intermediary (KWLM or Dipantara), and ownership of or links to a processing facility (a sawmill in the case of KWLM and a furniture factory in the case of PT Java Furni Lestari). The major differences are that the KWLM cooperative has greater local ownership, and the PT Java Furni Lestari furniture factory has a more professional processing set-up. It is an open question as to whether the greater competitiveness in the international market achieved by Dipantara through its links with PT Java Furni Lestari can be said to be superior to the competitiveness in the local market of the KWLM sawmill. A lesson for LCF is that investments in processing capacity should be weighed carefully using both market analysis (to assess competitiveness in the chosen market) and social analysis (to assess the development of local business capacity and livelihood security).

3.3 ENTERPRISE-ORIENTED ORGANISATION

Increasing business competitiveness by getting organised. The Nununa case in Burkina Faso demonstrates the ability of well-organised groups to achieve economies of scale. Women's groups there organise around a traditional social structure in which women help each other with household chores and child-rearing. Even when Nununa progressed towards a more cooperative structure, the women were able to maintain a clear mandate of 'solidarity, equity and sustainability', upholding the traditional fabric supporting trust among the women while increasing the competitiveness of their business. Learning from Burkina Faso's experience, participants in the ILCF initiative highlighted the importance of a good organisational structure built on traditional practices and internally agreed roles and mandates. Such a structure should take into consideration the interests of all members of the community, and especially marginalized group members, to ensure equity.

Nepal dialogue site visit

Bundling opportunities for small enterprises to reach investible scale. The scale at which asset investors want to invest is often larger than the available portfolio of investment proposals developed through LCF. In Indonesia, participants in the ILCF initiative observed various investible entities, but they were scattered and under diverse policy regimes. For example, the KWLM cooperative in Java is a long distance from the similar Koperasi Hutan Jaya Lestari in Sulawesi and the two have no common business links. This dispersion is off-putting to investors. The transaction costs of finding, assessing and negotiating deals with scattered groups undermine any value propositions that might be put forward. A similar situation was seen in Burkina Faso, where investment in shea butter production only materialized once producer groups had organised at scale and formed a substantial cooperative. Producer groups outside this cooperative are languishing, with investment limited to 'enabling' grant-type funding from civil-society organisations. The ILCF initiative showed that the lack of enabling investment to create the space and provide the logistics for bottom-up organisation to achieve market scale is a critical bottleneck for LCF. Clarity on this point has ensured that the Forest and Farm Facility, a proposed new phase of the National Forest Programme Facility and the GFP initiative, will focus on such investment.

Overcoming the fragmentation of forest resources through association. In Macedonia (and most of the Balkan states), private landowners tend to own parcels of forest and agricultural land in several small plots distributed across local landscapes. Small-scale family foresters struggle to provide forest industries with a steady supply of raw material due to the dispersed nature of land arrangements, reducing their competitiveness with the state forest enterprise, which is the main supplier. This is a legacy of the socialist period, and many local landowners consider that it devalues their land. It also makes it difficult to manage forest resources efficiently and limits the scale of operations that can be achieved. Thus, the output from private forest resources is low, with the larger tracts of state forest producing industrial wood and family forest owners producing mainly lower-value coppiced materials and locally consumed fuelwood (Stojanovska et al. 2009). To boost their competitiveness, family foresters have identified market niches (such as green labelling), but their efforts are undermined by an inability to access short-term financing mechanisms (Ooft et al. 2009). The need to promote land exchanges, change inheritance rules and form and strengthen forest and farm organisations was raised during the field visit. If effective and efficient, such organisations would give Macedonian forest owners a stronger voice in policymaking and in marketing and technical fora and

NEPAL

CASE BOX 4. Developing a scale of organisation that cannot be ignored—the CFUGs in Nepal

Introduction—FECOFUN was established in 1995 after the 1993 Forest Act granted Community Forest User Groups (CFUGs) rights over forests – it is a national federation of over 13,500 CFUGs. TFD visited two of these CFUGs.

Main achievements—Huge organisation development, for example around 13,500 of 15,000 CFUGs in Nepal are grouped into FECOFUN which comprises 25% of the country's population. Being a federation acting at different levels with significant autonomy, as a result of fecofun engagement, strong forest governance and policy engagements have taken place and forest communites' management rights have been protected and commercial options developed. It has been able to mobilise civic engagement and participation and increase local control and empowerment of forest dependent peoples, as well as put in place a massive awareness raising and information dissemination campaign reaching all levels of society. In 2008, the Department of Forests which controls around 66% of the forest generated only NRs 550 million, whereas CFUGs which controlled around 25% of the forest generated over NRs 893 million.

