Introduction
Forest Connect was launched in 2007 as an ad hoc international alliance. Its goals were to reduce poverty and protect forests by better connecting small forest enterprises (SFEs) to each other, to markets, to service providers and to decision makers. Over the last five years the alliance has — with in-country partners — co-managed a series of phased interventions.

These interventions start by determining the challenges that SFEs face in various country contexts. This is followed by more specific analysis of how value is distributed along each link in the chain — from producer through intermediary processors and traders to the final consumer — and the constraints and opportunities to add value or distribute it more fairly. The process culminates in a range of activities to support business, from product development and marketing to attracting investors. With 12 in-country partnerships and more than 900 members from 60 countries, it has been both exhilarating and daunting to keep abreast of what has been developing in various regions. The alliance has improved the flow of investment in family, community and indigenous small forest enterprises. This investment is necessary to address two fundamental and inter-related forest challenges: forest loss and forest-related poverty.

Forest loss
Although the rate of forest loss declined from 8.3 million hectares (ha) per year between 1990 and 2000 to 5.2 million ha per year between 2000 and 2010, the loss of biodiverse natural forests remained almost unchanged. The aggregate decline was achieved primarily through Chinese and European afforestation, which increased forest cover by 2.9 and 0.6 million ha respectively (FAO 2012). Forest Connect works to attract investment in sustainable small forest enterprises to make them more profitable. This will create a powerful local incentive to restore and sustainably manage those forests.

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**Forest-related poverty**
People will likely to be the ultimate losers as forests disappear, and some people will lose more (and more quickly) than others. Forest loss directly and immediately undermines the livelihoods of half a billion indigenous people and 1.3 billion forest people who live in, depend on, and have ways of life and traditional knowledge that are attuned to their forest (FPP 2012). But all people indirectly and ultimately depend on forests to sequester carbon, maintain hydrological and soil cycles, and preserve biodiversity. The demand for food, fuel and fibre must be met by landscapes that intensify production while integrating standing trees and natural forests.

To meet these challenges, the Forest Connect alliance is exploring how best to use scarce resources for supporting SFES. The goal is to achieve integrated, intensified land use that allows adaptation to, and helps combat, climate change, and focuses on income generation by the forest-dependent poor.

Part of this exploration has involved the search for a better investment model. For this reason, members of the Forest Connect alliance have participated in a series of international dialogues on investing in locally controlled forestry (ILCF); see article 2.2 in this volume. A framework for investment has emerged from this process that provides valuable opportunities for both investors and forest rights-holders.

**Economic, social and environmental returns**
Justice demands that indigenous and other forest-dependent people — who stand to lose most immediately from forest loss — have control over the investment decisions that worsen or reduce that loss. Beyond justice, there are good economic, social and environmental reasons for investing in locally controlled forestry.

Economic reasons include the significant scale of investment opportunities. Local family, community and indigenous peoples have some degree of control over 25% of the world’s forests, which provide US$ 75–100 billion each year in goods and services. Adding value through investment multiplies these benefits locally; higher incomes are spent or reinvested and business capacity develops. The review of the ILCF dialogue series (Macqueen, Buss and Sarroca 2012) and the related *Guide to investing in locally controlled forestry* (Elson 2012) record numerous examples of promising economic returns and local multipliers.

Social reasons for ILCF include a reduction in risk and conflict. ILCF gives the people who live in or adjacent to forests a controlling stake in income generated from those forests, rather than being peripheral to and negatively affected by commercial activity. Additional gains come from the development of entrepreneurial capacity within local business organizations that have the interests of local people at heart and can grow and diversify to provide social security for their members.
Environmental reasons include the greater environmental accountability that comes when local people, who are an important part of forest management, benefit financially from sustainable forest management. Strong evidence from a range of contexts shows how local control by forest families, communities and indigenous peoples is typically better than state forest protection in maintaining and restoring forests (Macqueen 2011).

**Risks of locally controlled forestry**

Despite the promise of substantial returns, locally controlled forestry has rarely fulfilled its investment potential. Four reasons for this have emerged from The Forest Dialogue series on ILCF.

**Insecure commercial forest rights**

In a series of in-country diagnostic reports on SFEs, the Forest Connect alliance confirmed the consensus that confused or insecure commercial forest rights for local people rob them of commercial opportunity, lead to social conflicts and greatly reduce prospects for sustainable forest management. Despite this consensus, insecure commercial forest rights are the norm in many countries (RRI 2012).

**Lack of business capacity**

Even where forest rights are secure, translating those rights into business opportunities faces several challenges. Informality is common in locally controlled forestry, and it is rare to find formally registered firms with successful business and financial planning that would give investors confidence. For this reason, the Forest Connect alliance developed a facilitator’s toolkit for in-country partners who want to build capacity among SFEs (Macqueen et al. 2012).

**Insufficient organization and scale of return to offset risks**

It is expensive to perform due diligence on investment proposals in remote forest areas. Investment is simply not possible unless the scale of return compensates for those costs. Support to build strong enterprise-oriented organizations – sometimes using twinning arrangements between Northern and Southern producer groups (such as the support from Agricord linked to Forest Connect) — has been shown to improve market access and investment (Chao 2012).

**Lack of fair deal brokers**

Investors often lack knowledge of what concrete investing proposals exist, and rights-holders often lack knowledge of which investors could be approached. Where deals are made they are often facilitated by an intermediary of some sort (often an NGO), who puts investor and rights-holder together for a particular proposition.
Through the TFD dialogue series on ILCF it soon became clear that the word *investment* was being used in different ways. Two types of investment exist (for more detail see article 2.1 in this issue):

- asset investment, a conventional investment oriented to profit or product in which the value of underlying capital is expected to increase or at least not fall; and
- enabling investment, in which capital is put in and sometimes written off to build the self-sufficiency and viability of a business.

