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A guide to investing in collectively held resources

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It has been estimated that to meet the internationally recognized Sustainable Development Goals, as much as USD 4.5 trillion per annum is needed in investments (UNCTAD 2014). Investing in land to increase its productivity has been identified as one solution to meet growing demands for food, fiber and fuel (World Bank Group 2018). It is essential that such investments meet the demands of a growing global population while also respecting the rights of local people and protecting the environment.

Impact investors typically finance businesses that seek to challenge the status quo, valuing environmental and social outcomes to deliver more sustainable returns on investment. Microfinance institutions such as Grameen and FINCA lead the way in financing poor and marginalized groups. Now, however, increasing attention is being given to help investors respect land rights and form equitable partnerships with communities living in rural areas. Communities are increasingly being given rights to manage the world's remaining common pool resources (CPR) – such as forests, pastures and fisheries – as common property. As such, investors interested in accessing and developing these resources have the opportunity to work with a new investment partner, the community user group (CUG).

This guide is designed to help investors better understand the challenges and opportunities of **investing in resources managed collectively by a community – where the community is the principal investment partner!**

In this guide we draw on examples and lessons learned from four case-study countries considered to have the most successful arrangements for collectively managing natural resources. The case countries are Guatemala, Mexico and Nepal, which have devolved forest rights to communities, and Namibia, which has devolved wildlife rights.

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What are common pool resources (CPR)?

Common pool resources are often administered in accordance with customary or traditional rules, which may or may not be statutorily recognized. It is estimated that, globally, over 8.5 billion ha of land can be categorized as CPR. Unlike private property, where land rights are typically secured through market transactions and inheritance, under customary tenure arrangements people gain access to the commons as a social right, derived from their membership in the local community or collective.

The collective property arrangements studied are:

1. Community Forest Concessions (CFCs) in Guatemala
2. Ejidos and indigenous communities in Mexico
3. Community Forest User Groups (CFUGs) in Nepal
4. The Community-Based Natural Resource Management (CBNRM) model in Namibia.

For simplicity, in this guide, we use the term Community User Group (CUG) in each case to refer to the group of individuals or collaborative regime that has been granted the bundle of rights. It includes formalized customary and indigenous processes as well as government-led initiatives.

We use the term community enterprises (CEs) or community forest enterprises (CFEs) to refer to the organizational structures that communities have established to commercialize production (Bray and Merino 2002).

Background

In 1968, Garrett Hardin famously argued that the absence of clear property rights in situations where resources are held in common leads to overexploitation as users engage in an unproductive race to capture resources before others (Hardin 1968). Productivity is predicted to be lower, because individuals have limited incentive to invest in improvements from which they are uncertain to benefit (North 1990). Other perceived barriers to investment include:

1. **Common property is not subject to sale or purchase**; hence, resources typically cannot be used as collateral and outside investors cannot hold shares.
2. **Community institutions and traditional authorities may not have the capacity or procedures necessary to negotiate and manage investments** and commercial partnerships, despite their experience with managing community relations, aligning resource rights and adjudicating disputes internally.
3. **The community and indigenous rights movement is skeptical and hostile toward commercial investors** due to a long history of exploitation, uneven benefits and lack of formal recognition of ancestral/customary rights.
4. **Communities and other stakeholders may not support investment in commercial enterprises as exposure to markets may increase demand for resources** and change community consumption patterns, eroding natural resources, traditional values and practices.
5. **When commercial investments are made in resources managed as commons, tensions may emerge because of different ideas about equitable benefits and profits,** democracy and hierarchy, managerial efficiency and traditional customs, and management for conservation versus production.

However, it is important to distinguish between contexts in which property rights for common pool resources are absent (i.e., open access) and those in which they are governed as common property, where collective institutions define who has rights to the commons, regulate resource use and decide the distribution of benefits. There is now evidence that devolving ownership, use and exclusionary rights to communities can provide incentives for them to actively manage resources in ways that facilitate sustainable development, deliver greater equity in the distribution of benefits and generate profits.

However, lack of financial capital remains a limiting factor for the growth and success of common property resources and the CUGs that govern them. For CFEs in Nepal, a common constraint was lack of adequate capital to sustain the enterprises without external support (Pandit et al. 2009), and in Namibia, the World Bank (2014) found that "many community joint venture partnerships contain high levels of risk and that this risk usually is too high for banks to assume". Guatemala's experiment with concession financing that combines development aid with private banking system funds and channels the joint funding through nongovernmental organizations (NGOs) to concessionaires exemplifies a strategy that seeks to reduce risks to the banking sector.

Below we provide six key lessons for investors interested in investing in common property resources.