Lessons learned—To maintain the integrity of local Community Forest User Groups, given due attention to creating equitable rules of benefit sharing; processes and mechanisms for intra-group democratisation: e.g. tole/hamlet meetings, monitoring subcommittees; support local development work –schools, drinking water, old page pensions, scholarships etc; support the establishment of enterprises; establish forest monitoring plots to ensure sustainability; support capacity development of local resource persons and professional facilitators; lease forestland and provide credit to the marginalized groups within community, with special emphasis on women's groups and the dalit.

enable them to participate more fully in knowledge transfer and training programs. A concerted push by well-organised LCF groups would be needed to change or streamline regulations and bureaucratic procedures that currently increase transaction costs for family forest owners.

Ensuring that associations are locally controlled, based on commercial forest rights. It is not uncommon for government or civil-society organisations to try to catalyse the formation of local associations, often to facilitate their own interactions with such groups. In Kenya, the Arabuko Sokoke forest was one of the first areas in which participatory forest management was formally endorsed by the national government and where community forest associations (CFAs) were encouraged to form. But although three CFAs are now associated with the forest, no management agreements to make commercial use of the forest have been signed. The CFAs provide a good structure for information-sharing, planning and conflict resolution (for the over 130,000 people who live within 5 km of the forest), but they might have had a stronger internal structure and been less prone to conflict if they had not been prompted externally. Some income-generating activities are taking place, such as butterfly farming and the growing of casuarina poles on family farms, but these are benefiting only a small number of people. CFAs have been unable to either stop illegal logging or reach agreement on how to bring this lucrative form of commercial activity under sustainable and formally accepted management. The risk of imposing a structure for community forest associations from the top down is that it does not address the real economic activities under way in the forest or the incentives associated with them.

Building the scale of organisation to influence policy and decision-making. Where governance is less supportive of LCF, associations can play a particularly important role. Beyond the advantage of offering a scale that is attractive to investors, strong associations can, for example, help develop consistent policy positions, share successful business models, reduce the costs of access to research or resource access networks, and develop internal savings and investment funds. Participants in the ILCF initiative agreed that the Federation of Community Forestry Users Nepal (FECOFUN), the national association of CFUGs in Nepal, provides an excellent example. FECOFUN is a formal network of more than 8 million people, linking community forest users across the country and representing 11,200 CFUGs. It has been instrumental in improving dialogue between policymakers and forest users at the national and global levels, and it has enabled the identification of the following agendas for enhancing investments in LCF in Nepal: (i) strengthening forest-based entrepreneurship and marketing; (ii) improving support for ecosystem management and environmental services; (iii) ensuring community involvement in discussions on adaptation to, and mitigation of, climate change; and (iv) building local democracy through inclusive community institutions (Ojha et al. 2009). The first three of these are specific areas for targeted investment.

Lennart Ackzell

Accepting that fully functional commercial organisations take time to build. In Sweden, participants in the ILCF initiative visited several of the business operations of Södra, a 51,000-member cooperative that now manages a pulp industry with a throughput of 1.9 million tonnes per year, a sawmilling industry with a throughput of 1.4 million m^3 per year, a leading interior wood products industry and a biomass pellet industry producing the equivalent of 4.3 TWh of energy per year. At first glance, the advanced state of LCF in Sweden might be attributed simply to good governance. But LCF has not always been strong; in fact, the current landscape of healthy forests and a diverse and well-integrated forest sector is the result of a long, conflict-ridden struggle. In the early 1900s, family forest owners grouped together in non-profit associations to market their wood. During the 1920s and 30s, these small local associations regrouped and consolidated their cooperative structures, forming Södra in 1938 with the aim of increasing wood sales and prices in the face of a prolonged economic downturn. Södra built its first sawmill in 1943 and its first pulp mill during the post-war boom in the late 1950s.

Even with this growth, Södra was not immune to financial pitfalls, such as the economic oil crisis of the 1970s, which required a bail-out. Thus,


Sophie Grouwels

it is only after 100 years of struggle that Sweden enjoys clear ownership rights, in which landowners have the freedom to choose harvester and buyer; strong cultural connections with the land; and the right to pursue recreational activities such as moose hunting and to collect non-wood forest products such as mushrooms (Ackzell et al. 2012).

Some Södra members encountered by ILCF initiative participants during a field visit noted that there was a risk that the cooperative would become too large (i.e., involve too many family forest owners)—in the south of Sweden, for example, families own 77% of the forest, of which 54% is owned by Södra members. The presence of non-aligned family forest owners, however, is helping to keep Södra competitive by ensuring alternative outlets for timber sales, and a monopoly should therefore be avoided.