As noted above, in many cases — especially for local businesses in underdeveloped regions — asset investment is rarely possible without various types of enabling investment. For example, an asset investor seeking to invest in a local business will want to know several things:

- the business is registered and has secure commercial forest use rights, with a degree of liquidity and access to collateral if it fails;
- the business has adequate organizational capacity, including leadership by competent managers; and
- the scale of operation and cash flow will compensate for the transaction costs of due diligence investigations in setting up the investment.

For many local forest enterprises these essential components are not in place. Both investors and local forest people will gain from putting these components in place, but enabling investment is required to ensure that this happens.

Enabling investment might take the form of advocacy or formal registration of rights and collateral, business capacity development through training or mentoring, or association building to achieve investment scale. It is also needed to assess and help broker fair deals with prospective asset investors. In some situations the asset investor may assume the cost of some of this enabling investment, but only if this does not erode profit margins below an acceptable threshold.

ILCF is an approach to combining enabling and asset investments in ways that are understood by and acceptable to different types of investors (e.g., grant donors and private-sector loan or equity investors). It delivers acceptable returns to investors, incentives to restore or maintain forest cover and more secure, capable and organized business under the control of local forest people. It is a cyclical process in which enabling investments lead to secure commercial forest rights, enhanced business capacity and greater organizational scale. This ultimately attracts fair and balanced asset deals that further strengthen resource right claims and the rest of the process (Figure 1).
Case study: Shea butter from Burkina Faso
Shea butter, known locally as karité, is derived from the Shea nut tree (*Butyrospermum parkii*), which grows in western Africa. The fruits of this tree contain a nut which can be dried in the sun, ground by hand, stirred in water and then boiled to release a substance which rises to the top and solidifies to create shea butter. Shea butter protects the skin from sun, wind, heat and salt water. Women in Burkina Faso have supplied shea butter to local markets for centuries, although production is labour-intensive and the returns are low because it is so widely available. Higher value international markets for shea butter have developed only recently. Meeting the more exacting quality standards of these markets, collecting larger volumes from scattered producers, and accommodating more rigorous delivery schedules is a challenge that requires investment.

The aims of the NUNUNA Federation¹ are to reduce poverty and improve the status of women involved in shea butter production (most of whom are illiterate) by tapping into these higher value markets. Women’s groups harvest shea nuts on public land on the basis of customary rights.

Enabling investment by TreeAid, a Forest Connect partner, is supporting discussions with government on how to improve the security of commercial rights. This could create a stronger incentive to enrich or restore forest areas with desirable trees, such as shea. This would mean adding formal entitlement to customary ownership and use patterns for these trees in ways that reward those who invest in planting and caring for them. In the interim, NUNUNA members have restricted access to 3,345 ha of shea tree areas to protect them from illicit harvesting or felling.
Business capacity has also been developed. In 2003 a commercial deal was made with the cosmetics company L’Occitane, which agreed to buy shea from 600 women. This deal led to the commercial development of NUNUNUNA, which later benefitted from enabling investments from technical partners such as the Centre for Study and International Cooperation and the Dutch Interchurch Organization for Development and the Netherlands Development Organization (SNV), an international NGO. Rigorous business accounting and management procedures have been developed since the initial deal.

NUNUNUNA started as a district-wide union of 18 groups. It now comprises 4,596 members, a growth of 156% from the 2,985 members in 2009. NUNUNUNA worked with SNV to develop a new business model, which included an investment proposal to construct a small factory for the industrial processing of shea butter.

These efforts led to asset investment by the Agridis Foundation to construct a fully mechanized and more efficient production facility. NUNUNUNA’s production capacities rose from 300 to 600 metric tonnes (mt) and the production costs per kilo of butter decreased by 95% (from 1.68 €/kg to 0.86 €/kg). In addition, 32 groups in the cooperative were certified as Fair Trade in July 2006, and the cooperative gained organic certification in December 2007. These technological improvements and certifications have helped the 4,000 members achieve a 95% increase in income from shea production. The status and workload of women shea nut collectors has also improved.

Conclusions
Investing in locally controlled forestry can apply to a wide range of endeavours. By linking enabling and asset investment it can improve the ways that overseas development aid (including REDD+ financing) can leverage desirable forms of private sector investment. This will benefit both forests and the people who depend on them.

Sustained enabling investments are required over long time periods in order to attract asset investors. Asset investors want to engage with viable businesses that are sustainable in their use of forest resources and are controlled by the poor, who share in the profits generated. One challenge is that resources for such enabling investment are scarce; donors are often reluctant to “subsidize” efforts that will profit the private sector. For this reason it is important to emphasize strongly the leverage on private sector funds that this approach brings, and the benefits that result in both avoided deforestation and poverty reduction.

At the same time, with resources so scarce, it is important that enabling investors in SFEs focus their support on sectors that are likely to result in landscape-level change. They should consider moving away from support to niche craft-type businesses that dominate many enterprise support initiatives, and consider instead how best to support SFEs in the food, energy and construction sectors that dominate forest revenue generation.
The members of the Forest Connect alliance are conducting a strategic analysis of exactly which sub-sectors in various geographical contexts might best deliver integrated, intensified and climate-smart land use. Applying the ILCF framework to these sub-sectors might help to achieve the scaling-up that is so important to forest conservation and poverty reduction.

**Endnote**

1. The Union of Women Producers of Shea Products of Sissili and Ziro, established in 2001, became the NUNUNA Federation in 2011.

**References**