Key lessons learned

1. Recognize and respect the social character of CUGs

Community involvement and pride in the investment outcomes are key to success. Although the state often maintains ownership and some control over resource management, the community holds use rights, and therefore democratically agreed upon community constitutions, land use plans, governance structures and management systems are critical. Giving people a voice as a collective and empowering them by increasing their ability to advocate for their needs and wants, means governance structures are strengthened, people are better able to manage resources and there is less chance of appropriation(Flintan 2008; Reed 2008; Boudreaux 2010) .

CUGs also often take on the roles of local government in situations of common property, particularly the provision of public services, and they play an important role in legal advocacy, enhancing social equity and the institutionalization of democratic governance.

Transparency and communication between the community and the investor, and within the community itself, play an important role in building social capital and assurance. NGOs and CSOs can have an important role as brokers, facilitating communication between investors and communities, providing assurance to investors that they will see desired returns and building technical capacity among the community members. These skills rarely exist in rural areas or among the investment community; hence, the importance of third-party actors. When an investment has buy-in from the whole community, it has legitimacy and investors have greater assurance that they will achieve the desired returns.

Take away: Develop a strong, on-going dialogue with the community to build trust. Identify NGOs or CSOs that understand the context and know the communities, and may help facilitate the discussions.

The vital role of brokers or support organizations – a case study of NACSO

The Namibian Association of CBNRM Support Organizations (NACSO) has played a critical role in the success of the CBNRM program in Namibia. NACSO and its CSO members have engaged in capacity building, coordination, and advocacy activities at the local and national levels to strengthen the CBNRM program.

As well as providing technical assistance and engagement with the private sector, NACSO collects a significant amount of data and information regarding the activities and impacts of the conservancies and CBNRM – conservancy finances, income sources, broader economic impacts, biodiversity benefits and social outcomes – which are published in regular annual reports. The regular dissemination of reliable data and information supports investment by making the risk and reward proposition clearer.

However, the growing number of conservancies in Namibia combined with reductions in donor funding is putting a strain on the capacity of NGOs and CSOs to support conservancies. As such, NACSO is creating a framework to sustainably deliver conservancy capacity-building services, including through the establishment of the Community Conservation Fund of Namibia (CCFN), which will channel funds from a variety of sources to support community conservation activities.

2. Investment readiness develops over time

Investments are conditional on the level of assurance that stakeholders have that the obligations of each party will be met, and this assurance changes over time. Calvert Impact Capital refers to this as the financial supply chain. As CUGs and their enterprises mature, they may *"grow in budget, revenues, and profits, and over time establish a track record of performance, repayment, and returns. The gap between real and perceived risk decreases and, as they mature, businesses can start to go directly to traditional markets. The markets can now understand and price the risk of the business appropriately; the once unfamiliar starts to become recognizable."* (Pryce 2018). From the case studies, we broadly identified three investment phases, beginning with the devolution of rights (Figure 1).

Progress through these phases requires long-term, sustained effort from all stakeholders. Realizing investments and securing additional resource rights often depends on demonstrating initial returns. Progress can be stalled by a lack of external institutional and financial support, and by contested rights. Likewise, internal negotiation and trade-offs determine how financial returns are reinvested, with pressure to ensure there are both individual dividends and investments in community social institutions, such as schools and health facilities. Pryce (2018) argues that some businesses will stall, some may have different objectives that do not prioritize growth and some will continue to require some form of subsidy to operate. How long each stage takes depends on existing and emerging social

Investment in rights devolution

- Phase one is characterized by investments in community representative organizations that enables the devolution of rights.
- Over time, communities gain confidence and agency, creating new space for decision-making.
- Aligning stakeholders under one shared vision and framework is critical to developing and implementing policies and regulation that will produce environmental, social and economic benefits.
- At this stage, we also see local investment (from remittances and savings) in housing, education and health.

Investment In capacity building

- In phase two the institutional/legal framework revisions established through the initial devolution, coupled with investment in infrastructure, education and building social capital and institutions, begin to yield positive environmental and social outcomes.
- Technical capacity building stabilizes or improves the condition of natural resources. Additional investments are critical to support the emergence of key sectors focused on established markets such as timber and tourism.
- The formation of regional or national federations representing CUG interests is key to developing a supportive framework, as is the gradual development of more formal governance and enforcement institutions.
- In parallel, CFEs cement their "social character", ensuring that poor sections of the community are protected and supported.