Participants in the ILCF initiative agreed on the need to further unpack the process of establishing successful forest federations and networks, and the G3 decided to conduct an international analysis under the heading 'Focus on forest federations'.

Developing trust between forest-owners' associations and government. In Sweden, the government plays a relatively hands-off role through its forest agency (the Swedish Forest Agency or SFA). There is a minimal legal and regulatory framework that defines how forestlands should be managed, and the SFA's role is more that of a promoter and convener rather than an enforcer. Its main activities are disseminating information, raising awareness on the importance of forests, organising opportunities for exchange and learning, conducting surveys and providing occasional contractual services (this last is seen as a good way to stay in touch with the on-the-ground situation).

3.4 FAIR AND BALANCED ASSET INVESTMENT DEALS

Free, prior and informed consent. In Panama, the Emberá and Kuna Indigenous Peoples felt the concept of free, prior and informed consent (FPIC) to be a key consideration in any form of investment in LCF. As noted elsewhere in TFD's work on FPIC (e.g., Colchester 2010; Colchester et al. 2010), FPIC refers to the right of Indigenous Peoples to give or withhold their free, prior and informed consent to proposed measures that will affect them. This right is important because imposed systems of administration and a lack of tenure security often make it hard for communities to assert their interests when investors plan activities on their lands.

Asserting FPIC implies a significant change to 'business as usual' for many investors because it requires them to respect peoples' customary rights to land and to respect the right of Indigenous People to choose their own representative institutions (which may involve sidestepping the authority of imposed administrative structures). The Kuna and Emberá Indigenous Peoples assert that FPIC should go hand-in-hand with any forest-sector development, with the state ensuring land tenure and the security of commercial use rights and providing support mechanisms, funding and fair and effective law enforcement.

Adopting a partnership approach to investment deals. At the investors dialogue in London there was much discussion on how to better develop partnerships between investors and local rights-holders (see Mayers et al. 2010). Such partnerships might help to overcome barriers and pitfalls, such as misconceptions by both investors and rights-holders on the prospects of LCF; limited capacity among investors to engage with communities and assess risks and limited capacity among communities to run investible businesses; insecure rights; high transaction costs; and long timeframes, with risks compounded over time. Better partnerships might involve the clear and agreed sharing of risks, costs and benefits, with each side aiming to ensure that the other side gains what it seeks. Rights-holders might ask investors (and themselves): 'How can we help

SWEDEN

CASE BOX 5. Building up internal capital to invest with timber producers in Sweden

Introduction—The cooperative Södra was established in 1938 as an economic association of family farm forest owners that has developed separate fully-owned nursery, sawmilling, pulp, wood pellet and forest management companies (the latter organising complex sub-contractor harvesting and transport schedules).

Main achievements—Major investments in sawn timber, pulp and wood energy industries owned by and sourced from 51,000 small holder farm-forest members.

Lessons learned—Key ingredients for success have included: building up capital by deducting a percentage of timber sale fee as a membership share (for participating family farm-forest holder members); competitive management including shedding unprofitable parts of the business; keeping members loyal through competitive pricing and benefit sharing, as well as flexible purchasing in crises (e.g. the post Gudrun storm crisis in which Södra still purchased timber at fair rates from members despite the price slump); maintaining a long-term vision and democratic membership structures to reach Södra's scale.

ensure you a return on your investment?' Investors might ask rights-holders (and themselves): 'How can we help ensure that you secure/maintain your property rights and community vision for the future?' Rights-holders might offer natural resources; credible business propositions; an ability to fulfil obligations through detailed local knowledge; legitimacy/social license to operate; local expertise in forest ecology, land use and potential social and political threats to business; and labour. Investors might offer capital (including for capacity-building); management expertise; market access/information; political strength; and a willingness to take on risk.

Trust is a vital precondition for investment. The emphasis in the dialogue in Panama was on arrangements in which communities become co-partners with private-sector investors rather than passive beneficiaries. In practical terms this means, for the partners, adopting timeframes appropriate to community decision-making processes; funding procedures and meeting the costs of development; the use of coaching techniques and performance indicators that include Indigenous rights; and the strengthening of cultural outlook and community cohesiveness. In later dialogues, especially those in Kenya and Sweden, trust between investors and rights-holders was perceived as a key issue, as was the time it takes to build such trust. Each party—investors and rights-holders—needs to act responsibly towards and be accountable to the other. Achieving a balance between investor and local livelihood priorities will help to shape, and can be an opportunity to strengthen, the partnership.

Creating investment capacity from within. In Sweden, large cooperatives such as Södra have built up sufficient capital to become investors themselves. Membership within Södra is contingent on the deduction of a certain percentage of the cost of timber delivered to the cooperative. This 'share' is kept in an identified member's account; its size is used to calculate the distribution of profits among members. With 51,000 members involved in timber supply, the collective capital constituted by these shares is substantial and has enabled investment in a variety of value-adding, separately managed enterprises that are all owned by the membership. That is not to say that cooperatives such as Södra do not need external investors; for larger installations they do indeed engage with asset investors, but the collateral they can put up in such deals ensures that the cooperative retains the autonomy that has been the hallmark of its operations to date. The investments that Södra has made benefit others, too—many non-members use and rely on the services of Södra.

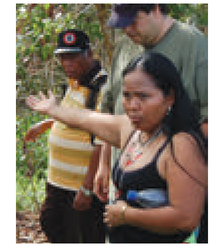
3.5 ENABLING INVESTMENT AS THE KEY TO UNLOCKING LCF POTENTIAL

Coordinating enabling and asset investment. Achieving a cycle of investment in (i) commercial forest rights; (ii) business capacity; (iii) organisation-building; and (iv) fair and balanced asset investment deals (Figure 3 on page 51) is a challenge that requires coordination—one that has largely been beyond enabling and asset investors to date.

Understandably, asset investors have been reticent to incur the heavy transaction costs that might be involved in fighting for tenure reform, building business capacity and catalysing producer-group organisation. Enabling investors have also been reluctant to engage in these forms of enterprise support—perhaps because they are wary of the political implications of such work and the risk of being seen to subsidize private-sector actors. In cases where enabling investors have become engaged in the sector, it has often been in a limited and localized way—not at the scale required by, and without the necessary contact with, asset investors who might build on the foundations created by enabling investment. During the ILCF initiative it became increasingly clear that both enabling and asset investors need to work together. For example, they could develop models of 'impact investment' in which enabling investors shoulder some of the costs of developing portfolios of investible proposals that are palatable to asset investors.

The vital role of enabling investment. Whether isolated rights-holder groups move beyond informal subsistence activities towards organised and equipped businesses often (but not always) depends on the presence of organisations that can facilitate this change (i.e., through enabling investment). In Burkina Faso, TreeAid researched small-scale enterprise income-generating opportunities and helped a village-based shea butter enterprise by providing training in entrepreneurship and production techniques. Similarly, the fair trade and organic certification of the Nununa women's group would not have been possible without enabling investment through an NGO. Such organisations play a vital role in helping rights-holder groups develop into formal business entities: for example, they can help producer groups to develop networks to achieve economies of scale, link with potential markets and investors, and develop credible value propositions packaged as investible proposals. Acting as a guarantor for investments in technology is also critical, because technological improvements can greatly improve product quality and uniformity, enabling access to more discerning (and higher-value) markets.

Mobilizing enabling investment. Although the term 'intermediaries' is often perceived negatively (perhaps because, in business terms, intermediaries are associated with taking a share of rights-holder value), enabling investment often requires third parties to act as intermediaries between local-level producers and investors. For example, national government agencies can expedite permit processes, enhance transparency in decision-making, provide infrastructure and data, recognize local rights-holder groups, and ensure a level playing field for LCF businesses. In Sweden, the SFA performs many of these critical roles. Civil-society support and research organisations can help to campaign for clearer forest rights, finance business capacity-building, help rights-holder groups to organise, and improve access to information. Participants in the ILCF initiative saw that civil-society groups such as TreeAid in Burkina Faso, Wildlife Works Carbon (WWC) in Kenya and The Forest Trust and Telepak in Indonesia perform some or all of those roles. Bilateral and multi-lateral donors can play catalytic roles in the resource-intensive early steps that need to be taken to propel local projects towards financial sustainability. For example, the European Community has supported TreeAid's project in Burkina Faso. Conversely, it is possible for intermediaries to be a negative force—if corruption, resource-grabbing and short-term or inappropriate donor agendas prevail. During the ILCF initiative it was proposed that dedicated, locally controlled investment facilities be established to secure rights, underwrite better organisation, and build capacity.



Panama Dialogue participants in the field

MACEDONIA

CASE BOX 6. Tackling fragmentation with family forest owners in Macedonia

Introduction—Macedonia boasts 590 primary processing and 566 final wood processing companies that produce 150,000 m^3 of technical wood annually. TFD visited among other sites the Novo Selo association of private forest owners, Godivje small and private forestlands and a small private sawmill in Ohrid.