Investment In enterprise

- Phase three sees stronger representation, credibility and assurance at a national level, attracting new forms of financial Investment.
- Private Investors use mechanisms such as blended finance and joint ventures to manage risk.
- CUG federations focus Initially on negotiating a supportive regulatory environment and ensuring governments follow through on their commitments to rights but then begin to give greater attention to promoting commercial Investment.
- Improved community capacity enables diversification and Investment Into new sectors, as well as the development of value chains and adherence to global market standards.
- Certified forest use and extraction plans meet the stringent conditions of international buyers and investors with environmental, social and governance standards.

Figure 1. Three investment phases identified from the case studies.

capital[3] and organizational capacity, offering an explanation as to why not all businesses will reach the third phase.

Significant investments in rights devolution and capacity building have already been made by governments, donors and the communities themselves, and many communities are now looking for commercial investment in enterprise development. Progress through these stages requires a wide range of activities and stakeholders working together to achieve their financial, social and environmental goals. Understanding this evolution or "financial supply chain" is essential for both investors and the organizations they support. Calvert Impact Capital argues that *"by focusing on where investors can play a role—which depends on the capital they have, the risk/return profile they seek, and the markets in which they have interest—they can understand how to engage effectively and collaboratively for impact"* (Pryce 2018).

Take away: Assess what investment stage the community is in and what type of investment is most appropriate. How and where can your investment be effective?

3. Be prepared to invest in capacity

Managerial and technical capacity building is critical. Public sector funding from donors and government is the most significant source of investment in community tenure systems in the early stages, focusing on the rights devolution process and building institutional structures, technical capacity and social capital over long time frames. Donors will often channel financing through NGOs, CSOs and consultancies, who will develop capacity building projects on the ground. CUGs themselves also have a strong social mandate to reinvest in the community, particularly in terms of infrastructure (e.g. roads, buildings) and education (e.g. tourism or forest management). In some instances, communities invest in the establishment of enterprises that are owned and operated (to varying degrees) by community members.

3 *"… social capital as the links, shared values and understandings in society that enable individuals and groups to trust each other and so work together". OECD*

With governments, donors and communities providing initial investments in capacity building, commercial investors are able to focus on enterprise development. However, companies and particularly downstream buyers with experience in particular sectors can help to train community members by sharing their knowledge and experience. See Table 1

Take away: Understand current technical and managerial capacity of community user groups and how investment may strengthen capacity.

4. Explore multiple investment mechanisms

Traditional financial markets prefer to finance traditional or familiar business models, which means they often fail to serve a broader set of stakeholders. Investors need to better understand how nonconventional businesses evolve and to develop financing mechanisms that cater to this new financial supply chain.

Some commercial, private investments are taking place in CUGs, with assurance delivered in different ways.

- **Joint ventures** are particularly common in Namibia and Mexico, with private sector partners assuming varying degrees of control of day-to-day operations.
- **Lease or off-take agreements** for timber and non-timber forest products (NTFPs) are common in Nepal and Namibia.
- **Blended financing,** in which a development bank or donor may assume some of the first loss risk on a loan, is increasingly being used in Nepal and Guatemala.

Smaller-scale investments in local value chains are common in contexts where government regulation is in flux, legal enforcement may be inconsistent and formal contracts are unreliable; hence, building trust among partners is critical. In Nepal, CFUGs have set up off-take agreements for timber and NTFPs with local, familiar buyers. In Guatemala, formal purchase letters and contracts for mahogany and cedar have only recently been put in place following long-term informal relationships with buyers. Under these high-risk conditions, assurance may be provided by the development or pre-existence of relations based on mutual trust and reputation.

Take away: Be creative and explore different investment mechanisms and build trust through relationships as well as contracts.

Table 1. Examples of where investments are taking place across four case-study countries.