Main achievements—Policy work has been undertaken to help the consolidation of forest and farm associations—but this is still a work in progress

Lessons learned—The government's dual role as regulatory entity and as a producer should be separated as this has introduced unhelpful competitive biases in how small holder businesses are treated. The failure to associate within Macedonia has left many farm-forest owners trapped in low value sectors like firewood and poles—with insufficient scale to invest in higher value added processing. There's an administrative gap between the political will of central policy makers at the ministerial levels and the local forest service staff willingness and ability to implement the necessary changes. This lack of state support to organise businesses and create enabling policies means that there are few marketable business or products to invest into

Making the link to enabling investment-funding flows such as REDD+. LCF offers a rights-based, decentralized model for avoided deforestation and improved forest governance that can help make REDD+ operational on the ground without inducing a dependency syndrome (e.g., payments for effectively doing nothing). If structured correctly, REDD+ can strengthen financial margins and/or offer loans to LCF-based enterprises whose main business is sustainable forest production (please see TFD's work on REDD+: http://environment.yale.edu/tfd/dialogues/forests-and-climate/). This would also benefit REDD+ investors because the monitoring requirements for LCF-linked REDD+ projects would be relatively simple (for example, the enterprises would be operating in well-defined areas with clear governance regimes, possibly linked to forest certification schemes). Current funding for REDD+ readiness could help to push policy reform processes that support LCF, including transparent spatial land-use planning, participatory mapping and land allocation to local rights-holder groups and streamlined licensing for LCF-based enterprises.

KENYA

CASE BOX 7. Using REDD+ finance as 'enabling' investment for locally controlled forestry Rukinga, Kenya

Introduction—Wildlife Works have been working with local communities since 1997: developing and eco-clothing factory to increase livelihood options, developing a tree nursery, restoration planting and establishing the world's first CCB and VCS validated REDD carbon project.

Main achievements—Attracting REDD+ finance to provide local employment and capacity building in order to alleviate pressure on the ecosystem (eco-rangers, organic clothing eco-factory, eco-tourism enterprise), secured transparent and agreed benefit sharing mechanism (landowner, community and WW each get a third of carbon credit revenues).

Lessons learned—Need for long-term, inter-generational, investment into the relationship with local communities is key for successful ILCF; economic challenge of maintaining forests and preventing poaching without financial returns from doing so and of high transactions (particularly in the initial stages such as negotiation and relationship-building with local communities); policy challenge of lacking a national carbon trade policy; the high potential benefits of REDD+ but the difficulty in developing workable models and scaling-up; key challenge of distributing benefits fairly to get the right mix of action; enabling investors can play a catalytic role in resource-intensive early steps to achieve financial sustainability.

Steering new financial flows towards LCF. The potential of REDD+ was demonstrated during the dialogue in Kenya, where WWC manages the 30,000-hectare Rukinga Wildlife Sanctuary. The forests in the area are under threat from subsistence farming, grazing, logging for firewood and charcoal, and wildlife hunting. Until 2008, when REDD+ became an eligible activity for creating voluntary carbon units, maintaining the land to conserve forest habitat was financially unsustainable. In 2008, however, WWC secured initial financing for its Kasigau Corridor REDD Project. This affects around 250,000 hectares (including the Rukinga Wildlife Sanctuary) under various types of ownership—from privately owned small and large ranches to community-owned land—involving some 6,000 owners. Creating a REDD+ project in the area has many challenges; for example, care is needed to ensure that the project does not reduce livelihood opportunities for people relying on firewood-gathering. WWC is investing a percentage of the income from the REDD+ project to create alternative livelihoods for affected local people. It provides employment and capacity-building—for example, it is training and hiring park rangers, establishing locally managed ecotourism enterprises and restoring forest. The agreed way to share the benefits of the REDD+ project is to divide the proceeds equally among the three main entities: owners, managers and communities living on the land (regardless of legal ownership titles) (Barrow et al. 2010).

Identifying entry points to reform governance towards a more supportive environment for locally controlled forestry. Throughout the dialogues there was discussion of how to engage with governance processes to achieve greater support for LCF. For example in Indonesia new legislation and targets to designate and license community forestry provide an entry point to clarify, push for and secure commercial forest use for local communities. In Kenya the 2010 REDD readiness strategy creates an opening to design financing support services for local forest businesses such as nurseries or fuelwood growing enterprises. In Nepal the legislative recognition of Community Forest User Groups (CFUGs) and their federation into apex bodies such as FECOFUN provides space to strengthen the voice of such organisations in decision-making. Identifying governance entry points to further LCF requires a detailed understanding of the governance context, specific windows of opportunity (such as those noted above), and how to use a range of engagement tools to make progress. One useful guide to identifying such entry points and tools within particular contexts has captured some of the options within the extensive field of forest governance (see Mayers et al. In Press). Potential entry points change over time. The Swedish dialogue

in particular explored a century of change and highlighted how the changing governance context offered different scope for engagement over time from early governance crises around resource conflicts, through the foundation building of legislation that circumscribed local commercial forest rights, to strong governance stances on limiting corporate land holdings—or buying into a struggling cooperative during a financial crisis—to the supportive light touch that is seen today.

Participants at Dipantara Logyard in Indonesia

4. The Way Forward

4.1 A FRAMEWORK FOR ACTION

From the five main areas of insight distilled from the ILCF dialogues, a framework for action has emerged. This interprets ILCF as a cycle of enabling investments, in which stronger commercial rights foster business capacity, which provides the foundation for enterprise-oriented organisation, which helps to attract asset investors, which further strengthens claims to commercial forest rights. Crucially, there are four types of governance entry points or enabling investments that can be actively pursued to strengthen this cycle of investments: (i) rights-based advocacy, (ii) enterprise support, (iii) organisation-building, and (iv) brokering asset investment deals—as depicted by the green arrows in Figure 2. Exactly which governance entry point or enabling investment will yield greatest success depends on the particular country context in question (as described in Section 3.5). Examples of these four types of enabling investment are given below.

- **Rights-based advocacy** Civil-society organisations and networks that advocate good forest governance towards accessible commercial forest rights for local people. Existing examples are international networks such as the Forest Governance Learning Group, the IUCN Livelihoods and Landscapes Programme, the Rights and Resources Initiative, the Forest People's Programme and the Centre for People and Forests, and in-country equivalents.
- **Enterprise support** Initiatives that help to build business capacity to make use of forest rights. Existing examples are the Forest Connect alliance, FAO's Market Access and Development initiative, CATIE's Centre for Competitiveness of Ecoenterprises, USAID's Microenterprise Learning Information and Knowledge Sharing (Micro-links) programme and in-country equivalents.
- **Organisation-building** Advocacy and support groups that partner with local-level forestry producer groups to improve organisation, scale-efficiencies and market power and increase political voice in decision-making. Existing examples are the programs of the International Family Forestry Association, the Global Alliance for Community Forestry, and overarching agricultural bodies such as AGRICORD, with some success from pairing northern and southern forest associations to enable exchanges of experience—for example between Finland and Ethiopia and Vietnam (Agricord, 2012) or between Sweden and Kenya.
- **Brokering asset investment deals** Intermediaries that help to identify investment opportunities, link asset investors with rights-holders, and ensure fair and balanced outcomes. Existing examples include the Rainforest Alliance, The Forest Trust, Finance Alliance for Sustainable Trade, TreeAid, and in-country equivalents.

FIGURE 3. THE LCF INVESTMENT CYCLE—ENABLING INVESTMENTS TO STRENGTHEN LCF GOVERNANCE

Note: Blue arrows signify the four main areas of enabling investment to attract asset investment and strengthen locally controlled forestry

Discussions during the ILCF initiative revealed major shortcomings in all four types of enabling investment, especially organisation-building and brokering asset investment deals. Stronger governance initiatives towards LCF that understand this framework and possible entry points are required. This initiative itself, however, has both identified and made progress on **actions for scaling up ILCF—alliance building** around locally controlled forestry and **scaling up investments**—with further contributory actions described below. This is a substantial achievement in its own right, but each action requires further support, pointing to the way forward from here.

4.2 Actions for scaling up ILCF

Alliance building around the framework of ILCF. The ILCF initiative brought together leaders and representatives of local forest-dependent groups and international stakeholders. Platforms such as this provide open and free space in which local forest managers can interact with global decision-makers. New groupings such as the G3 have emerged with a strong advocacy message on ILCF (see Macqueen et al. 2012b) that is being promoted at international events (see http://www.g3forest.org/). But there is still a pressing need for strengthening this alliance-building process:

- Strengthen in-country associations and federations of forest rights-holder groups to achieve market scale and increase the organisation and political voice needed to generate sustainable livelihood opportunities and attract fair and balanced asset investment deals.
- Link the many national networks and the various international networks that represent forest rights-holders to pursue a mutual agenda, bringing success stories to the notice of global decision-makers and facilitating successful local-level investments.