Country	Donors	Government	CUGs (concessionaires)	Private sector
Guatemala	• Support for public institutions and concessionaire development • Technical assistance • Support CUG associations • Recent donor investments shifted from capacity-building to value-added support and scaling up CFEs • Funding from donors is declining as concessionaires gain competency	• Financial investment relatively minor compared with donor funding • Capacity building of public institutions • Policy implementation • Enforcement	• Increasing financial investment as concessionaires gained competency • Capacity building to manage concessions • Rights strengthening • Fire protection • Health and education • Jobs for concessionaire members • Investment in CUG associations is key to acquiring additional funding and expanding influence	• Partnerships are beginning to emerge between development banks and commercial banks, providing credit to CFEs
Mexico	• Limited investment from Donors relative to government/parastatals. Some investment in institution-building and strengthening, training/ technical assistance to communities and assistance with certification	• Significant and long-term financial investment in capacity building • Parastatal investment in institution-building, infrastructure and human capital • Development of CFEs – forest management plans, technical studies, forestry extension services, roads • Management and conservation in public forests, including training and technical assistance, certification and institutional strengthening	• Substantial financial investments in various sectors and activities including road infrastructure, education, health, value-chain promotion/equipment and facilities • Investment in associations (ejido unions, joint venture associations) play a key role in strengthening community use rights to forests and building CFE capacity to manage and commercialize forest products • Joint ventures between associations make financial investments in enterprise development and public goods	• Publicly subsidized logging company–community partnerships dating back to 1960s invested in capacity of communities to participate in partnerships • Parastatal investments in infrastructure and human capital in 1970s provided foundation for CFEs to emerge
Nepal	• Significant financial investment in technical training, capacity building and infrastructure development	• The level of financial investment by government relative to donors is unclear. A substantial portion of public finance originates from donor agencies and development banks • Technical training • CUG capacity building • Infrastructure development	• Substantial financial investments in various sectors and activities including: forest management plans, forest protection, infrastructure, education, health care, forest-based enterprises	• Small and medium-scale forest enterprises have begun to invest in timber processing, tourism activities, NTFP processing and marketing • A blended finance program involving multiple development banks, the Nepali government and communities is to providing finance to forest enterprises
Namibia	• Significant financial investment from early 1990s in: technical assistance, capacity building for wildlife conservancies, and provision of starting capital for conservancies	• Significant financial investment in policy development, mapping and licensing of conservancies, awareness-raising about new rules, training, long-term planning, staffing and vehicles	• Substantial investments in job creation, infrastructure, education/ health care • Investment in Secondary-level institutions and associations. • NACSO, has played key role in capacity building, coordination between conservancies, and advocacy for supportive policies and investments in conservancies	• Numerous joint venture agreements exist between conservancies and private sector operators • A potential alternative source of revenue is a Wildlife Credits and Incentives stream, linking conservancy performance to investment

5. Understand who shapes policy and regulation

Government can be a support for or a barrier to investment. Insufficient regulation and enforcement may make investments too risky, while excessive regulation may make investment prohibitively expensive. In Namibia, decentralization of resource management has benefited from strong political leadership, good institutional design, favorable timing, and support inside and outside of government (Bartley et al. 2008).

Associations of CUGs at the regional or national level can have an important influence on government and markets. Almost all community forest enterprises have, at one time or another, become members of secondary-level organizations or associations (Ciriacy-Wantrup and Bishop 1975; Paudel et al. 2012). The focus of secondary-level organizations varies. In Namibia, NACSO (an association of CBNRM support organizations) concentrates on providing technical assistance and engagement with the private sector, while in Nepal and Mexico, secondary-level organizations place greater emphasis on political mobilization and democratization. The formation of national-level federations and associations has become a key feature of the community rights devolution process, and the ability of these associations or secondary-level institutions to shape policy and regulation is important for their success.

Take away: Find out if there are any active CUG associations or federations and what function they perform. Associations can provide valuable assistance and information.

6. Integrate environmental standards into your investment

The primary goal of the devolution of rights, whether it be to promote rural development or conservation, has a significant impact on the benefits that emerge. There is often a strong legal obligation to environmental sustainability when resource rights are devolved to communities. This can to significant positive environmental returns and to greater market access and optimum results if enterprises are run in accordance with high environmental standards.

However, meeting international standards is costly and investors must factor environmental standards into their business model. In the Guatemalan MBR, regulations require that to keep contracts active, organizations must obtain certification from the Forest Stewardship Council (FSC) during the first three years of the contract – a considerable financial investment at an early stage.

Take away: It is important to understand the environmental and social obligations communities have as a condition for securing rights, and factor this into investments.

Conclusions

Investments in collectively held resources and community enterprises can provide a wealth of returns – financial, economic, social and environmental. However, investing in community-held resources often requires longer time frames, greater engagement and communication with community members, support for capacity building and increased transparency. Investing in collectively held resources may therefore better suit more patient, flexible and creative investors who have a long-term interest in the development of a country or region.

The engagement and support of a wide variety of stakeholders is needed to deliver profitable and sustainable returns in collectively held resources. Governments, donors and communities themselves have invested heavily in building technical capacity and governance structures. It is now time for the private sector to begin actively engaging, so that communities get the support they need to balance environmental social and economic objectives, and over time develop their businesses and access capital with greater efficiency and scale.

Acknowledgements

Funding from the CGIAR Research Program on Policies, Institutions and Markets (PIM) and the Center for International Forestry Research (CIFOR) supported this work. The authors thank Karol Boudreaux and Sofia Farqui for their comments on earlier drafts of this paper.

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