Minnie Degawan

Finding the resources to build the capacity and organisation of national and international networks is a big challenge, particularly given the need to link across many nations in both the north and south. But the benefits of doing so could be enormous. There is a vast pool of knowledge and experience among local forest managers that can be shared between countries to help shape activities. By facilitating links between countries, forest stakeholders can learn, network and strengthen their ideas for future forest investment. Stronger linkages would also provide opportunities for influencing local and national decision-making by helping to integrate forests into development and to find ways of attracting investment in LCF.

The G3 is making progress in this direction. Through linkages with local organisations it is gathering information and experiences and using them to demonstrate the value of LCF to decision-makers. It also provides a channel through which information can flow both up and down. The G3 is geographically well-placed to advocate, and highlight the success of, the diversity of locally controlled management schemes. With sufficient resources it could be an ideal body to compile data generated at the ground level by its members.

One of the major challenges facing the G3 is achieving true global outreach; another is attaining a broad membership of diverse regional and national organisations. The task of organising and supporting forest-dependent peoples is complicated and huge. There is a challenge in demonstrating outcomes of a process that by its nature will take considerable time. Another major challenge expressed by the G3 is the need for solid and stable funding to achieve a strong global network. Next steps for G3 partners will therefore be to develop funding proposals targeting specific donors that contain support for central secretariat functions alongside practical organisation building, investment proposal development and lesson-learning functions.

Enabling investment to broker partnerships at scale. Extensive field experience from initiatives such as the National Forest Programme Facility and the GFP, and learning from the ILCF initiative, have shown that turning asset investments into gains from LCF requires local organisations that can prepare investment proposals that deliver benefits with reasonable transaction costs and manageable risk. But such organisations rarely exist without prior enabling investment in securing commercial forest rights, developing business capacity and strengthening enterprise-oriented organisations. The ILCF initiative has helped to shape the proposed Forest and Farm Facility, which has at its centre: (i) local experience and perspectives in decision-making; (ii) strengthening enterprise organisations that can attract investment that sustains both livelihoods and forests; and (iii) the development of an enabling environment for investment through multi-sectoral coordination in government policy processes. In order to facilitate fair and balanced asset investments in forest enterprises owned and managed by Indigenous Peoples, communities and family smallholders, new funding

Breakout group during Brussels Scoping Dialogue

streams, such as those proposed in the Forest and Farm Facility, will be critical. The ILCF initiative has shown that global funding to provide such enabling investments will be crucial for building sustainable livelihoods, reducing deforestation and helping to mitigate and adapt to climate change.

The Forest and Farm Facility will develop and fund partnerships at the national, regional and international levels. It will provide grants that support local organisations to strengthen (and/or create) their own networks, through which market access will be enhanced and their voices will have a greater capacity to influence national and global decision-making processes. The Forest and Farm Facility will also promote governance mechanisms that strengthen access to economic opportunities for Indigenous Peoples, communities and family smallholders.

Groups such as the G3 are driving moves towards investments that are responsive to their needs. While many funding mechanisms (especially related to REDD+) are designed with clear outputs in mind, such as mitigating climate change, participants in the ILCF initiative believe that there is a need to reorient such funding so that it can be driven by local rights-holder groups and can be used to underwrite enabling investments that will unlock much larger asset investments from conventional private-sector actors.

In terms of immediate next steps, international organisations who have played a catalytic role in the development of the ILCF process (such as the FAO, IIED, IUCN and World Bank) need now to take the next steps of building ILCF into major programmes of work such as the future of the Forest and Farm Facility, UN-REDD, the Landscapes and Livelihoods Programme, the Forest Investment Programme, the Forest Carbon Partnership Facility, the Forest Connect alliance, and others.

4.3 CONTRIBUTORY ACTIONS

The development of an ILCF guide. At the London investors dialogue there was broad agreement that a guide to investment in LCF would be useful for investors, rights-holders and, crucially, the in-country brokers who help facilitate fair and balanced asset investment deals. Both investors and rights-holder groups felt that such a guide would help reduce the frequent misunderstanding (on each side) of the pressures, constraints and decision-making parameters that come with investment in LCF. Such a guide would have two principal functions: (i) providing an operational framework for LCF investment projects that, by identifying the interests of investors and rights-holders, would help ensure mutual recognition and respect throughout the process; and (ii) equipping brokers, investors and leaders of local rights-holder groups with a step-by-step process for negotiating fair and balanced deals with principles on which both sides might agree (Mayers et al. 2010).

The guide that was subsequently produced (Elson in press) is designed for all actors involved in the management, governance, ownership and stewardship of forests. It responds to the need identified by the ILCF initiative to coordinate enabling and asset investment to ensure that both investors and rights-holders benefit from an effective and efficient process of investment—from concept, to the development of a deal, to the flow of equitable returns.

The guide will help:

- *Rights-holders* to understand investor needs; learn how to design and package a business proposal; assess the benefits of investment and any socio-political, environmental or economic trade-offs; and make appropriate preparations for attracting investment;
- *Investors* to learn how to balance culturally sensitive social and environmental goals with the need for a financial return; form a realistic sense of the constraints facing LCF and how they may be overcome; understand the sector and organise their approach to negotiating and finalizing deals; and better define their goals and determine how a decent financial return is compatible with achieving what local rights-holders might conceive as positive social and environmental impacts.
- *Donors and NGOs* to help shape more useful programs of enabling investment that create the conditions for asset investments to take place and small forest enterprises to thrive; make projects more focused and goal-oriented to ensure resources are directed accordingly; and clarify best practice against which to hold investments accountable; and
- *Governments* to understand the benefits of supporting LCF to develop jobs, growth and welfare; guide policy reforms to create an enabling environment (including the fair enforcement of existing laws) for the preconditions for investment, such as tenure reform; develop extension support

Farmers at the Wana Lestari Menoreh Cooperative during the Indonesia Dialogue

and financial and business development services; and understand how LCF investment is an essential component of REDD+ and other agricultural and forest landscape projects.

An ongoing effort is needed to promulgate and continually improve the guide and encourage its use. An immediate next step is for the lead firm in the guide's development (Seventythree) together with G3 rights-holder groups and catalytic international partners to make sure that the guide reaches the hands of both national rights-holder groups and potential asset investors with ambitions in the forest sector.

Further information and pilot projects to consolidate the case. While the ILCF initiative was a comprehensive process, participants were exposed to only a relatively small number of successful examples of LCF investment. The lessons learned from this sample need to be augmented by continuing efforts to document and share other cases. A repository of information of this sort will enable investors and rights-holder groups to learn from examples that correspond closely to their own national and sectoral contexts.

Participants meet with Kuna Yala Cacique community members in Panama

Investors are willing to invest in LCF but struggle to find realistic opportunities to do so. Support is needed for small enterprises to help build capacity and assemble portfolios of investment options to attract asset investment. Investors require more data on potential returns from LCF. There is a need, therefore, to gather and analyse quantitative data on LCF investment—the types, scale and return profiles of current and potential ILCF projects—and to gain further insights into the financing facilities that LCF investments might typically require. Immediate next steps to scale up ILCF would be for the catalytic international partners identified to build baseline data collection and reporting requirements on ILCF cases into their programmes.

Endnotes

1 International Institute for Environment and Development, Edinburgh, UK

2 International Union for Conservation of Nature, Gland, Switzerland

3 The Forests Dialogue, New Haven, Connecticut, United States

4 This capacity to act as a sink may deteriorate, however, in the face of climate change (see, for example, Canadell and Raupach 2008; Global Carbon Project 2008).

5 REDD+ is an emerging incentive system designed to encourage developing countries to contribute to climate-change mitigation in the forest sector by reducing emissions from deforestation and forest degradation and through the conservation of forest carbon stocks, the sustainable management of forests and the enhancement of forest carbon stocks.

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The Forests Dialogue (TFD), formed in 1999, is an outgrowth of dialogues and activities that began separately under the auspices of the World Business Council for Sustainable Development, The World Bank, the International Institute for Environment and Development, and the World Resources Institute. These initiatives converged to create TFD when these leaders agreed that there needed to be a unique, civil society driven, on-going, international multi-stakeholder dialogue forum to address important global forestry issues. TFD's mission and purpose is to bring key leaders together to build relationships based on trust, commitment and understanding and through them, generate substantive discussion on key issues related to achieving sustainable forest management around the world. TFD's dialogues serve as a platform to share aspirations and learning and to new seek ways to take collaborative action on the highest priority forest conservation and management issues.

TFD is developing and conducting international multi-stakeholder dialogues on the following issues:

- *Forest Certification*
- *Illegal Logging and Forest Governance*
- *Intensive Managed Planted Forests*
- *Forests and Biodiversity Conservation*
- *Forests and Climate Change*
- *Forests and Poverty Reduction*
- *Investing in Locally-Controlled Forestry*
- *Free, Prior and Informed Consent*
- *Food, Fuel, Fiber and Forests*
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There are currently 24 members of the TFD Steering Committee. The Committe is responsible for the governance and oversight of TFD's activities. It includes representatives from private landowners, the forest products industry, ENGOs, retailers, aid organisations, unions, and academia.

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TFD's Mission

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